

Interviews with Outside Directors

“Convince outside directors if you need to persuade investors.”
This awareness has taken root, with data-based reporting and constructive discussions becoming standard at Board of Directors meetings.

Independent Outside Director and Member of the Nomination and Remuneration Committee
Susumu Takahashi



Q1 Would you tell us what you think of SHI's efforts toward the long-term vision and the progress the company has been making?

A To achieve our long-term vision, SHI has been identifying material issues of sustainability and working to resolve them. Take climate change, for example. SHI believes that helping achieve carbon neutrality through its products and services will lead to new business opportunities. However, I feel that there are some areas where these efforts have not been adequately communicated to those outside the company. I think that SHI must disclose its sustainability-related information more elaborately if it seeks to be rated fairly by capital markets.

During discussions at Board of Directors meetings, I have always emphasized the importance of a DX strategy in particular. Innovation is essential to differentiation of products and services. Our DX staff is fundamental to it, and so DX talent training is the key to actualizing the long-term vision. For this reason, the Board of Directors constantly reviews the progress in carrying out the human resource strategy that is based on the Medium-Term Management Plan, with the focus on critical themes such as DX talent training, diversity that includes women's career advancement, and greater employee engagement. Moreover, the Remuneration Committee considers including the goals and outcomes of efforts to tackle the material issues of sustainability in an assessment of the performance-linked officers' remuneration.

Q2 The Medium-Term Management Plan 2026 was revised in its first year. What discussion did the Board of Directors have?

A The reason we revised our Medium-Term Management Plan is because we have come to the conclusion that the decline in profitability is due not only to cyclical factors such as the slow recovery of the semiconductor market but also to deeper structural issues facing SHI. We decided that SHI should undergo a

fundamental change from a medium-term perspective in order to do something about these structural factors. As a show of our commitment, we revised the medium-term plan. There is now a much stronger sense of crisis shared between management and outside directors than there was when the initial plan was formulated. At Board of Directors meetings, I ensure to ask executives to report on the progress of reforms based not only on qualitative explanations but also on quantitative data. I have always told the Board that they have to be able to convince outside directors if they must persuade investors. With this awareness taking root, quantitative reporting and constructive discussions are becoming the norm at the meetings.

Q3 Please tell us about the discussions at the Selection and Nomination Committee and your own thoughts regarding the selection and evaluation of management.

A I believe that the Selection and Nomination Committee should not only discuss who will be the successor to the President but also be actively involved in planning to train prospective directors and vice presidents. We have adopted a segment system and are currently working on delegating authority to the General Managers of the segments. We ask these General Managers to act from a broad perspective while focusing on partial optimization, considering that they may manage the whole of the SHI Group in the future. The term of office of a President or Director must be judged carefully, taking into account their performance evaluation during their term and the status of successor training. I also believe that to ensure a highly transparent process that can be presented outside the company, we should have more in-depth discussions about the selection of potential successors to outside directors. This is my personal opinion, but I think that we probably must consider revisiting the organizational design in the future to enhance the functions of the Selection and Nomination Committee.



Interviews with Outside Directors

We share with the management team a keen sense of crisis in the current situation where PBR is below 1. SHI urgently must review its business structure to improve ROE and act to raise our growth potential.

Independent Outside Director and Chair of the Nomination and Remuneration Committee
Akio Hamaji

Q1 Would you tell us what the Board of Directors are discussing and examining in relation to business portfolio reformation?

A For business areas where market growth is not expected and capital efficiency is low, redeveloping strategies and restructuring are essential. I advise the executives that they discuss the possibility of forming an alliance with other companies and of scaling down or shutting down businesses, if there is no long-term vision of those businesses. To improve ROE, it is imperative to rebuild the PTC, plastics machinery, and excavator businesses where the invested capital is sizeable but the profitability is low. We have set a clear ROIC target level for these businesses and are constantly reviewing their profitability. For the PTC and plastics machinery businesses that suffer low profitability, SHI has ceased the production of unprofitable models in Japan to dramatically limit the number of models produced. The Board of Directors intends to review and verify the progress of these structural reforms. It is vital to redevelop the strategies for low-profit businesses and to speed up resource shifts to businesses in the four key investment areas that we consider to be growing fields.

Q2 As for SHI's share price, the PBR is below 1. What does the Board of Directors discuss regarding this valuation?

A We share with the management team a keen sense of crisis in the current situation where PBR hovers below 1. SHI must urgently review its business structure to improve ROE and act to raise the growth potential. I also believe that SHI should publicize more persuasively about the possibilities that lie ahead in the businesses that it views as growing, including the semiconductor production equipment business. This would also work well for the

company's information disclosure.

Another issue is that the investments made for growth have not produced satisfactory outcomes. For example, by acquiring Lafert, SHI hoped to establish synergy between its gear reducers and Lafert's motor technology, yet no outcomes were achieved in the short term because of differences in specifications. In the international acquisition projects, we also learned that leaving everything to local management would prevent the Head Office's policy from permeating and result in delays in structural changes. In the coming years, the business divisions should take the lead in reforms to firmly establish synergy creation in the areas of products and services.

I also see the need to explore the means of improving ROE in terms of financial strategies, such as revisiting the capital structure and using financial leverage.

Q3 Please tell us about the discussions at the Selection and Nomination Committee and your own thoughts regarding the selection and evaluation of management.

A The Selection and Nomination Committee continually discusses the process of selecting CEO, directors, and auditors. In 2024, the committee asked outside officers for their opinions about the attributes expected in CEO. Consequently, the Selection and Nomination Committee now has the shared awareness that CEO should be equipped with excellent communication skills required to interact with internal and external stakeholders, besides the ability to carry out reforms, leadership, and foresight. These attributes will be used as criteria when selecting future CEOs.

As for the current management team, I believe it has the critical duty of recovering and ensuring as soon as possible, the profitability of the flagship businesses that goes above capital costs.

Interviews with Outside Directors

To thrive in the DX era, the SHI Group must further concentrate its knowledge on SHICuTe —its common infrastructure platform— and evolve it into a data platform that meets today's needs, driven by both IP management and technological strength.

Independent Outside Director and Member of the Nomination and Remuneration Committee

Sumie Morita



Q1 There is growing need for management strategies interlocked with human resource strategies to be implemented globally. Would you tell us about the outcomes that have been achieved and the issues to address so that we will realize the “ideal state in 2030”?

A The SHI Group has defined its ideal state in 2030 as “a company that contributes to an affluent society through core technologies and realizes CSV.” To reach this state, we have had a series of discussions at long-term strategy meetings and promoted specific efforts. For example, the Group has adopted a four-segment system to establish stronger governance. It has also clearly set the key investment areas, developed a company-wide portfolio strategy, carried out “selection and concentration,” and planned and reviewed measures concerning the organizational structure, among others, to gradually move from discussion to implementation.

The Group should visualize its management strategies and must have them firmly interlocked with its human resource strategies and swiftly carry them out across the globe. I personally believe that the Group especially and urgently should train staff for digitalization and make effective use of talent with considerable international experience. Having pools of these employees and assigning them strategically should work well. Moreover, to create shared value (CSV), stronger touch points with end users and offer solutions should be established, internally and externally, throughout each product cycle. To this end, I think a platform for using data must be established.

Q2 What do you think of the SHI Group's intellectual property strategy and the change of business model through DX?

A The intellectual property strategy was conventionally a reactive one. With DX making progress, it has become increasingly proactive. Considering that it has become essential to protect and effectively use intangible assets particularly, including data, algorithms,

and service models, intellectual property must be incorporated as part of a dynamic business model. SHI started working on the common infrastructure platform “SHICuTe” relatively early. Today, the company has an established process for offering high value-added solutions to customers through a remote monitoring function. The key to the SHI Group's further success in the age of DX is to concentrate the Group's knowledge on SHICuTe, so that intellectual property management combined with technological capability will facilitate the evolution of this platform into a data platform that will meet contemporary needs. I hope that SHICuTe will function as the core of the business model change through the analysis of collected data coupled with a cycle of new value creation generated from the analysis.

Q3 Regarding the selection and training of management for the next generation, please tell us what exactly the Selection and Nomination Committee discusses and what you think.

A During FY2024, the Selection and Nomination Committee not only met more often than before and discussed the selection process but also listed the names of specific individuals who would be candidates for top management positions of the next generation and who would be included in management training as part of its intense discussions. The committee also attempts to ensure that all its members have a shared understanding of what attributes are required in management. With those attributes in mind, I also believe that leaders who are capable of viewing the whole group in such a way that transcends the segments and developing a clear long-term vision should head the company in this age of uncertainty. Our management should become more diverse by removing age limits applied to promotion or advancement and actively appointing younger talent with a wide range of backgrounds regardless of gender and nationality. Hence, I think that we should create more training opportunities and foster a culture in which diversity is respected as we review internal rules and systems. From this perspective, the Selection and Nomination Committee should discuss specific approaches it could steadily take.



Interviews with Outside Directors

The transition to the monitoring board necessitates a business plan and KPIs that are detailed enough to support it. This topic should be included in the renewed discussions about the functions of the Board of Directors.

Independent Outside Director and Member of the Nomination and Remuneration Committee

Yaeko Hodaka

Q1 What would you say is the ideal state of the SHI Group's Board of Directors and your role as an outside director?

A Among the issues that became clear as a result of the Evaluation of Effectiveness of the Board of Directors conducted over the last years were that: items on the board meeting agenda are too detailed and there are too many items on the agenda. The majority of the board members maintain that each board meeting should spend more time on medium- to long-term critical topics, such as the selection and concentration of the company's business portfolio. It also became clear that the officers have different views on the definition of the monitoring board. The transition to the monitoring board necessitates a business plan and KPIs that are detailed enough to support it. This topic should be included in the renewed discussions about the functions of the Board of Directors.

Outside directors are expected to raise issues from their different perspectives to enhance the quality of discussions, rather than to offer technical advice. I hope to help improve the effectiveness of the Board of Directors by playing that role myself, too.

Q2 Would you tell us issues and your opinions, if any, regarding oversight function that the Board of Directors should provide in terms of the risk management framework and internal control across the Group?

A During FY2024, a subsidiary was found to have violated the Antimonopoly Act and the Subcontract Act. It was such a regrettable incident. One of the challenges of SHI in terms of risk management is that, because company's business areas are so diverse, it is difficult to roll out countermeasures to a problem that arises in one business to the entire group. This is because each product uses a different business model than the others in the same segment, which means the company has different considerations in light of the Antimonopoly Act. Under

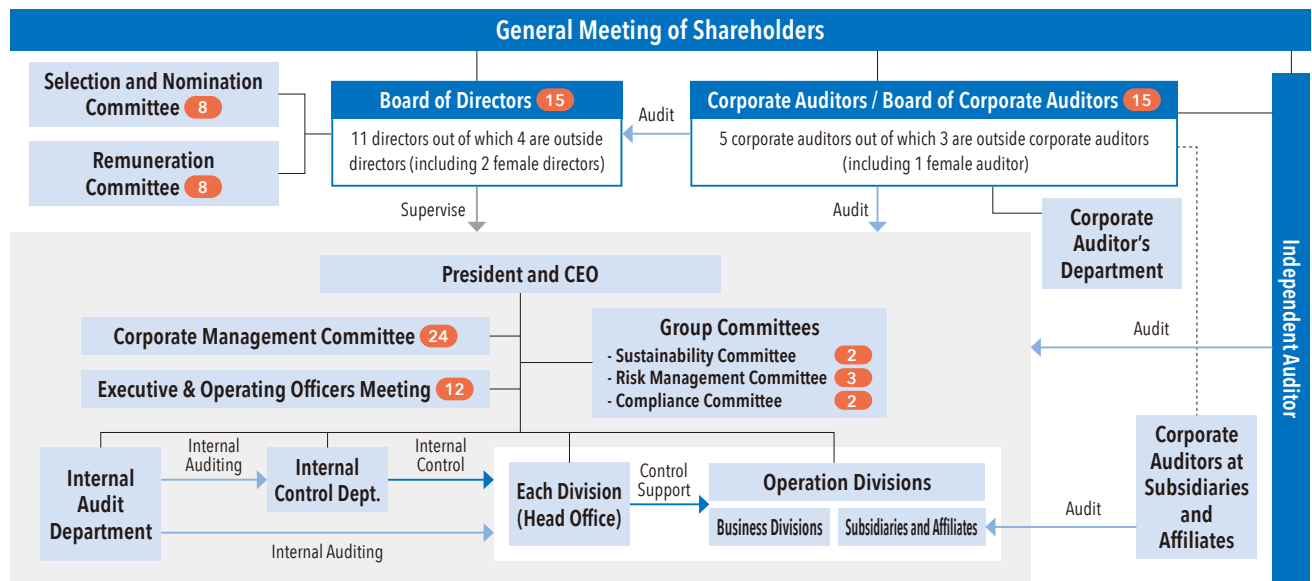
these circumstances, starting from this fiscal year, SHI identifies the types of each business division's risks so that it evaluates the risks to see if they are high or low. If any of the divisions are judged to face high risks, the company provides technical training in managing risks specific to these divisions, besides regular education on the Antimonopoly Act. I hope that this initiative will facilitate the development and establishment of more effective risk management framework aligned with the diverse business characteristics of SHI.

Q3 What has the Remuneration Committee discussed in connection with the performance evaluations of CEO and vice presidents and the incentive design for officers' remuneration leading to greater corporate value? What is your opinion about this?

A The conventional remuneration structure had four issues in its design: (1) In terms of its composition, the ratio of basic remuneration was extremely high, while that of performance-linked and stock-based remuneration is low. (2) Regarding annual bonuses, no objective evaluation linked to targets was conducted. (3) Stock-based remuneration granted is not linked to performance. (4) Targets of performance evaluation did not include nonfinancial indicators.

To resolve these issues, the Remuneration Committee met more frequently in FY2024 to redesign the remuneration structure, incorporating advice offered by external professionals. The transition to the new system was scheduled for this fiscal year. However, considering the company's current weak performance, it has been deferred because the levels of remuneration would be considerably higher than those in the last year. I personally find it very regrettable that the transition to the new system had to be postponed. To keep raising the corporate value of SHI, I believe that incentive remuneration that rewards the management team for their achievement must be introduced.





Corporate Governance System Chart



(As of March 28, 2025)



Inside officers Outside officers

Body	Board of Directors	Board of Corporate Auditors	Selection and Nomination Committee	Remuneration Committee
Composition	 7 inside + 4 outside	 2 inside + 3 outside	 2 inside+ 4 outside	 2 inside + 4 outside
Ratio of outside officers	36%	60%	67%	67%
Chaired by	Chairman of the Board	Standing corporate auditor	Outside director	Outside director
Secretariat	Corporate Legal Department	Corporate Auditor's Department	Human Resources Group	Human Resources Group

- | | | |
|--|-------------------|--|
| ◆ Corporate Management Committee | [Chair] President | [Membership] 9 (primarily directors appointed by the President) |
| ◆ Executive & Operating Officers Meeting | [Chair] President | [Membership] 39 (directors, corporate auditors, vice presidents, executive & operating officers of the SHI Group's operation divisions, etc.) |
| ◆ Sustainability Committee | [Chair] President | [Membership] 12 (vice presidents in charge of Head Office, heads of the segments, General Manager of the Sustainability Department of the Corporate Planning Group)
[Observers] 2 (standing corporate auditors) |
| ◆ Risk Management Committee | [Chair] President | [Membership] 16 (vice presidents in charge of Head Office and General Managers at Head Office)
[Observers] 3 (standing corporate auditors and General Manager of the Internal Audit Department) |
| ◆ Compliance Committee | [Chair] President | [Membership] 16 (vice presidents in charge of Head Office and General Managers at Head Office)
[Observers] 3 (standing corporate auditors and General Manager of the Internal Audit Department) |



(As of March 28, 2025)



Dr. Tetsuya Kato is a middle-aged man with short grey hair and glasses, wearing a dark suit, white shirt, and a patterned tie. He is smiling slightly and looking directly at the camera against a plain light background.



Dr. Yoonhee Park is an Associate Professor at the Department of Health, Behavior, and Society, Johns Hopkins University. She is also a senior advisor at the Center for Communications Programs. Her research interests include adolescent reproductive health, maternal and child health, and adolescent pregnancy. She has been involved in several large-scale research projects, including the Adolescent Pregnancy Prevention Program in South Africa and the Adolescent Pregnancy Prevention Program in India. She has published numerous articles in peer-reviewed journals and has presented at international conferences. She is currently co-leading a research team that is studying the impact of a community-based adolescent pregnancy prevention program in South Africa.



Hajime Watanabe
Outside Corporate Auditor
2025 Outside Corporate Auditor of
the Company

Necessary Attributes of the Board of Directors / Composition of Each Committee in 2025

	Name	Current position	Gender	Areas of expected expertise and contributions							Selection and Nomination Committee	Remuneration Committee	Corporate Management Committee	Executive & Operating Officers Meeting	Sustainability Committee	Risk Management Committee	Compliance Committee	Attendance at Meetings of the Board of Directors / Board of Corporate Auditors (Actual results for FY2024)	Tenure (Years)*	Name	
				Corporate Management	Legal Affairs / Compliance / Risk Management	ESG / Sustainability	Business Strategy / Marketing	Global	Technology / IT / Production	Finance / Accounting											
Board of Directors	Tetsuya Okamura	Representative Director, Chairman of the Board	Male		○		○	○	○		○	○	○	○				Meetings of the Board of Directors: 15/15 (100%)	6 years and 9 months	Tetsuya Okamura	Board of Directors
	Shinji Shimomura	Representative Director, President and CEO	Male	○	○	○		○	○		○	○	◎	◎	◎	◎	◎	Meetings of the Board of Directors: 15/15 (100%)	8 years and 9 months	Shinji Shimomura	
	Eiji Kojima	Representative Director	Male			○	○	○	○				○	○	○	○		Meetings of the Board of Directors: 15/15 (100%)	7 years and 9 months	Eiji Kojima	
	Kazuo Hiraoka	Director	Male				○	○	○					○				Meetings of the Board of Directors: 15/15 (100%)	4 years and 9 months	Kazuo Hiraoka	
	Toshihiko Chijiwa	Director	Male			○			○			○	○	○	○	○		Meetings of the Board of Directors: 15/15 (100%)	2 years and 9 months	Toshihiko Chijiwa	
	Toshiro Watanabe	Director	Male			○				○			○	○	○	○		Meetings of the Board of Directors: 15/15 (100%)	2 years and 9 months	Toshiro Watanabe	
	Tatsuro Araki	Director	Male		○		○		○					○				Meetings of the Board of Directors: 15/15 (100%)	2 years	Tatsuro Araki	
	Susumu Takahashi	Outside Director	Male	○	○	○		○			○	○		○				Meetings of the Board of Directors: 15/15 (100%)	10 years and 9 months	Susumu Takahashi	
	Akio Hamaji	Outside Director	Male	○	○	○		○	○	○	◎	◎		○				Meetings of the Board of Directors: 15/15 (100%)	4 years and 9 months	Akio Hamaji	
	Sumie Morita	Outside Director	Female			○		○	○		○	○		○				Meetings of the Board of Directors: 15/15 (100%)	2 years	Sumie Morita	
Corporate Auditors	Yaeko Hodaka	Outside Director	Female		○	○		○			○	○		○				Meetings of the Board of Directors: 15/14 (93%)	1 year	Yaeko Hodaka	Corporate Auditors
	Hideo Suzuki	Standing Corporate Auditor	Male		○	○				○			○	○				Meetings of the Board of Directors: 15/15 (100%) Meetings of the Board of Corporate Auditors: 15/15 (100%)	—	Hideo Suzuki	
	Shoji Uchida	Standing Corporate Auditor	Male		○		○	○					○	○				Meetings of the Board of Directors: 15/15 (100%) Meetings of the Board of Corporate Auditors: 15/15 (100%)	—	Shoji Uchida	
	Masaichi Nakamura	Outside Corporate Auditor	Male		○	○				○				○				Meetings of the Board of Directors: 15/15 (100%) Meetings of the Board of Corporate Auditors: 15/15 (100%)	—	Masaichi Nakamura	
	Mio Minaki	Outside Corporate Auditor	Female		○	○								○				Meetings of the Board of Directors: 11/11 (100%) Meetings of the Board of Corporate Auditors: 11/11 (100%) Appointed in March 2024	—	Mio Minaki	
	Hajime Watanabe	Outside Corporate Auditor	Male		○			○		○				○				Appointed in March 2025	—	Hajime Watanabe	

MaleFemale

◎:Chairperson ○:Committee member

Note: This table does not represent the full range of knowledge and expertise possessed by the Directors and Audit & Supervisory Board Members.
* At the end of the General Meeting of Shareholders in March 2025

Reasons for Selecting Necessary Attributes of the Board of Directors

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

Executive Officers

Title	Director	Name	Appointments
President	○	Shinji Shimomura	CEO
Executive Vice President		Toshiharu Tanaka	General Manager of Corporate Economic Security Department, General Manager of Globalization Dept.
Executive Vice President	○	Kazuo Hiraoka	General Manager, Industrial Machinery Segment
Executive Vice President		Taiji Tsuchiya	General Manager, Mechatronics Segment
Executive Vice President	○	Eiji Kojima	General Manager of Export Administration Dept.; General Manager, Energy & Lifeline Segment
Executive Vice President	○	Toshihiko Chijiwa	General Manager of Corporate Technology Management Group
Executive Vice President	○	Tatsuro Araki	General Manager of Power Transmission & Controls Group
Executive Vice President	○	Toshiro Watanabe	CFO
Executive Vice President		Shaun Dean	Sumitomo Heavy Industries (Europe) B.V. Managing Director
Senior Vice President		Morihiro Kondo	Regional General Manager of Kansai Office; Chairman of Sumitomo Heavy Industries (China), Ltd.
Senior Vice President		Shigeru Tajima	General Manager of Process Machinery Center; Representative Director & President of Sumitomo Heavy Industries Process Equipment Co., Ltd.
Senior Vice President		Kazutoshi Shiraishi	General Manager of Human Resources Group
Senior Vice President		Mitsukuni Tsukihara	Representative Director, President & CEO of Sumitomo Heavy Industries Ion Technology Co., Ltd.
Senior Vice President		Haruhiko Tsuzuki	General Manager of Ehime Works; General Manager, Logistics & Construction Segment
Senior Vice President		Masaki Arai	General Manager of Corporate Planning Group
Vice President		Takanori Nagai	Representative Director, President & CEO of Sumitomo Heavy Industries Environment Co., Ltd.
Vice President		Melvin Porter	LBCE Holdings, Inc. Chairman, Director, President CEO
Vice President		Yoichi Kato	General Manager of Energy & Environment Group
Vice President		Isamu Mitsuhashi	Representative Director, President & CEO of Sumitomo Construction Machinery Co.,Ltd.; Representative Director, President & CEO of Sumitomo Construction Machinery Sales Co.,Ltd.
Vice President		Hiroyuki Tominaga	General Manager of New Business Exploration Dept.
Vice President		Chie Okamoto	General Manager of Precision Equipment Group

Message from Board Chair

For FY2024, both sales and profits were expected to fall below the previous fiscal year, and the PBR would be below 1. The Board of Directors feels a great deal of responsibility for failing to meet market expectations, and in these difficult times, we are once again keenly aware of the need for reform of the Board of Directors.

Up until now, our board of directors has shared the recognition that we need to shift our emphasis to supervisory functions, but the members have not necessarily shared the same vision of what this should look like in concrete terms. There were a large number of agenda items to be discussed, and I felt that we were unable to devote sufficient time to discussing important themes such as our medium- to long-term management policies and business portfolio.

In the evaluation of effectiveness of the Board of Directors for FY2023, these issues were identified as a challenge under the theme of 'deepening discussions on the role of the Board,' and group discussions were conducted. The topic was also deliberated at Board meetings, where discussions were further developed. As a result, we agreed that the top priority should be to reconsider the issues that should truly be discussed by the Board of Directors and to significantly revise the agenda criteria in order to realize a Board of Directors that places emphasis on the supervisory function.

Amid the major trend toward strengthening the supervisory function of the Board of Directors and delegating authority to executive officers, I, as the Board Chair, feel that (1) the relationship between inside and outside directors and (2) the relationship between the Board of Directors and executive officers are important.

Regarding item (1), the ideal relation is where the two parties are almost equally informed and fully understand our management challenges as they supervise execution from a broad perspective. Hence, I ensure that outside



Representative Director,
Chairman of the Board,
and Board Chair

Tetsuya Okamura

officers are fully provided with information that includes briefings before board meetings. As the Chair, I also exert effort in facilitating each meeting in such a way that encourages outside directors to actively speak in order for the two parties to exchange their views on an equal footing, which also helps them share the status of internal discussions with outside directors.

Regarding item (2), as the division of roles between the two parties progresses, we believe it is necessary to create a system in which the content of discussions at Board of Directors meetings is properly conveyed to execution and to ensure transparency of the execution decision-making process for the Board of Directors, in order to prevent any differences in understanding from arising.

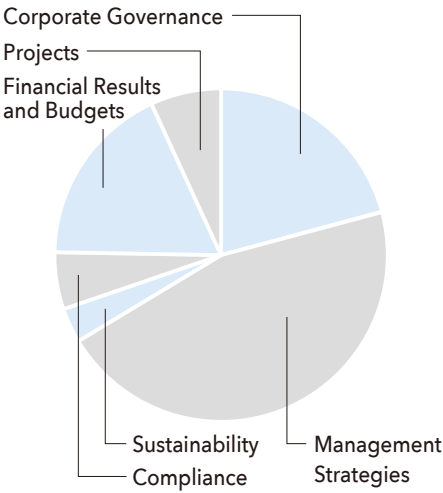
As the Chair, I feel a sense of accomplishment that all members of the Board of Directors have taken a major step forward with a unified view of the important topic of how the Board of Directors should function. At the same time, I believe it is necessary to continue discussing what the Board of Directors should be, including diversity on the Board of Directors and the roles of the Selection and Nomination Committee and the Remuneration Committee. The full details of these efforts should also be clearly presented to our shareholders and investors.

We will continue to explore what we can do to enhance our corporate governance in order to keep increasing our corporate value.

Key Areas of Deliberation for the Board of Directors (FY2024)

Corporate Governance	Discussion about an ideal state of the Board of Directors
	Updating the criteria for items on board meeting agendas
	Evaluation of Effectiveness of the Board of Directors
	Succession plan
	Officers' remuneration
Management Strategies	Dialogues with shareholders
	Requests in accordance with laws/the articles of incorporation
	Development of the Medium-Term Management Plan and progress made
	Our Human Resource Strategy
Sustainability	Financial strategy
	Development strategy
	Changes to material issues of sustainability
Compliance	Status of sustainability promotion
	Status of activities by the Risk Management Committee and the Compliance Committee
Financial Results and Budgets	Establishment of the basic policy on compliance with the Antimonopoly Act
	Budgets and financial results
Projects	Impairment loss
	Corporate acquisitions
	Restructuring of organizations in the Group
	Withdrawal of businesses

Hours Spent on Deliberation by Type of Agenda Item



Total hours of deliberation: approximately 46 hours

Officers' Remuneration

Components of Executive Remuneration

Remuneration for each of our directors and executive officers comprises basic remuneration, performance-linked remuneration, and stock-based remuneration. Remuneration for each outside directors consists only of basic remuneration (a fixed amount).

Remuneration Type		Ratio of Remuneration	Outline
Basic Remuneration		about 60%	Fixed amount paid as remuneration according to the position
Performance-Linked Remuneration	Dividend-based Remuneration (0% to 130%)	about 15%	Paid according to the Company's annual dividend
	Performance-based Remuneration (0% to 200%)	about 15%	Paid considering financial metrics (operating profit, operating profit margin, ROIC) and other factors such as safety performance
Stock-Based Remuneration		about 10%	As a rule, when the director or officer leaves his or her executive position, the Company's stocks are issued to him or her.

Note: An allowance is added to the remuneration for directors. 85% of it is a fixed amount of remuneration, and 15% variable remuneration based on the Company's annual dividend.

Remuneration Committee

The Remuneration Committee deliberates on the system and standards of remuneration for directors and executive officers, and other related matters, to respond to inquiries from the Board of Directors, and makes a report or gives advice to the Board of Directors.

The Committee met eight times during FY2024.

[Key Areas of Deliberation in FY2024]

- Officers' remuneration in FY2024
- Updating the rating index for performance-linked remuneration (remuneration based on divisions' performance)
- Officers' remuneration system going forward

Succession Plan (Director Selection Criteria and Process)

We view CEO succession planning as one of our top management priorities. The Selection and Nomination Committee annually reviews our training plan to discuss and deliberate on the status. The Committee also checks and discusses the status of training for successors of non-CEO positions in order to ensure that we work on succession according to our plans.

The Director's selection criteria focus on the following qualities: (1) integrity, excellent judgment and skills, coupled with a strong sense of ethics; (2) ability to take a bird's eye view of the SHI's business, skills needed to identify fundamental risks, and a broad range of knowledge about business management; (3) understanding of the Sumitomo Business Philosophy and the SHI Group's business principle, among others, and ability to enact them. When appointing director candidates, the Selection and Nomination Committee also considers and discusses each candidate's expertise, the balance of the candidates' experience (including experience in management and business as well as in global business operation), and diversity, among others, so that the Board of Directors will deliver on effective corporate governance. The Board of Directors deliberates on the candidates and makes decisions based on what the Committee reports as a result of the discussions.

(Please visit our website for the corporate auditor selection criteria : <https://www.shi.co.jp/english/csr/governance/corporate/index.html>)

Selection and Nomination Committee

The Selection and Nomination Committee deliberates on the appointment of director and corporate auditor candidates, dismissal of directors and corporate auditors, selection and dismissal of representative directors and directors with managerial positions, as well as the progress of the succession plan for the CEO and other top executives, to respond to inquiries from the Board of Directors, and makes a report or gives advice to the Board of Directors.

The Committee met eight times during FY2024.

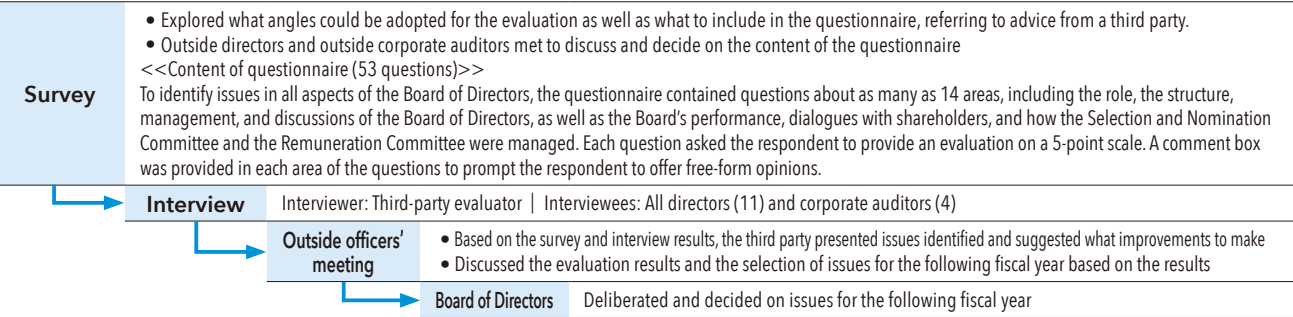
[Key Areas of Deliberation in FY2024]

- Executive team for FY2025
- Succession plan for CEO and other executives
- Members of the Selection and Nomination Committee

Evaluation of Effectiveness of the Board of Directors

We evaluate the effectiveness of the Board of Directors annually to improve the functions of the Board through the continuous process of dealing with identified issues. In FY2024, we adopted a third-party evaluation in order to objectively identify issues that would not be found through self-evaluation.

Overview of the FY2024 Effectiveness Evaluation



Issues Identified by the FY2024 Effectiveness Evaluation and Our Action

The FY2024 effectiveness evaluation made clear that our Board of Directors should work to focus on its supervisory function. However, many suggested that we establish a shared and detailed understanding of what that meant and entailed. The previous year's evaluation put forward "discussions about the role of the Board of Directors," and so our board members discussed the issue in small groups and on other occasions. These discussions led us to conclude that our priority is to substantially update what should be placed on the agenda, and so we reviewed the criteria for items that should be placed on board meeting agendas. Nevertheless, the Board of Directors did not arrive at a shared understanding of what exactly the supervisory function meant and entailed.

With the evaluation results this time and what transpired the previous year, we have decided to continue more in-depth discussions about "how the Board of Directors should work and discuss matters as it focuses on its supervisory function." These in-depth discussions will especially center around two themes, namely (1) The role of the Board of Directors, which includes the design of the organization and the roles of inside and outside directors; (2) How the Board of Directors should discuss our Medium-Term Management Plan, business portfolio, and dialogues with shareholders (investors), among others, and how it should move ahead of the discussions. (Please visit our website for information about the FY 2024 effectiveness evaluation: https://www.shi.co.jp/english/csr/governance/corporate/pdf/structure_02.pdf)

Board of Corporate Auditors

We have adopted a Board of Corporate Auditors, to ensure dual check functions, namely by the supervision of management through the Board of Directors' decisions on business execution, and audits by corporate auditors. Our corporate auditors and the Board of Corporate Auditors, and the internal audit department and independent auditors work closely together and share information about audit results in an effort to establish and facilitate an efficient auditing process.

The Internal Audit Department, which reports directly to the President and consists of a General Manager and 14 staff members, conducts regular audits of the SHI Group's business operations and reports the results to both the Board of Directors and the Board of Corporate Auditors.

◆Key actions

During 2024, the Board of Corporate Auditors met 15 times, adopted 11 resolutions, deliberated and discussed 11 matters, and made 40 reports.

Theme	Description/Action
Risk Management and Governance	<ul style="list-style-type: none">Conducted a review of risk awareness and governance status across business units and subsidiaries.Engaged in discussions with Representative Directors and participated in the Risk Management Committee.
Compliance	<ul style="list-style-type: none">Reviewed the headquarters' monitoring efforts regarding recurrence prevention measures.
Key Strategic Issues	<ul style="list-style-type: none">Participated in the Long-term Strategy Meeting.Provided suggestions aimed at enhancing corporate value and promoting sustainability.

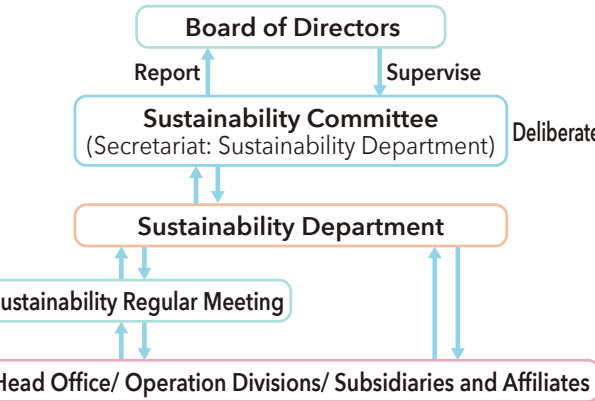
Sustainability-oriented Management

The SHI Group is committed to sustainability-oriented management with the focus on stakeholders. The Board of Directors determines the Basic Sustainability Policy and the Seven Material Issues. The Sustainability Committee deliberates on plans and issues concerning sustainability promotion and reports them to the Board of Directors. We are committed to addressing the material issues under this basic policy so that we will contribute to the creation of a sustainable society and retain stakeholder trust.

(Please visit our website for the Basic Sustainability Policy: <https://www.shi.co.jp/english/csr/group/index.html>)

Structure

The Sustainability Committee deliberates on plans and issues concerning sustainability promotion, among other matters.



Committee Chair	President
Members	12 (vice presidents in charge of Head Office, heads of the segments, General Manager of the Sustainability Department of the Corporate Planning Group)
Observers	2 (standing corporate auditors)
Frequency	Twice a year (FY2024)
Main topics discussed by the Sustainability Committee (FY2024)	<ul style="list-style-type: none">Status of information disclosure (policies/gaps in efforts)Actions to combat climate change (status of the reduction of GHG emissions and measures taken)Advancement of business implementation (actions to achieve our Purpose taken across the company)Human rights (reports on due diligence plans and results)

Promotion Activities

The Sustainability Department leads the activities that aim to establish the Seven Material Issues of Sustainability (page 19) and sustainability-oriented management.

◆ Sustainability Regular Meeting

The divisions involved in our sustainability promotion (internal control, corporate planning, corporate communications, corporate identity, general administration, the environment, human resources, corporate technology management, purchasing, corporate legal) share and discuss information related to the SHI Group's sustainability.

◆ Meetings of General Managers (organized by the Head Office divisions)

Progress on material issues and other relevant matters are reported at the Meetings of General Managers of Development, Design, Production, and Environmental Management Departments; Meetings of Safety Managers; and Meetings of General Administration GL, among others, as necessary.

◆ Public Relations and Sustainability Committee (organized by the Corporate Communication Department and Sustainability Department)

We appoint Public Relations and Sustainability Committee members as the contact persons for our sustainability activities (8 from business divisions, 19 from subsidiaries and affiliates, 9 from works). The committee members work to establish and publicize the SHI Group's sustainability activities in their organizations. They also exchange information across the organizations at the Public Relations and Sustainability Committee meeting held twice a year.

Sustainability Risk Management

The SHI Group manages risks related to sustainability within its risk management framework. Among these risks are climate risks and human rights risks, and the Sustainability Committee deliberates and reports on them to the Board of Directors. The Head Office divisions manage other risks that fall within their responsibility. (P.73, "Risk Management")

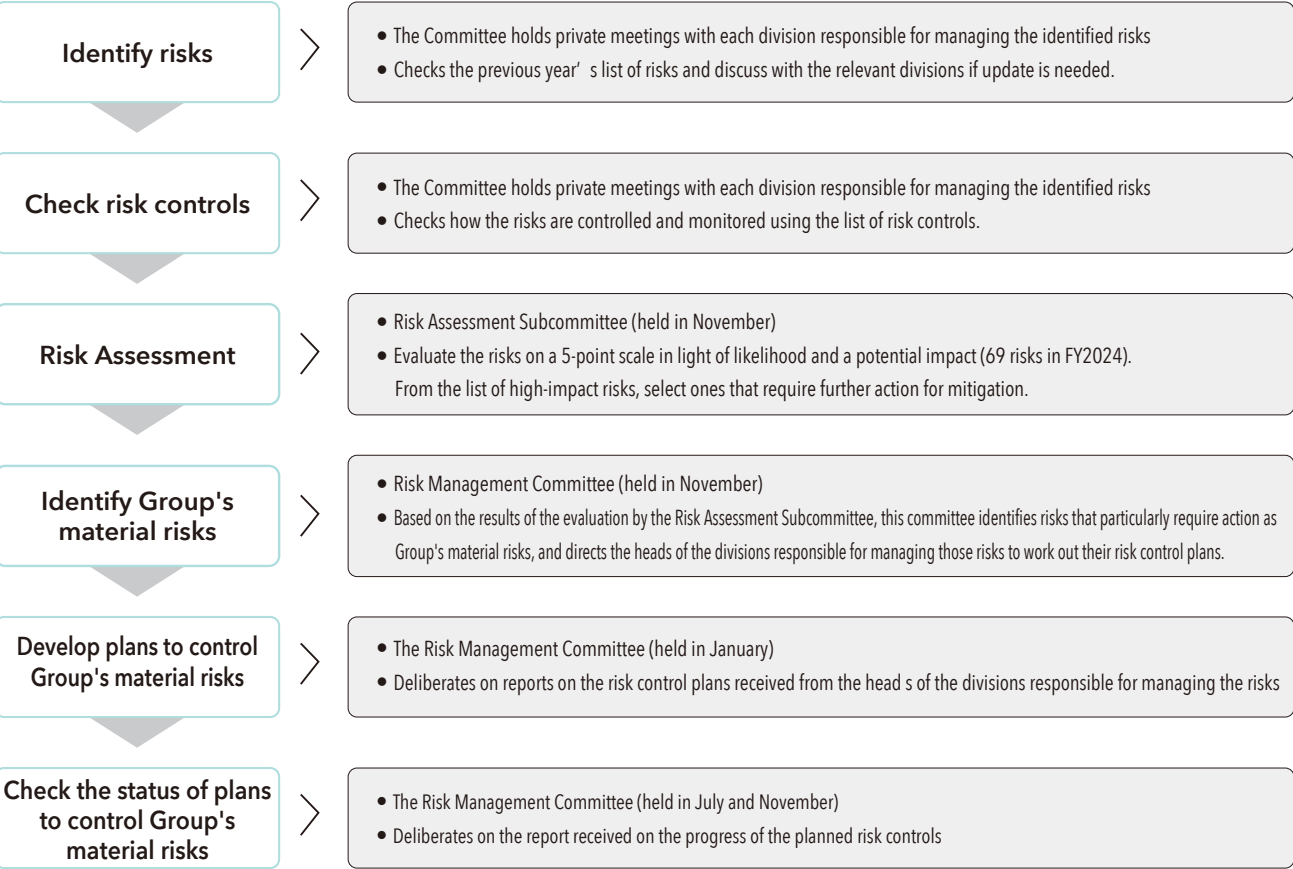
Risk Management

The SHI Group manages risks in accordance with the Basic Policy for Establishment of the Internal Control System. The Head Office divisions manage the business and operational risks that fall within their responsibility, and the Internal Control Group oversees the risks that should be addressed across the company and follows the steps to manage them as shown in the figure below. Identification of Group's material risks and plans to control them are deliberated on and approved by the Risk Management Committee and reported to the Board of Directors.

(Please visit our website for the risk management framework: <https://www.shi.co.jp/english/csr/governance/control/index.html>)

Risk Management Process

The Risk Management Committee takes the steps of the risk management processes shown below to identify material risks that could significantly impact the Group's business operation and keep track of how those risks are controlled.



Group's Material Risks

From the list of highly probable risks that would significantly impact our business operation, the Risk Management Committee for the year selects risks that are judged to require further management and controls as Group's material risks in the following year. Then the Committee develops plans to deal with those risks as part of our efforts toward more rigorous risk management.

The table here shows the risks selected as Group's material risks in FY2025.

Group's Material Risks in FY2025
Economic security risk
Quality fraud/Legal or regulatory noncompliance risks
Information security risk
Risk of noncompliance with the Antimonopoly Act
Climate risk (risks involved in the transition to a decarbonized economy)
Human rights risk

Compliance

Compliance in the SHI Group means complying with laws as well as internal policies and rules as a member of society. It also signifies practicing the corporate ethics that are based on the Sumitomo Business Philosophy, our Purpose, and our business principle, and doing honest and fair business as a sensible member of the business community. (Please visit our website for the framework for advancing compliance: <https://www.shi.co.jp/english/csr/governance/control/index.html>)

Initiatives to Enhance Compliance

We have compiled the Compliance Manual showing the rules and specific behavioral guidelines that must be observed by officers and employees of the SHI Group. The manual is provided to all employees. Each workplace holds sessions where employees read together the Compliance Manual in an effort to ensure that they remain fully committed to compliance. We also conduct an annual compliance awareness survey to gauge our employees' understanding of and commitment to compliance standards, and to identify potential compliance risks in the workplace. Furthermore, as a measure to facilitate full compliance, we require that the SHI Group's officers and managers submit a pledge of compliance once a year. (Please visit our website for our compliance training: <https://www.shi.co.jp/english/csr/governance/control/index.html>)

Compliance with the Competition Laws

Of all compliance issues, compliance with the competition laws has high priority in the SHI Group. We have established the SHI Group Basic Policy on Compliance with the Competition Laws to ensure full compliance with the competition laws across the SHI Group and to commit to fair competition and transactions. We also continue our efforts to embed the basic policy into the SHI Group, which include establishing and implementing internal policies, and providing training for officers and employees.

Anti-bribery Measures

We have established the SHI Group Anti-Bribery Basic Policy to clarify the anti-bribery rules that all officers and employees of the SHI Group must comply with in order to prevent bribery from taking place. This basic policy contains clauses on the prohibition of bribery (including facilitation payments), the prohibition of bribery through third parties such as consultants and agents, and the prohibition of excessive favors in the form of entertainment and gifts. To prevent bribery on occasions when contacting people like government employees to offer entertainment and/or gifts in Japan or overseas, we have in place a Group-wide preliminary review system.

SHI Group Ethics Hotline (Whistleblowing System)

The SHI Group has a whistleblowing system that receives reports from and offers consultation to officers and employees on any violation of law or internal rules, or any fact that may constitute a violation.

Other than this system, we also have a consultation service exclusively for issues of harassment in the workplace. To advance the understanding of how important it is to report to and seek help from these systems, and to relieve the worries employees may have about reporting and consulting, we present the steps to use the services, how whistleblowers are protected, and the ban on disadvantageous treatment of whistleblowers, among others, through various training programs and other opportunities, coupled with posters, internal newsletters, websites, and other means.

SHI Group Ethics Hotline (Whistleblowing System)

