Sumitomo Heavy Industries, Ltd.

Integrated Report 2026

Sumitomo's Business Philosophy

【Business Principles】

〈Article 1〉 Sumitomo shall achieve strength and prosperity by placing prime importance on integrity and sound management in the conduct of its business.

〈Article 2〉 Sumitomo shall manage its activities with foresight and flexibility in order to cope effectively with the changing times. Under no circumstances, however, shall it pursue easy gains or act imprudently.

Business Principle

【Corporate Mission Statement】

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

【Our Values】

Customer First ······ We exceed customer expectations by providing sophisticated efficient products and services, giving the utmost consideration to their needs and requirements.

Embrace Changes ······ We will continue to drive and embrace changes without accepting the status quo.

Commit to Technology and Innovation ······ We are passionate about contributing to society by further developing our unique, in-house technologies.

Respect People ······ We will nurture an organizational climate that fosters mutual respect, tolerance and learning for growth.

【PURPOSE】

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

Our Ideal State in 2030

A company that contributes to an affluent society through core technologies and realizes CSV

By continuously driving the evolution of energy, industrial, and social infrastructure through our proven technological capabilities, we aim to achieve a ROIC of 10% or higher in fiscal 2030.

Upon Publication of Integrated Report 2026

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

Director, Executive Vice President, and General Manager, Corporate Global Strategy Group

Masaki Arai

The Sumitomo Heavy Industries Group publishes integrated reports as a vital communication tool to help stakeholders deepen their understanding of the Group's initiatives and to foster constructive dialogue.

In this report, we aim to convey, in an integrated manner, our thinking on what value we seek to deliver to society in line with the Group's Purpose and exactly how we intend to do so. The story we seek to tell connects the direction of our management, derived by backcasting from the ideal state we aspire to achieve in the long term, with our near-term actions, while maintaining consistency with our management strategies and sustainability initiatives.

Meanwhile, under the new management structure, the Group is driving transformation, including a review of its financial strategy and business portfolio. This report also outlines the direction of these initiatives, alongside the background and rationale behind them. We believe that enhancing financial value and creating social value are both crucial to sustainably improving corporate value. In compiling this report, we took particular care to disclose, with the greatest possible transparency, not only our achievements but also the progress of our efforts to address challenges and advance our initiatives. By continuing to engage with stakeholders through dialogue and incorporating their input into our management, we will further enhance our value creation.

We hope this report will serve that purpose.

Integrated Report 2026 : Highlights

Deep Dive into the Present and Future of the Sumitomo Heavy Industries Group from 5 Angles

1 Management Resolve and Responsibilities

Key Point

In the message from the CEO, President Watanabe, who has 40 years of experience on the ground and in business management, expresses his commitment to squarely facing tough valuation by capital markets and steering the Group toward re-building its profitability. He discusses the need to transform the Group's business portfolio in order to create a cycle of growth. He also presents the principles of selection and concentration that led to the decisions to close or scale down certain businesses and to allocate substantial resources to specific areas.

Featured Pages
Message from the CEO (P15-19)

2 Strategic Business Unit (SBU) Structure

Key Point

In January 2026, we launched the Strategic Business Unit (SBU) structure as a new organizational framework for achieving the transition to a customer-centric business model. This report illustrates exactly how the units share their technologies and customer bases to create businesses, clearly defining the foundational businesses and growth areas in the four new segments.

Featured Pages
Launch of SBU Structure (P10)
Growth Strategy (P33-38)

3 Priorities for Capital Efficiency

Key Point

In his message, the General Manager of the Corporate Finance, Accounting & Administration Group discusses in detail how the Group ensures business management that uses ROIC as a shared metric to achieve a greater numerator (profit) and an improved denominator (invested capital) aimed at improving PBR. He illuminates our policy for stable shareholder returns that aims to maintain the total return ratio of 40% or higher, citing priorities to create operating cash flow and changes in cash allocation.

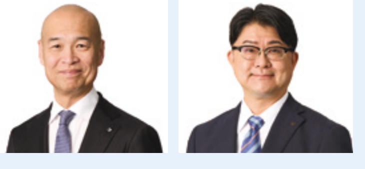
Featured Pages
Message from the General Manager, Corporate Finance, Accounting & Administration Group (P20-22)

4 Maximizing Intangible Assets

Key Point

The Vice Presidents in charge present the Group's approaches to value creation, including the qualitative transformation of patents by the Corporate Technology Management Group and the monetization of digital transformation (DX). They also mention our efforts toward the transformation of our human resource portfolio and organizational development, which underpin our business transformation. They illustrate how these intangible assets turn into our competitive advantages in the markets, citing specific examples.

Featured Pages
Technology, Intellectual Property, and DX Strategy (P27-28)
Message from the Director in charge of Human Resources (P55-56)
Human Capital (P54-58)



5 Effective Governance

Key Point

This report presents how the Board of Directors effectively works as the command center for the Group's growth strategy and resource allocation. The report also discusses in detail how Outside Directors rigorously watch for any potential lack of speed and keep the management team alert through the selection of the CEO and decisions on the remuneration structure. Messages from the Board Chair, and the Chairs of the Nomination Committee and the Compensation Committee, are included.

Featured Pages
Messages from Outside Directors (P23-26)
Evaluation of Effectiveness of the Board of Directors (P66)

Editorial Policy and Contents

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Editorial Policy

This Integrated Report 2026 aims to deepen the understanding of a broad spectrum of stakeholders, including shareholders and investors, regarding the Sumitomo Heavy Industries Group's unique strengths and sources of medium- to long-term growth. Guided by our Corporate Purpose–"Enhance society and those within it with compassion through our ownership and vision"–we present our initiatives from both financial and non-financial perspectives, illustrating how we aim to deliver value to customers and society through our business operations while simultaneously enhancing corporate value.

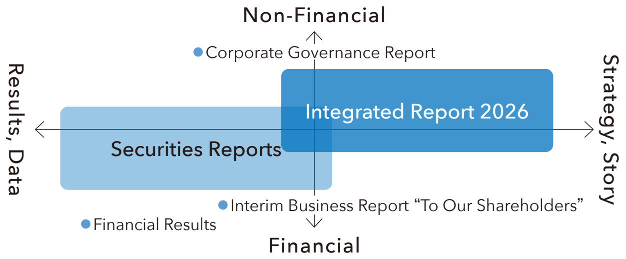
■ **Scope of Report** : This report covers Sumitomo Heavy Industries, Ltd. and consolidated subsidiaries. Context changes are duly noted in the text.

■ **Timeline** : This report covers FY2025 (January 1, 2025–December 31, 2025), with the exception of one overseas subsidiary. Some content makes references to dates outside of this time period.

Reference Guidelines

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

Positioning of Integrated Report 2026



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

Our History of Value Creation

Known initially as Izumi-ya, Sumitomo began its operations in the fields of copper refining, trading, and mining. Its Shikoku Besshi Copper Mine first opened in 1691, and by 1888, mining operations had expanded enough to warrant the introduction of the “shop practice” concept as a way of manufacturing and repairing equipment and tools used at the mine. This marked the beginning of the Sumitomo Heavy Industries Group.

In 1934, the company was established as Sumitomo Machinery Co., Ltd., which was renamed Sumitomo Machinery Industries Co., Ltd. in 1952. Then Sumitomo Machinery Industries merged with Uraga Heavy Industries Co., Ltd. in 1969, giving birth to Sumitomo Heavy Industries, Ltd. (SHI) today. SHI has maintained its DNA of an industrial infrastructure company that started as a machinery and shipbuilding business, and it has continued to achieve growth by expanding its business areas into the fields of plastics machinery, gear reducers, medical equipment, and Ion implanter, among others.

In 2020, we adopted backcasting to develop the Medium-Term Management Plan, and in 2024, we established our Purpose.

With social issues in mind, we define our ideal future and work toward sustainable growth and greater corporate value to turn the vision into reality.

Establishment

1888
Launched as a machinery production and repair shop for the Besshi Copper Mine

1934
Incorporated as Sumitomo Machinery Co., Ltd.

1952
Renamed Sumitomo Machinery Industries Co., Ltd.

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

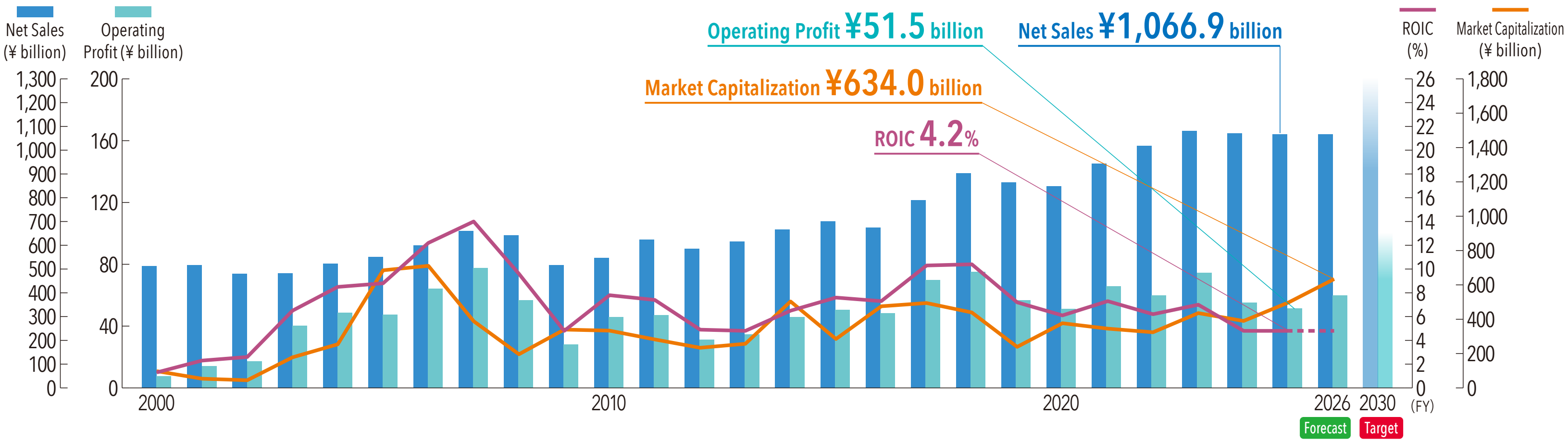
Evolution of Our Management Strategies and Key ESG Measures

	- 1999	2000 -	2020 -	2024 -
Management Strategies	Adopted an ROIC-based management approach (1999)	Actively implemented business restructuring in Japan and overseas	Started business portfolio reformation and introduced the segment system (2023)	• Established our Purpose (2024) • Implemented business portfolio reformation and introduced the SBU structure under our business segments (2026)
ESG Framework			• Identified material issues of sustainability (2020) • Developed a basic sustainability policy (2021)	Signed the UN Global Compact (2025)
Environmental (E)	Developed an environmental policy (1999)	Completed more environmental ISO certifications	• Declared support for the TCFD recommendations (2021) • Set targets for carbon neutrality (2022)	Obtained SBTi Validation (2026)
Social (S)		Developed CSR procurement guidelines (2017)	Developed a human rights policy (2023)	Launched the HR Development Center (2024)
Governance (G)	Adopted an executive officer system (1999)	Formulated a Corporate Governance Basic Policy (2015)	Appointed the first female director (2023)	Established Outside Corporate Auditors as the majority of the Board of Corporate Auditors (2025)

2027 Published the next medium-term management plan

Future Ideal State

Changes in Consolidated Net Sales, Operating Profit, ROIC, and Market Capitalization



Our Products to Support Society

In daily life scenes such as office buildings, condominium buildings, and commercial facilities, and in industrial activity scenes such as port facilities, construction sites, factories, and warehouses. You can find the products of the SHI Group, which are classified into four segments, actively working around you.

A Industrial Manufacturing Facilities

Gear Reducer

Gear reducers that decrease the rotation rate of motors to an appropriate speed and increase their torque are used in a variety of applications, including factory production lines, conveyors and cranes.

CYCLO®Drive

For more information, see page [Mechatronics Segment] (P39)

B Semiconductor Factory

Ion Implanter

This is one of the most important pieces of equipment used to manufacture the semiconductors installed in the electrical products around us, such as mobile phones and household appliances. We support the manufacturing process with cutting-edge technologies that facilitate the miniaturization of semiconductors.

High-Energy Ion Implanter

For more information, see page [Industrial Machinery Segment] (P41)

C Logistics Warehouse

Logistics System

The system can manage a series of processes, from inventory control via tags and barcodes to shipping. This contributes to labor savings, work safety, and efficiency.

Automated Storage System

For more information, see page [Logistics & Construction Segment] (P43)

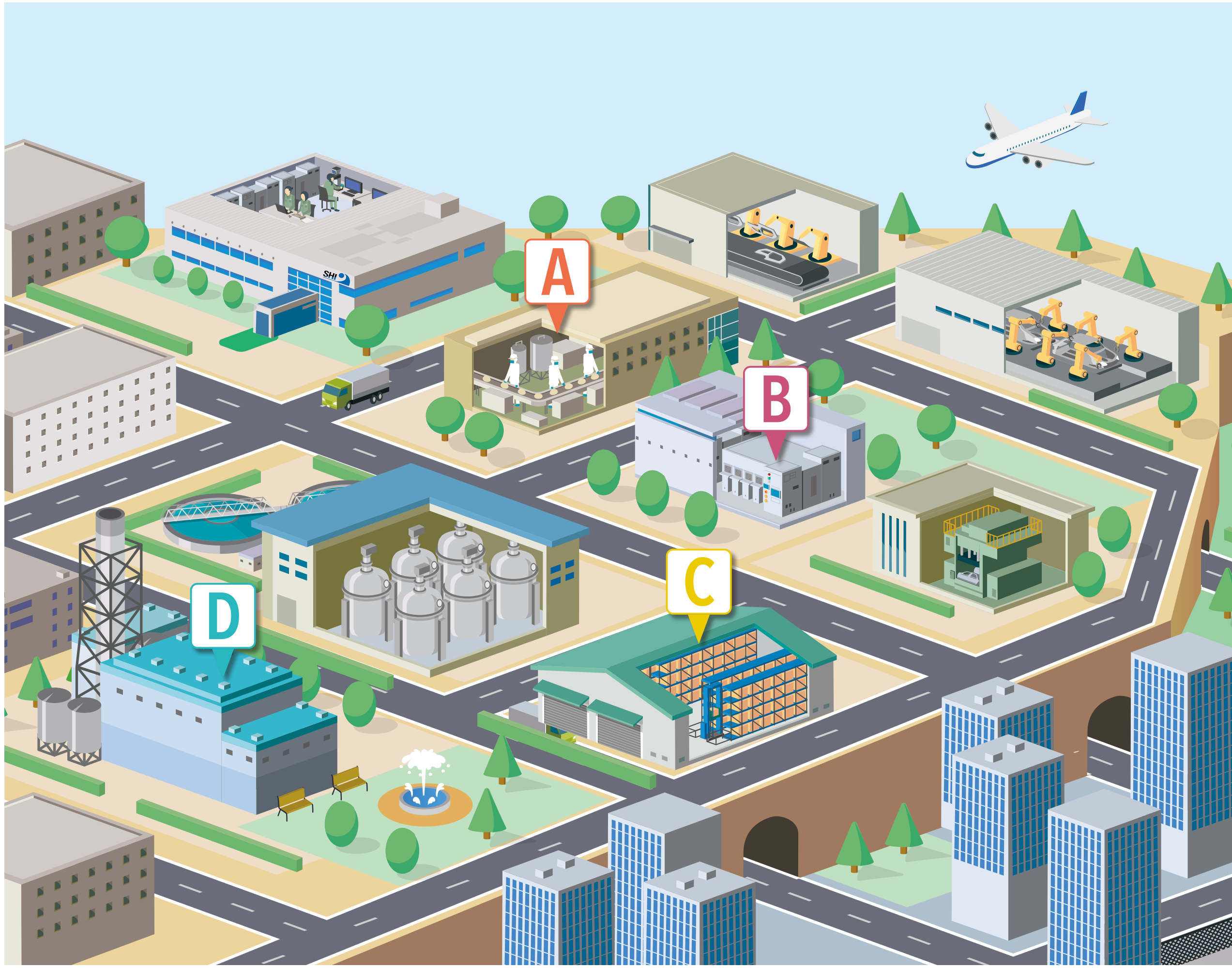
D Power Plant

Circulating Fluidized Bed (CFB) Boiler

Efficiently and stably combusting local non-fossil fuels, such as unutilized forest biomass (e.g., thinned wood) and agricultural residues. This achieves local production and consumption of energy while contributing to reduced CO_2 emissions.

CFB Boilers (Circulating Fluidized Bed Boilers)

For more information, see page [Energy & Lifeline Segment] (P45)



E Office

Plastics Machinery

Plastics machinery excels at ultra-precise and difficult molding. They are used to mold plastic products that are indispensable to daily life. These products include electronic parts, such as CDs, DVDs, PCs, and smartphones, as well as lenses, switches, medical parts, and PET bottles.

Ultra-High Speed and Response Injection Molding Machine

For more information, see page [Industrial Machinery Segment] (P41)

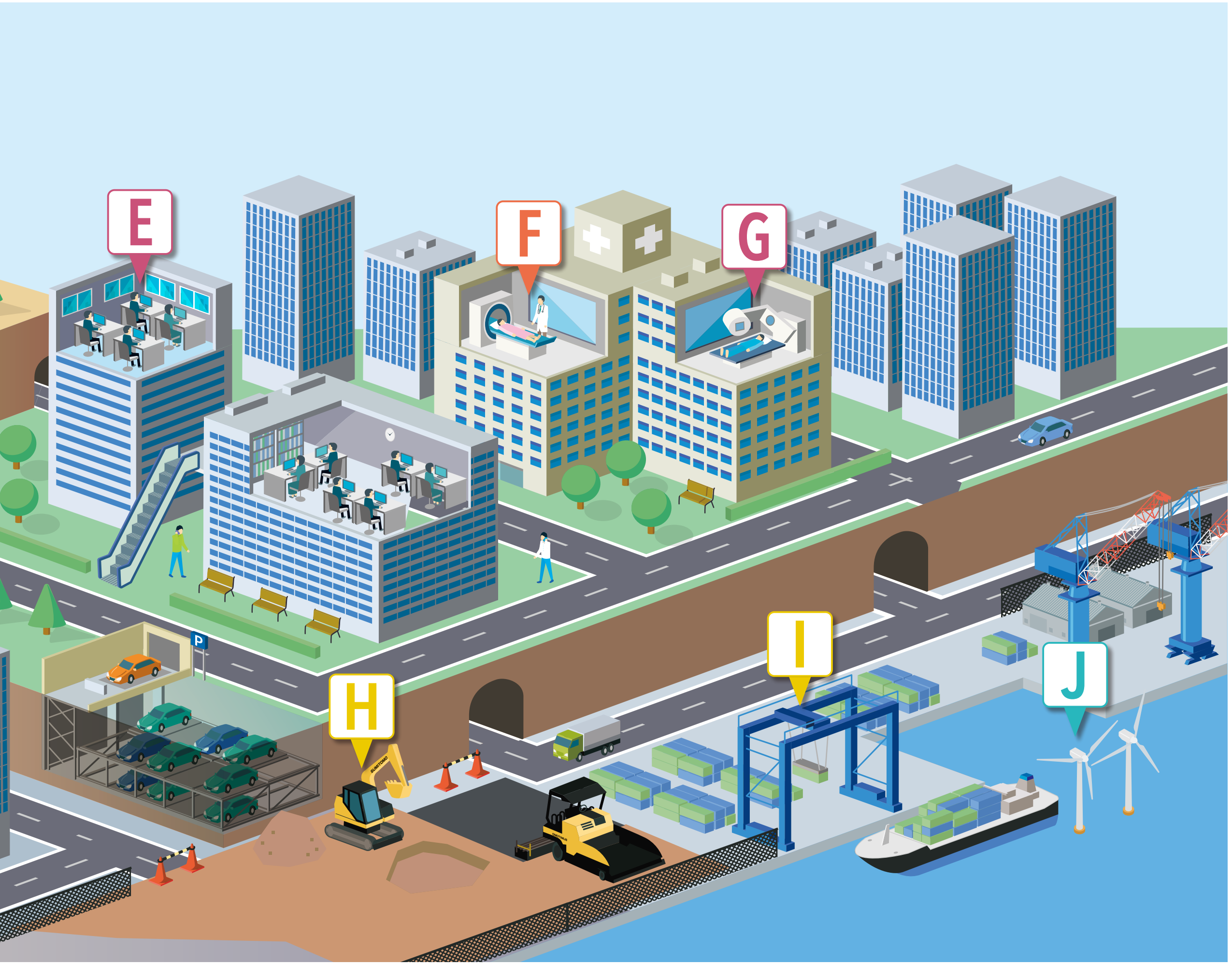
F Hospital

Cryocoolers for Medical MRI

This equipment can cool down to -269°C by compressing and expanding helium gas. Cryocoolers for medical MRIs dominate the global cryocooler market with a share of more than 90%.

4KGM Cryocoolers

For more information, see page [Mechatronics Segment] (P39)



G Hospital

Proton Therapy Device

This device uses the properties of proton beams to deliver an adequate dose of radiation directly to cancerous tissue. Proton therapy has been used to treat various diseases and is gaining popularity in Japan and overseas.

Proton Therapy Systems

For more information, see page [Industrial Machinery Segment] (P41)

H Construction Site

Hydraulic Excavators

Our excavators offer high performance, quality, and safety features through our proprietary technology. They are used in a wide range of fields, including maintaining lifelines indispensable to our daily lives and infrastructure such as transportation and communication networks.

Hydraulic Excavators

For more information, see page [Logistics & Construction Segment] (P43)

I Harbor

Gantry Cranes

These self-propelled cranes are used to transport containers at ports and harbors. The remotely-controlled, automated RTG system allows an operator to control and monitor the crane from a remote control room, away from the container yard.

Rubber Tired Gantry crane

For more information, see page [Logistics & Construction Segment] (P43)

J Offshore Wind Power Generation

Foundation Structures of Offshore Wind Power Generation

In recent years, as awareness of climate change measures has grown, we have been proactively expanding into the clean energy sector. Leveraging our large-scale docks, we are developing and commercializing foundation structures for offshore wind power facilities and related vessels.

Image of marine structure

For more information, see page [Energy & Lifeline Segment] (P45)

Highlights of Our Segments

The Sumitomo Heavy Industries Group is working to boost its profitability through business portfolio reformation, which revolves around our four flagship segments, in order to reach our ideal state in 2030, thereby actively offering sustainable social value.

Mechatronics

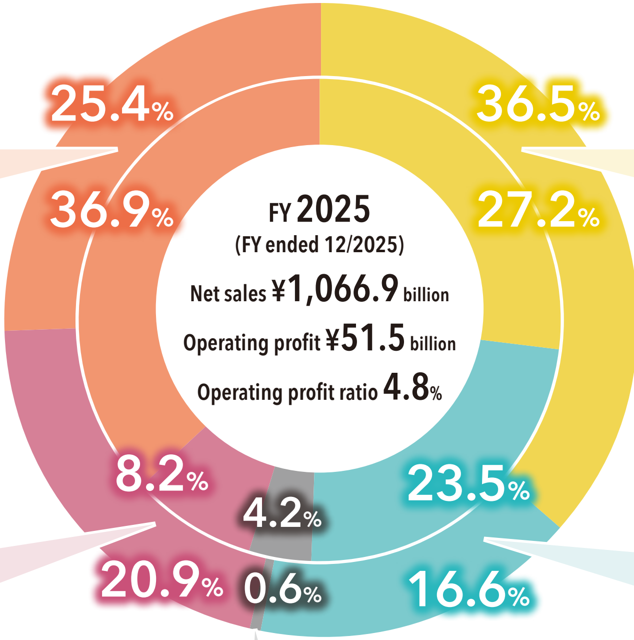
Net sales ¥271.2 billion
Operating profit ¥19.0 billion
(operating profit ratio 7.0%)

Ideal State in 2030: Help society and customers solve problems through mechatronic innovation and drive solutions

Logistics & Construction

Net sales ¥388.9 billion
Operating profit ¥14.0 billion
(operating profit ratio 3.6%)

Ideal State in 2030: Business group leveraging technological innovation to construct social infrastructure using logistics and construction machinery that is friendly to both people and the environment



The outer ring shows net sales composition by segment
The inner ring shows operating profit composition by segment

Industrial Machinery

Net sales ¥222.6 billion
Operating profit ¥4.2 billion
(operating profit ratio 1.9%)

Ideal State in 2030: Highly profitable business entity that uses advanced technologies to respond to the global growth market and features an evolving portfolio

Other

Key Businesses
◆ Real estate, Software, etc.

Net sales ¥6.5 billion
Operating profit ¥2.1 billion
(operating profit ratio 32.3%)

Energy & Lifeline

Net sales ¥177.6 billion
Operating profit ¥12.1 billion
(operating profit ratio 6.8%)

Ideal State in 2030: Solution provider in the decarbonized energy and resource recycling fields, built on the foundations of carbon neutrality and renewable energy promotion businesses

New Structure for Our Market Strategy (as of January 1, 2026)

We abolished the business divisions that comprised our segments, and in January 2026, we launched new Strategic Business Units (SBU) as organizations for market-centric value creation. By establishing greater synergy and enhancing operational efficiency through shared customer bases and technologies, we plan to create businesses that will be our new future-oriented growth pillars and will keep working to grow further.

Segment	Strategic Business Unit (SBU)	Flagship Model		
Mechatronics	Drive Technologies SBU (DT-SBU)	Gear reducers	Motors and inverters	
	Advanced Technologies SBU (AT-SBU)	Cryocoolers	Precision positioning equipment	
Industrial Machinery	Material Solutions SBU (MS-SBU)	Ion implanter	Laser annealing equipment	
	Medical & Quantum Solutions SBU (MQS-SBU)	Advanced medical devices		
	Metal Processing Solutions SBU (MPS-SBU)	Forging presses	Forging blades	
	Plastics Solutions SBU (PS-SBU)	Plastics machinery		
Logistics & Construction	Material Handling Systems SBU	Industrial cranes	Logistics systems	
	HSC Cranes SBU (HSC-SBU)	Mobile cranes		
	Link-Belt Cranes SBU (LBC-SBU)	Mobile cranes		
	Construction Equipment SBU	Hydraulic excavators	Road machinery	
Energy & Lifeline	Energy & Environment SBU	Boilers	Renewable energy	Resource recycling
	Process Plant SBU (PP-SBU)	Water treatment plant	Chemical equipment	Food machinery
	Marine & Steel Structures SBU	Ship-related engineering	Large steel structures	

*The figure presents only SBUs.

Value Creation Process

The Sumitomo Heavy Industries Group leverages the diverse management resources it has built over its long history as it engages in its business activities amid a rapidly changing business environment. With the SBUs in place, we clearly define foundational business areas and key investment areas for each of our segments. In doing so, we strive to achieve sustainable growth and greater corporate value by offering products and services with an eye to addressing material issues.

Megatrends

- Climate change
- Resource scarcity
- Change in demographic structure
- Labor shortage
- Rapid urbanization
- Shift of economic powers
- Evolution of technologies
- Information network revolution

Input (fiscal year ended December 2025)

Manufacturing Capital

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

- Capital investment **¥58.1 billion**
- **7 business divisions, 18 domestic companies, 27 overseas companies** (major subsidiaries' manufacturing companies)

Intellectual Capital

Strengthening our product capabilities to achieve sustainable growth
Leveraging our intellectual property to create competitive advantages

- R&D expenses **¥31.1 billion**

Financial Capital

Our financial basis that serves as the foundation of a resilient business

- Shareholders' equity ratio **51.6%**
- Net interest-bearing debt ratio **10.7%**

Human Capital

Global human resource management as a source of sustainable business growth

- Number of employees **25,123**
- Annual training expenses per employee **¥78,785** (Japanese consolidated)
- Annual training hours per employee **33.8 hours** (Japanese consolidated)

Social Capital

Forward-looking management from a stakeholder perspective

- Number of suppliers **5,773 companies**
- Number of surveyed suppliers (Tier 1 suppliers comprising 80% of the SHI Group's purchase amount) **598**

Natural Capital

Our initiatives to reduce environmental impact

- Electricity consumption **308,457 MWh**
- Renewable energy consumption **117,975 MWh**
- Water consumption **1,517,000 m³**

Business Activities

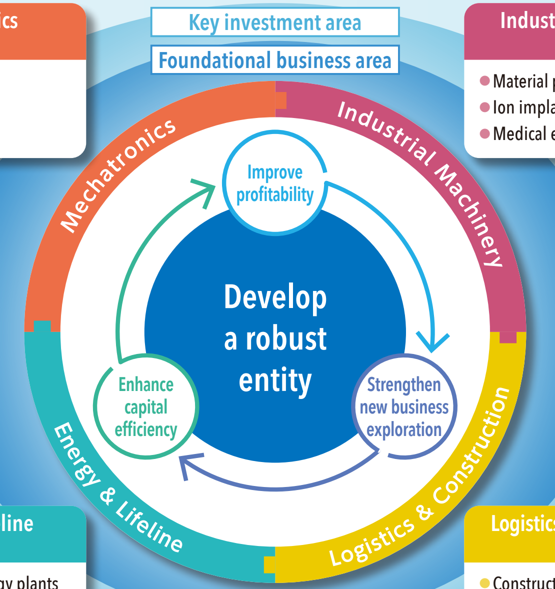
Business Plans Grounded in a Medium- to Long-term Perspective ➔P31

Mechatronics (P39)

- Gear reducers
- Control equipment
- Cryocoolers

Industrial Machinery (P41)

- Material processing machinery
- Ion implanter
- Medical equipment



Energy & Lifeline (P45)

- Environment / energy plants
- Energy storage equipment
- Offshore Wind Foundations

Logistics & Construction (P43)

- Construction machinery
- Material handling and logistics equipment

	Seven Material Issues	2025 Results
E	Reduction of environmental impact	Reductions of CO_2 emissions (compared to FY2019) •From product manufacturing: -34% •From product use: -50%
S	Creation of better ways to live and work	—
S	Prioritization of employee safety, health, and development	Ratio of female managers (Japanese consolidated) 2.6% (2.8% as of January 1, 2026)
S	Emphasize coexistence and co-prosperity with local communities	Ratio of spending on social contribution activities to operating profit 0.5% (¥0.27 billion)
S	Building of sustainable corporate supply chains	Ratio of high-risk suppliers surveyed 88%
G	Stronger governance	Ratio of female directors 18% (2 directors)
G	Ensuring high product quality	1 serious incident related to products

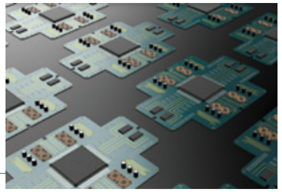
PURPOSE

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

Output

Products and Services

Robotics Automation



Semiconductors

Advanced Medical devices

Environment Energy

Outcomes

Collaborative Value Creation with Stakeholders

[Shareholders and Investors]

Enhancing shareholder value by boosting profitability with a strong focus on the cost of capital

Returning profits to shareholders

[Employees]

Fostering well-being and improving quality of life

Human resource management that helps businesses grow sustainably

[Customers]

Ensuring high product quality and boosting labor productivity

Supply of environmentally sustainable products

[Business Partners]

Building a sustainable and resilient supply chain with respect for the environment and human rights

[Global Environment and Local Communities]

Realizing a climate-resilient society

Preserving the environment through active participation in a circular economy

Manufacturing Capital

- ISO 9001 acquisition rate for major production and business divisions **96%**
- Serious legal violations related to product safety **0 cases**

Intellectual Capital

- Total patents obtained **8,808 patents** (**4,498** overseas)

Financial Capital

- Operating cash flow (deduction of R&D costs) **¥63.7 billion**
- ROIC **4.2%**

Human Capital

- Ratio of female managers (Japanese consolidated) **2.6%** (2.8% as of January 1, 2026)
- Ratio of mid-career hires in managerial positions (non-consolidated) **26.5%**

Social Capital

- Dialogues with investors/ shareholders **217 times**
- Ratio of spending on social contribution activities to operating profit **0.5%** (**¥0.27 billion**)
- Supplier survey response rate **81.6%**

Natural Capital

- Capital investment in environmental and energy-saving equipment **¥4.09 billion**
- GHG emissions (Scopes 1 and 2) **125,123 (t-CO_2)**
- Recycling ratio **92.6%**

Our Ideal State

A company that contributes to an affluent society through core technologies and realizes CSV

Financial Targets for 2030

Operating profit **¥130 billion**

ROIC **10% or higher**

Non-Financial Targets for 2030

E	Reductions of CO_2 emissions (compared to FY2019) ・From product manufacturing: **-50%** ・From product use: **-30%**
S	Further advancement of automation technology Ratio of female managers: **Over 8%** (Japanese consolidated) Spending for social contribution activities: **1%** of operating profit Survey implementation rate for high-risk suppliers: **100%**
G	Ratio of female directors: **30%** Number of serious incidents related to products: **0**

Seven Material Issues of Sustainability

	Material Issues for Value Creation		Material Issues for Strengthening Our Business Foundation
Material Issue	**Reducing environmental impact**	**Create better ways to live and work**	**Prioritize employee safety, health, and development**
Relevance to Business	◆We are aware that reducing the environmental impact of production activities and product use is our material issue, and we pursue our initiatives accordingly. ◆We effectively use resources, reduce waste, and improve the efficiency of raw material use, thereby contributing to a circular economy.	◆We work to resolve social issues through the technologies and solutions we offer to support the sustainable development of people's lifestyles and industry. ◆We offer automated and digitalized products to increase productivity, reduce workload, and improve safety, which leads to new value creation.	◆Guided by our belief that human capital is the bedrock of business growth, we prioritize our employees' safety and health. ◆We work to establish a stronger organizational foundation for sustainable growth by training human resources and advancing diversity to create environments that enable diverse talent to achieve their potential.
Opportunities	◆**Enhanced efficiency** of customers' production equipment and components, and **expansion of sales of energy-saving products (e.g., high-efficiency motors)** ◆**Production of raw materials through biomass gasification, production of SAF and other fuels, and CO_2 capture and utilization** in the environmental and energy fields	◆Expansion of sales of inverters, motors, electric modules, and motion components that are essential for robotics and automation ◆Expansion of sales of Ion implanter that contributes to the manufacturing of semiconductors, which supports the convenience of daily life	◆Labor productivity enhancement by maintaining and improving employees' physical and mental health ◆Issue resolution and creation of innovation by boosting **employee engagement** (injecting energy into problem solutions and producing business ideas across divisions)
Risks	◆Decline in the competitiveness of our products and businesses if insufficient progress in improving product efficiency and energy savings ◆Product obsolescence if delays in responding to new fuels and materials ◆Substantial costs resulting from environmental pollution incidents	◆Product obsolescence caused by slow progress of automation and digitization	◆Occupational accidents and employees' physical or mental problems that may disrupt smooth business activities and operation ◆Slow talent development and low employee engagement ◆Lack of fresh ideas and organizational inertia
Major Initiatives	◆**Utilization of renewable energy and introduction of solar power generation facilities** ◆Use of recycled materials in products, reduction of hazardous substances contained in products ◆**Obtained SBTi validation (February 2026)**	◆Improvement in labor productivity through robotics technology and smart logistics ◆Development of medical equipment for cancer diagnosis, cancer treatment, etc.	◆Regular discussions with the Central Committee on Safety and Health (collaboration between labor and management) ◆Efforts to enhance organizational capabilities, such as strengthening the foundation of human resource development and promoting diversity ◆Workstyle reforms that cover work-life balance ◆Initiatives to promote employee health and safety ◆**Introduction of an internal job posting system**
FY2025 Results	◆CO_2 emissions from manufacturing of products (Scopes 1 and 2) **34%** reduction from 2019 ➡ **Achieved** ◆CO_2 emissions from product use (Scope 3 Category 11) **50%** reduction from 2019 ➡ **Achieved**	◆Advances in automation technology ∗Delivery of remote-controlled RTG (wheeled cranes) ∗Joint development of an in-mold coating system ∗Launch of an asphalt finisher equipped with the automation equipment ASTRA1.0 ◆Newly created business opportunities ∗Capital and business alliance to commercialize equipment for Alzheimer's treatment ∗Expanded application of a remote monitoring system integrated into SIRMS® large cranes	◆Ratio of women among new graduate hires : Consolidated in Japan 23% ➡ **Achieved** ◆Number of female directors : 2 ➡ **Achieved** ◆Ratio of female managers ・Consolidated : 6.9% ・Consolidated in Japan : 2.6% ・Non-consolidated : 3.4% ◆Ratio of mid-career hires among managers : Non-consolidated 26.5% ◆Ratio of foreign employees among managers : Non-consolidated 0.6% ◆Ratio of male employees taking childcare leave ・Consolidated in Japan : 89% ・Non-consolidated : 94.5% ◆Percentage of highly engaged employees SHI and 29 consolidated subsidiaries : 49%
Related Pages	◆Message from the General Manager, Corporate Technology Management Group (➡P.27) ◆Environmental Initiatives (➡P.48) ◆Highlights of Our Segments (➡P.9)	◆Message from the General Manager, Corporate Technology Management Group (➡P.27) ◆Highlights of Our Segments (➡P.9)	◆Our Actions (➡P.57)

Material Issues for Strengthening Our Business Foundation

Material Issue	Coexistence and co-prosperity with local communities	Build sustainable corporate supply chains	Strengthen governance	Ensuring high product quality
Relevance to Business	◆We emphasize coexistence and co-prosperity with local communities that support our business activities. ◆We contribute to regional growth through CSR activities and dialogue with local communities based on our sites' characteristics. We also leverage these activities and dialogue to raise employees' social and environmental awareness.	◆With the risks and responsibilities we have in our global supply chains in mind, we work to ensure sustainable procurement. ◆We address ESG issues (e.g., human rights, environmental, and ethical issues) and work collaboratively with our business partners to establish responsible supply chains.	◆We are committed to establishing stronger corporate governance as the foundation for our greater medium- to long-term corporate value. ◆By ensuring full compliance and advanced risk management, we maintain transparent and sound business management to establish a structure that meets public expectations.	◆We define offering safe and high-quality products and services as our social responsibility. ◆We fully enforce quality control that prioritizes safety and reliability in use in addition to functionality, thereby enhancing customer satisfaction and establishing greater brand value.
Opportunities	◆Business activities stabilized by strengthening ties with local suppliers, municipalities, residents, etc., in the regions where our manufacturing sites are located ◆Recruitment and retention of local talent	◆Stable procurement, coupled with quality maintenance and improvement, by establishing supply chains that are environmentally- and human rights-conscious ◆Supplier cost reduction and human resources secured through activities to raise Japanese and overseas suppliers' awareness of environmental and human rights issues	◆Transparent and fair business management built on prompt and accurate decision-making ◆Revitalizing the Board of Directors through diversity	◆Boosting sales by increasing the competitiveness of our products, improving the brand value of our Group's products ◆Contributing to greater efficiency of society through enhanced quality of customers' products into which our products are built, in addition to customers' increased productivity and higher product quality
Risks	◆Disruption to operation caused by souring relations with a local community ◆Shortages of human resources for production jobs that mostly hire local people in the regions where our production sites are located	◆Loss of public credibility and suspension of business with customers due to inadequate action to address ESG issues in supply chains	◆Administrative sanctions, such as fines or business suspension, and erosion of public trust ◆Delay in management decision making	◆Compensation costs and product liability arising from quality issues
Major Initiatives	◆Participation in educational programs for the next generation and community services based on the Sumitomo Heavy Industries Group's Policy for CSR Activities; donations to international organizations	◆Requesting suppliers to comply with the CSR Procurement Guidelines ◆Carrying out supplier surveys ◆Carrying out human rights due diligence	◆Reading sessions on the Compliance Manual and efforts to ensure full compliance using e-learning and other means ◆Increasing the ratio of Outside Directors ◆Establishment of BCM / BCP for business continuity	◆Enhancement of quality management by obtaining certification for quality management systems, such as ISO 9001, and conducting internal audits ◆Ensuring product safety ◆Compliance with laws and regulations
FY2025 Results	◆Spending for social contribution activities Ratio to operating profit: 0.48% (¥0.27 billion) 〈2030 target : 1%〉	◆Ratio of potentially high-risk suppliers surveyed : 88% (to be completed in 2026 based on a 3-year plan)	◆Compliance training attendance rate : Consolidated 64.3% ◆Number of female directors : 2 (18%) 〈2030 target : 30%〉	◆ISO 9001 certification rate : 96% (main works in Japan) ◆Serious legal violations related to product safety : 0 cases ◆Number of serious incidents related to products : 1 case
Related Pages	◆Coexistence and Co-prosperity with Local Communities (➡P.61)	◆Respect for Human Rights (➡P.59) ◆Responsible Procurement (➡P.60)	◆Corporate Governance System (➡P.62) ◆Risk Management (➡P.69) ◆Compliance (➡P.69)	◆Quality Management (➡P.70) ◆Highlights of Our Segments (➡P.9)

Message from the CEO

In our quest to achieve the target return on equity (ROE) of 10% or higher during the next medium-term plan period, we will maximize the effectiveness of the newly established strategic business unit (SBU) framework. We will remain fully committed to transforming the Sumitomo Heavy Industries (SHI) Group into a corporate group wherein all stakeholders can place their confidence and take pride.

Key Points

- Putting the SBU framework on track and reforming the Group in alignment with a capital market perspective
- Revitalizing profitability and adding specificity to our growth story
- Optimizing resource allocation to accelerate momentum in our core growth drivers
- Making the SHI Group home to a virtuous cycle of growth that enhances corporate value

T. Watanabe

Toshiro Watanabe
Representative Director, President and CEO

Introduction: Strengths Derived from Experience as CFO

● Insights into the essence of transformation gained through 40 years across the front line and the Head Office

My experience alternating between frontline and management roles has become the bedrock of my decision-making as CEO. Over my 40-year career, I have spent about 20 years each at factories and in Head Office divisions, shuttling between the front line of the business and the heart of management.

As a young employee, I was assigned to Okayama Works (then Tamashima Machinery Business Division) in 1986, where I witnessed a wave of business restructuring in the wake of the high-yen recession, such as the separation of a flagship business, a business spin-off in partnership with a strategic partner, and the withdrawal from a new business. My formative experience in my development as a business leader was becoming keenly aware of how management decisions shape the business while working as a fledgling member of the accounting and budget control functions.

At Yokosuka Works (marine engineering division), where I was transferred in 1999, I was entrusted with the extremely challenging task of formulating a business restructuring plan to consolidate naval vessel construction into another company's facilities while ensuring the continuation of the general commercial vessel business in the middle of the Group's financial crisis. Working at the forefront of issues that affected people, including negotiations with labor unions, certainly gave me the opportunity to translate the question I had as a young employee into practical wisdom grounded in experience. The profound lessons I learned from confronting difficult situations head-on and engaging with people sincerely continue to serve as my core guiding principles.

Then, in 2009, I was transferred to the plastics machinery division, where I helped turn the business around in the aftermath of the 2008 global financial crisis, gaining firsthand insight into the factors behind the division's high profitability and market penetration. There, at a business division that encompassed every function needed to operate the flagship business—from marketing, product development, and sales and service networks in Japan and overseas to the establishment of a mass-production system—I came to appreciate that people and technology are the very source of competitiveness. The experience I gained on the ground remains an unshakable asset that forms the foundation of my approach to business.

● Decisions made as CFO

Since 2020, I have worked to bring the company's long-standing structural issues to a conclusion, first as General Manager of the Corporate Finance, Accounting & Administration Group and subsequently as CFO. One issue that demanded much of my attention was the decision to withdraw from the long-stagnant new shipbuilding business (general commercial vessel construction business), which had been the subject of extensive discussion. Fully aware that it was one of the company's founding businesses, I proceeded with the utmost care, step by step over time, given its impact on the local community, customers, and employees, as well as our accountability to investors.

Spanning from the policy decision in 2020 to its announcement in 2024, the process, aimed at achieving a "soft landing" by fulfilling order backlogs and developing alternative businesses, may have struck some observers as overly cautious. Yet, believing that making this transition as solid as possible would become a much-needed catalyst for the Group's transformation, we remained steadfast in

I am committed to engaging with the capital markets candidly and sincerely.

driving the process to completion.

Another meaningful experience as a member of management was the decision I made after becoming CFO to recognize a major impairment loss, the result of a candid and rigorous reassessment of past investments. Reassessing every past investment decision was unavoidable to realize the loss. In retrospect, however, we should have recognized it earlier so that we could have focused sooner on how to improve ROE. I will ensure that the question of how best to apply the lessons from such investment reviews to future growth remains central to our management decisions.

● Committed to enhancing corporate value through dialogue with the capital markets

As someone who understands the rigor of both the business front line and financial management, I am committed above all to communicating with the capital markets candidly and sincerely. For the SHI Group to enhance its corporate value, we must regain the confidence of investors by fulfilling our accountability to the markets and disclosing information useful to them. I believe that our continued efforts in recent years in enhancing the quality of our disclosure in response to investor feedback have laid an important foundation for deeper dialogue with investors.

In addressing day-to-day management issues, I make it a point to discuss them thoroughly with fellow directors and members of the management team, ensuring that diverse perspectives are reflected in decisions while ultimately assuming responsibility as CEO. As the person responsible for the executive management team under the current organizational structure, I believe it is my responsibility to advance business transformation swiftly. I am determined to achieve sustainable growth and enhance corporate value by flexibly incorporating a market perspective into our business transformation efforts while maintaining a bird's-eye view of each business within our conglomerate.

Our goal is to become an organization that carries out its plans through to completion.

Perception of the Current State and the Nature of the Issues

●Facing the realities of market evaluation and our obligation to increase capital efficiency

As the top manager of the SHI Group, I take the current level of key corporate value indicators, particularly the PBR (price-to-book ratio), which is currently below 1, very seriously. To turn this valuation around, I believe that we need to address two fundamental challenges.

First, we must improve ROE to revitalize profitability. I regard this not as a discussion of capital structure, but rather as an essential question of how we should reshape the Group's revenue structure into a next-generation model in response to the contraction of business domains that once underpinned high profitability.

Second, we must add specificity to our growth story. We have identified key investment areas, such as robotics and automation, Ion implanter, and the environment and energy. However, some shareholders and investors have offered valuable feedback noting how little visibility there is into specifically where, how, and to what extent the businesses in these areas will grow. My role is not to use the complexity of a conglomerate as an excuse, but to take a market-out perspective, engage sincerely with our customers' market realities, and redraw a growth trajectory we can have confidence in.

At the same time, we will focus on improving the quality of dialogue by strengthening the Group's information dissemination capabilities, which have previously left something to be desired, in order to present the capital markets with a true picture of the Group.

●Transforming into a group that gets things done and ensuring thorough group governance

I believe our management challenges come down as much to strengthening our execution capabilities as to determining the strategic direction we should pursue. The gap between forecasts and results, and our failure to achieve self-set plans in recent years, indicate a problem with the accuracy of our planning and with the implementation process. Taking these realities very seriously, we aim to be an organization that sets clear targets and executes its plans through to completion.

Another key challenge we must address is the need to reinforce group governance. On issues with compliance and quality control, the capital markets have strongly suggested that these reflect fundamental issues within the Group as a whole. I believe the key question here is whether our governance over subsidiaries is sufficiently effective.

●Overcoming structural challenges: transitioning from volume-driven growth to a lean and efficient structure

Looking at why profitability has made little progress under the ongoing Medium-Term Management Plan 2026, I see a problem in that our revenue structure has depended excessively on volume expansion (sales scale). When market conditions are favorable, volume expansion can drive profit margins. However, it has become clear that our profit structure has lacked the flexibility to respond to changes in the market structure.

A typical example is that some businesses fell short of profitability targets because they failed to achieve the expected sales scale amid changing external conditions and intensifying competition in overseas markets. This bitter experience has prompted us to shift to an earnings framework that allows us to secure profits even when demand settles at a lower level than expected.

In the past, we sometimes rushed to increase headcount in a bid to keep pace with business growth; in retrospect, however, this ended up adding an extra burden in the form of fixed costs. Going forward, we will carefully optimize our fixed-cost structure, including the recent downsizing of personnel, to build strong resilience that lets us mitigate the impact of market changes through improved productivity.

Transforming Our Business Strategies and Their Timeline

● Introducing the SBU framework to increase the autonomy of each business while deepening collaboration across the Group

Coinciding with the organizational changes in January 2026, the SHI Group introduced the SBU framework. This is an effort to redesign the organizational structure to eliminate the "interdivisional barriers" that were an issue in the previous segment structure. One drawback of the former structure was that it did not function as intended in creating synergies and improving personnel mobility, partly because elements of the earlier business unit (BU) framework remained in place.

Now that the new framework is in place, we will respect the autonomy of the front line, under which each SBU responds promptly to changes in the market and is accountable for day-to-day operations. Meanwhile, we have developed a corporate governance system wherein corporate divisions are proactively involved in cross-Group key project themes, ensuring alignment in the execution of each strategy. The current framework of 13 SBUs is not static, but a dynamic set of units that may be reconfigured or resourced flexibly in the future, depending on strategic priorities.

● Introducing a market perspective: leaving behind the technology-oriented approach

One lesson we have drawn is that our perspective tended to be inward-looking, leaning toward a product-out (technology- and product-oriented) approach. We did discuss which technologies to develop in each field, but we may not have had a clear narrative of how each SBU should use those technologies to address specific customer challenges and generate profits.

We will consistently maintain a customer perspective and leverage the SBU framework to navigate our business with clearer visibility into the market structure.

We will accelerate prioritized investments for growth under the next medium-term plan.

We believe that in formulating the next medium-term plan, it is important to share a concrete growth story that identifies the SBUs that will drive our growth and the areas and processes we should focus on thereafter. This shift in mindset will serve as a stepping stone to the Group's further growth and is expected to support the achievement of a target ROE of 10% or higher under the next medium-term plan.

● Prioritizing growth investments and focusing on our core growth drivers

To achieve sustainable enhancement of corporate value, we must allocate our limited management resources optimally. We will further drive business portfolio reform. While optimizing invested capital (the denominator), we will pursue maximum profitability (the numerator), thereby substantially improving capital efficiency.

We have already begun discussions on the next medium-term plan. We will designate areas where we have established strengths and a certain degree of presence in their markets as core growth drivers, positioning them as the major pillars of the next medium-term plan. These include our component business, such as gear reducers and cryocoolers, and our industrial crane business serving shipbuilders and other customer groups. Furthermore, we will position the Ion implanter business, an area with strong market potential, as a next-generation pillar. We will drive growth by allocating management resources to these businesses on a priority basis. By advancing this initiative in parallel with portfolio restructuring, we will optimize capital efficiency across the Group.

Our previous focus on ROIC-based management delivered a certain degree of results during the financial crisis period. More recently, however, I have come to feel that this approach has been reduced to mere suboptimization through excessive control over individual business units. Going forward, by strengthening the involvement of corporate divisions, we will restructure the business portfolio to achieve total optimization of the Group.

On operating cash flow, we are particularly mindful of the decline in working capital efficiency in the first half of the ongoing Medium-Term Management Plan 2026, mainly due to supply chain disruptions. In response, each business division has reinforced its ROIC-based approach, focusing on reducing inventories and reviewing the receivables collection cycle. Recent financial results have shown signs of improvement, but we will not stop here; we will work to restore performance steadily to healthy levels.

● Finalizing the exploration of new businesses and establishing a revenue model that does not depend on volume

In exploring new businesses as a source of medium- to long-term growth, we will move from the "add-up" phase of the Medium-Term Management Plan 2026 to a phase of "assessment" going forward. By steadily assessing these "seeds" during the next medium-term plan period, we will determine the growth potential of each business and thereby develop the capabilities needed for business renewal.

In addition, we will strengthen governance over our European operations under the leadership of the regional management company to enhance transparency and actively visualize the performance and cost structure of each business. More concretely, we will transition to a system in which the top management of our major business companies is more deeply engaged in managing the pan-European market. This will let us focus on building a robust business foundation that can secure a certain level of profit even if demand recovery takes time.

● Strengthening investment discipline based on past lessons

For future growth investment opportunities, particularly M&A, we will draw valuable lessons from past impairment losses to strengthen our investment discipline. I must admit that, in past investment projects, strategic significance often outweighed considerations of profitability and underlying assumptions, and we should have been more cautious in our decision-making. Learning from this experience, we will evaluate individual projects more rigorously and introduce a multidimensional assessment framework for M&A and capital expenditure projects, incorporating internal rate of return (IRR) and other indicators.

Without overestimating potential synergies, we will base our decisions strictly on the soundness of the underlying plan. Once investments have been made, we will continuously monitor their returns against the original objectives, strengthening governance to ensure sound management going forward.

In Conclusion: A Firm Determination to Enhance Corporate Value

● Passing down our ownership honed through machinery manufacturing

As CEO and a member of the SHI Group, what I cherish most is the Group's Purpose: "Enhance society and those within it with compassion through our ownership and vision." Having stayed close to our customers, we have continuously refined technologies that bring a handcrafted touch to our products, driven by our desire to meet their expectations. This sense of ownership of the specialist skills honed through machinery manufacturing is a core value that should never change, no matter how the times evolve.

It is important that we remain aware of how our work contributes to society, that this awareness serves as a source of motivation for our employees, and that we continue to take pride in our refined technologies. It is my firm belief that this corporate culture is the very source of our competitiveness and an invaluable asset to be passed down to future generations.

● Realizing a virtuous cycle of growth beyond organizational boundaries

At the same time, it is clear that we must change if we are to achieve further growth. By this, I mean a change in mindset —a determination on the part of each individual to break down organizational boundaries and invisible barriers. For the newly introduced SBU framework to function effectively, every employee must think flexibly, envisioning what they want to become and proactively reconfiguring organizational frameworks as needed.

These individual efforts bear fruit in the form of business growth and profit, which in turn enable us to better reward and motivate our employees. I want to build a company that creates such a virtuous cycle of growth. To this end, we must establish a framework wherein both SBUs and corporate functions collaborate organically toward the shared goal of enhancing corporate value while fulfilling their respective responsibilities: field operations for the SBUs and Group-wide management policy for the corporate functions. I will also take the lead in shaping this framework.

My 40 years of experience have instilled in me a strong sense of the front line and the financial discipline I acquired as a finance officer. I have renewed my determination to bring the full breadth of my experience to bear on management and transform the SHI Group into a corporate group in which all stakeholders can place their confidence and take pride.

With this commitment, I pledge to build a corporate group founded on a virtuous cycle of growth.

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

While remaining committed to business restructuring to improve operating cash flow, we will work to enhance the profitability of our existing businesses and reduce working capital to lay the groundwork for reforming our business portfolio over the long term.

Vice President and General Manager, Corporate Finance, Accounting & Administration Group

Arata Ishimaru

Our Basic Financial Policy and the Role of the Head of the Corporate Finance, Accounting & Administration Group

— The role of the head of the Corporate Finance, Accounting & Administration Group in enhancing corporate value

The linchpin of the SHI Group's basic financial policy is to maintain financial soundness and achieve high profitability, which together form the foundation for sustainable value creation. As the person responsible for the Group's finances, I believe that we must fulfill the responsibilities expected of us both within and outside the Group to embody this policy in our day-to-day actions.

At the heart of everything we do is a commitment to "sincere interaction" with everyone we engage with. This guideline is the product of a series of discussions on how the members of our corporate finance and accounting team can live up to the aspirations embedded in the Group's Purpose.

Outside the Group, what matters most is to keep providing shareholders, investors, and business partners with accurate and clear information in a sincere manner. It is our duty to take their expectations seriously, envision the ideal state of our finances together, and guide the organization toward that vision.

Concurrently, inside the Group, we should value empathy for what is happening on the front lines of each of our businesses. My goal is to make the finance and accounting team a trusted partner—one that actively supports the growth of our employees, business divisions, and management while exercising rigorous oversight whenever necessary to maintain sound discipline.

This aspiration is not mine alone; through ongoing dialogue. President Watanabe and the leaders of our corporate finance and accounting division have also taken it to heart as the role of the finance team. Cherishing this aspiration as our shared guidepost, we will move toward shaping the Group's future.

— Transformation of organizational climate and the effectiveness of governance

To more broadly share this aspiration, I send a monthly message to the members of my team. I make a point of including stories about my hobbies alongside more "serious" topics, such as business performance, to foster a more approachable dialogue. In a recent message, I shared a glimpse of the probing Q&A during a rehearsal for the General Meeting of Shareholders. By reminding them of the rigorous scrutiny outside the Group, I hope to foster an atmosphere in which every member internalizes the expectations of the market.

Through such dialogue, I am pleased to say that our organizational culture has begun to change. Our introduction of ROIC (return on invested capital) was a bitter experience, as it was not sufficiently embraced across the organization. However, as the capital market evolves, we are steadily shifting toward management focused on the balance sheet, cash flow, and capital efficiency.

When I assumed my current position, I made clear throughout the organization that I was determined to enhance our corporate value, with a keen awareness of our share price, a key barometer of the capital market's assessment of us. One factor holding back our share price is our failure to fully leverage our assets. This highlights the need to more efficiently use our capital, placing greater emphasis on profit margins in addition to the absolute amount of profit, which has traditionally been our primary focus. Drawing on this lesson, I intend to contribute to the Group's transformation through a sincere dialogue.

Enhancement of Capital Efficiency and Implementation of Business Portfolio Reformation

Responsible management of profitability and capital to improve ROE

We take our current PBR (price-to-book ratio), which remains below 1.0, very seriously. We believe that this is chiefly attributable to our failure to consistently achieve an ROE (return on equity) that exceeds our cost of capital. To address this bottleneck, we are pursuing a two-pronged approach: enhancing profitability (the numerator) and optimizing capital (the denominator).

To optimize the denominator, we have set broad targets of maintaining a shareholders' equity ratio of approximately 50% and a net debt-to-equity ratio of approximately 0.4x. Given our current level of profitability and the risk of rising interest rates, we believe we should refrain from expanding our balance sheet any further. Instead, we will keep interest-bearing debt below its current level while further reducing our assets. Particularly, we will steadily work to reduce inventories by closely monitoring their turnover, with the aim of returning to pre-pandemic levels.

As for the turnaround in the numerator, namely, profitability, we aim to embed a mindset of continuously revitalizing profitability into our corporate culture. We recognize that achieving our medium-term operating profit margin target of 10% or higher is a significant challenge, as it requires an improvement of approximately 5%. Nevertheless, we believe we can steadily move toward this target by rigorously controlling expenses and discontinuing unprofitable models. Fortunately, we have begun to see signs of improvement in the variable cost ratio as the effects of our price revisions have started to materialize. Moving forward, we will continue our tenacious efforts to improve the added value of our products, steadily transforming our financial position into one that is more profitable and resilient.

Future direction after the transition to the SBU framework

The transition to the SBU framework underpins the effectiveness of our business restructuring efforts. We have removed the barriers between businesses that were not readily apparent under the previous, finely segmented organizational structure, allowing us to view our business from both market and strategic perspectives. Each business unit uses an ROIC tree for analysis; however, the purpose is not merely to monitor figures for management purposes.

Under the new framework, if any business consistently reports an ROE below its cost of capital, we can share the situation in real time and prioritize discussions on how to enhance its performance. Rather than automatically deciding on indicators alone, we take a thoughtful approach to business restructuring, working through repeated dialogue with those on the front lines to gain their understanding and support.

We also humbly value the lessons learned from past bitter experiences with M&As, which are crucial for achieving growth. When making investment decisions, we now spend more time than ever examining them against quantitative indicators, without being overly influenced by strategic narratives. We strive to maintain a cautious stance and avoid overestimating expected synergies.

For the PMI (post-merger integration) process as well, we make it a rule to closely monitor progress at meetings attended by the President. We now have a system in place that allows us to take prompt corrective action if any deviation from the original plan is identified. We do not hesitate to sincerely reflect on our past experiences to ensure that every investment contributes to steady growth.

Mid-Term Financial and Capital Policy and Cash Allocation

Designing a solid, credible, and reliable roadmap

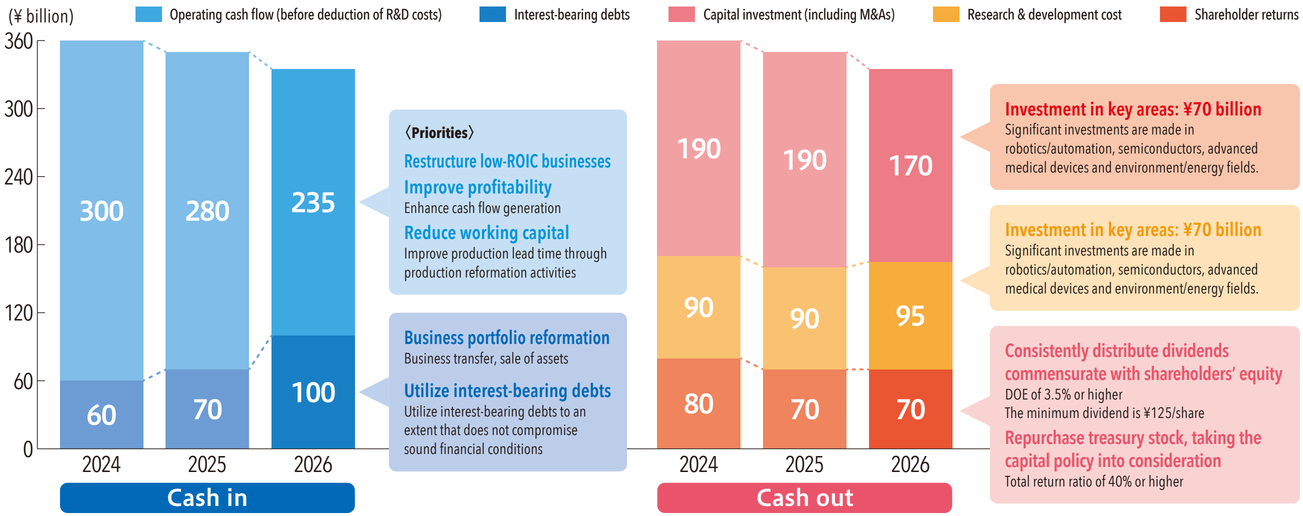
In formulating the next medium-term management plan, we are placing the highest priority on achieving an ROE of 10% or higher. We deeply regret that we failed to meet stakeholders' expectations, having repeatedly revised our profit targets downward during the current medium-term management plan.

As part of our reflection on this, we are holding a series of discussions that draw a clear line between the impact of the external environment and the areas we can improve through our own efforts under the next medium-term management plan. Keeping our focus on a concrete path toward our targets, we carefully evaluate their feasibility and disclose a credible roadmap in an effort to regain lost confidence in a step-by-step manner.

We are also reviewing the issues we need to address in our approach to cash allocation. At present, sluggish profit growth and rising inventories are putting pressure on operating cash flow, forcing us to rely on borrowings to secure funds for shareholder returns. As the head of finance, I am keenly aware of the need to restore our financial soundness.

Moving forward, we will carefully implement business restructuring measures to restore profitability and optimize our asset portfolio to increase our cash-generating capacity. Specifically, we will shift toward curbing the continued increase in interest-bearing debt and establish a self-sustaining financial foundation that allows us to fund sustainable growth and shareholder returns. With this policy in mind, we will steadily move forward, one step at a time.

Changes in Cash Allocation During the Current Medium-Term Management Plan



Priorities for improving operating cash flow generation capacity

To improve operating cash flow, we place the highest priority on business restructuring, followed by improvement of the profitability of our existing businesses and reduction of working capital, and we act accordingly. For the business portfolio reformation ahead, which we recognize will take time to materialize, we will build it in a step-by-step manner, envisioning a future in which a new Sumitomo Heavy Industries takes shape, with each step creating a virtuous cycle.

For shareholder returns, we use indicators such as DOE (3.5% or higher under the current medium-term management plan) and the minimum dividend (¥125 per share during the same period), rather than the dividend payout ratio, to sustain stable dividend payments. Concurrently, we will proactively repurchase our own shares as appropriate, seeking to improve capital efficiency while appropriately managing shareholders' equity.

Meanwhile, investments in research and development that underpin the sustainability of the business are the lifeblood of any manufacturing company. As such, they should not be affected by short-term profits. We will remain consistent in our approach of maintaining an adequate ratio to enable sustained, steady investment.

In the next medium-term management plan, we will further accelerate our selection and concentration approach, prioritizing the allocation of management resources to highly competitive businesses. We will share in greater detail the stories of our business growth and how we plan to transform ourselves, with the aim of gaining fair recognition from our stakeholders.

Engagement and Determination to Change for Enhancing Corporate Value

Enhancing the clarity of our growth stories and driving swift execution

We often hear critical feedback from the capital market that "our path to growth is unclear" or that "our pace of transformation is slower than that of our peers." We carefully listen to such feedback and take it seriously. We believe the primary reason we have not earned the level of recognition we seek is that, amid the diversification of our business portfolio, we have failed to clearly communicate which businesses will serve as our core and what direction we intend to pursue.

To address this challenge, we plan to provide detailed explanations of our efforts to accelerate the growth and profitability of each business, together with concrete, quantitative data.

In other words, we will demonstrate how we are changing not through words alone, but through concrete figures and actions, as part of our efforts to improve the transparency of our disclosures. We are sincerely committed to driving change promptly and creating new value for the SHI Group, together with our valued stakeholders, through meaningful dialogue.

Messages from Outside Directors

What I am acutely aware of as an Outside Director is the speed of change. At Board meetings, I have consistently shared my view that the lack of a sense of urgency poses the single greatest management risk.

Independent Outside Director and Member of the Selection and Nomination Committee and the Compensation Committee

Susumu Takahashi

Q1 The SHI Group is working to enhance capital efficiency, with indicators such as ROIC and ROE as top priorities. As an Outside Director, how do you think we should address our current challenges and achieve our targets?

A We were forced to revise downward the targets set out in our medium-term management plan not only because of changes in the external environment but also because of deep-rooted issues inherent in the Group's business structure. We formulated growth strategies by backcasting from our vision for 2030. However, our business portfolio proved insufficiently resilient to withstand structural changes in the operating environment, such as the slowdown of the Chinese economy and the intensifying conflict between the US and China.

In retrospect, it cannot be denied that the SHI Group has tended to prioritize top-line growth over all else and was not sufficiently conscious of the cost of capital. The hard fact is that what today's capital markets rightfully demand is earnings commensurate with the risks involved—in other words, profitability that exceeds the cost of capital.

Our target of an ROIC of 10% or higher by FY2030 will be a significant challenge. However, we ask the management team to regard it as a firm commitment, not merely another goal to strive for. Currently, we are in the midst of a selection and concentration process designed to significantly shift our resources toward growth sectors while revitalizing the profitability of our flagship businesses. Once we successfully carry out this drastic reshaping of our business structure, I believe improvements in ROIC and PBR will naturally follow.

Q2 As an Outside Director, how do you engage with key management challenges and monitor progress toward resolving them?

A Before the global pandemic, our performance was strong, and our ROIC posed no problem, at least nominally. Looking back, however, I must admit that we were not effectively using ROIC as a management tool directly associated with decision-making.

Since then, ROIC has virtually become a "shared language" in discussions at Board meetings. In particular, the introduction of the segment structure has made clear which businesses create value and which erode our capital. This has enabled us to discuss turnaround plans for less-profitable businesses, as well as decisions to withdraw from businesses that fail to meet the prescribed criteria, in a more concrete and rigorous manner than before.

What I am acutely aware of as an Outside Director is the speed of change. It is undeniable that our business restructuring efforts lagged behind changes in the operating environment after the pandemic. At Board meetings, I have consistently shared my view that this lack of a sense of urgency poses the single greatest management risk.

Numerical targets for FY2030 are, so to speak, just the starting point. I believe that the Board is obliged to raise the bar even higher by solidifying the revenue bases of our flagship businesses, without letting up on business restructuring.

Q3 How do you think human resource strategy can drive management reform?

A The speed of management reform depends on the diversity of the organization and the breadth of its next-generation leadership pipeline. Notably, diversity promotion is, in itself, a growth strategy. For example, in promoting women in the workplace, it is important to build a pipeline that consistently develops female leaders from entry-level positions to management roles, rather than focusing on a handful of "star" performers. We are proactively recruiting more female applicants with science backgrounds and creating a workplace where mid-career female employees can demonstrate their capabilities from day one. Increasingly, female employees from the next-generation leadership talent pool participate in internal meetings where important decisions are made and share their perspectives. This also effectively prevents the organization from falling into inertia.

For the sake of global governance, it is also crucial to develop and promote employees of diverse nationalities. By assigning individuals well-versed in their local markets to key positions and maintaining close communication between them and the Headquarters, we are creating an environment that fosters their autonomous growth.

We are accelerating in-depth discussions on enhancing capital efficiency, including the restructuring of our business portfolio and divestitures to achieve the best ownership structure.

Independent Outside Director and Chair of the Selection and Nomination Committee and the Compensation Committee

Akio Hamaji

Q1 Could you explain the process of selecting the new CEO and the key missions you expect President Watanabe to fulfill?

A We selected the new CEO through a rigorous and transparent process conducted over two years. When we embarked on the process in September 2023, the Selection and Nomination Committee's main focus was to redefine the attributes expected of the next CEO. After interviewing all of the Outside Directors, we reached a clear conclusion: the next CEO should be a leader who can see business restructuring through with unwavering resolve, without being tied to past successes, and who can logically explain the strategic rationale behind such initiatives to the capital markets and earn their confidence.

Following the amendment of the Articles of Incorporation in March last year, the President may now be appointed from among the Vice Presidents and Directors. Through multiple interviews and presentations, we thoroughly assessed each candidate's experience and management vision from multiple perspectives.

The deciding factor in selecting Mr. Watanabe was his ability to engage in thoughtful dialogue with stakeholders, as shown when he led the withdrawal from the shipbuilding and marine engineering businesses, alongside his ability to design a meticulous overall strategy extending to the effective use of technologies and assets. What our Group urgently needs is a leader who can drastically review our business portfolio and explain the process to the capital markets. We are confident that Mr. Watanabe is the best person to accomplish both.

Q2 What are your thoughts on succession planning for the Board as a whole, and how are you advancing the corporate governance system?

A To maintain the Board's effectiveness, we need to continue optimizing its overall composition in response to changing times, in addition to ensuring that its individual members possess the appropriate attributes. The recent decision to reduce the number of Inside Directors from seven to five is a symbolic step in this direction. This decision was our sincere response to the comment raised during the Board effectiveness evaluation that discussions were difficult to deepen as the inside officers did not actively participate in them. By reducing the size of the Board and expanding its agenda to include corporate planning and human resources, we have revitalized Board discussions from a Group-wide perspective.

For Inside Director candidates, the Selection and Nomination Committee closely reviews the objective evaluations conducted by outside consultants annually as part of its ongoing monitoring. For Outside Director positions, we have ensured diversity by appointing individuals with management experience and female executives. Currently, our Board has a well-balanced, roughly equal mix of Inside and Outside Directors, allowing mutual oversight and constructive dialogue.

Our next challenge is to ensure a smooth generational transition without allowing the Board's supervisory function to become a mere formality. I conduct one-on-one interviews with all executives, including Corporate Auditors, to ensure that we remain aligned and to improve the quality of the Board.

Q3 Could you share the rationale behind the shift to management focused on capital efficiency and the design of the related incentive structure?

A We have deeply reflected on the fact that, in the past, the Group paid little attention to capital efficiency, as it was overshadowed by the drive to expand sales. At present, the Board is accelerating in-depth discussions on improving capital efficiency, including the restructuring of our business portfolio and divestitures to achieve the best ownership structure.

To help drive this transformation, we have drastically reviewed the officers' remuneration system. Specifically, our plan is to reduce the proportion of fixed remuneration, which currently accounts for approximately 60% of the total remuneration, while increasing the proportion of variable remuneration associated with the operating profit margin and ROIC. We also plan to strengthen our commitment to increasing corporate value over the medium to long term by incorporating ESG-related indicators, such as CO_2 emissions and employee engagement, into our incentive framework.

That said, our business restructuring is still only halfway complete, and we have just initiated difficult reforms, including the voluntary retirement program and a review of reemployment contracts for employees aged 65 or above. Therefore, we have decided not to proceed with revisions to the remuneration system at this time. We made this decision as we concluded that our first priority should be to implement these reforms without delay, paving the way for a business capable of sustaining high profitability. Moving forward, we intend to introduce incentive plans that embed management focused on capital efficiency into our corporate culture while continuing to rigorously monitor the progress of these reforms.

Independent Outside Director and Member of the Selection and Nomination Committee and the Compensation Committee

Sumie Morita

The Board of Directors oversees sustainability activities from two perspectives: ensuring that they are consistent with the Group's management strategy and reviewing their progress against KPIs.

Q1 For a corporate group operating globally, what roles do you think the Board of Directors and the Selection and Nomination and the Compensation Committee should play in developing management talent?

A The SHI Group operates a diverse range of businesses around the world, with each business segment and local site taking the lead in managing its own international businesses. As such, there are natural limits to the Headquarters' ability to stay abreast of every detail on the front lines. Meanwhile, the essential competencies expected of potential managers include execution capability backed by hands-on experience, a global perspective, and the ability to engage on an equal footing with people of diverse values.

The Board's role extends beyond deliberating individual matters. More importantly, it is responsible for overseeing the development and advancement of management talent from a medium- to long-term perspective, with a clear vision of who should be entrusted with the Group's global management in the future.

In addition, the Selection and Nomination and the Compensation Committee is working with the human resources division to strengthen a program that identifies high-potential individuals early and continuously develops them for future global leadership roles. We believe that bringing individuals with diverse expertise, experience, and values into management improves the quality of decision-making by adding multiple perspectives to the table.

Q2 Advances in digital technology are substantially transforming manufacturers' business models. What value do you think the effective use of information and digital technologies can create for the SHI Group?

A Progress in digital technology, including generative AI, is driving a paradigm shift in how manufacturing businesses create value. Moving forward, we believe competitiveness will come not just from the performance of individual products but also from the value they deliver as part of a system.

Our Group's products are often incorporated as integral components of our customers' systems and social infrastructure. As such, simply making individual products more sophisticated is no longer enough. Instead, we must take a data-driven view of the entire system to optimize its operation and create new value through services. We believe that utilizing information and digital technologies is a key foundation for realizing our Purpose of "enhancing society and those within it."

Simultaneously, expanding the use of data must begin with the establishment of robust data governance. Based on the concept of data sovereignty, which defines "who uses what data and within what scope," it is important to establish a framework to continuously enhance business value through digital transformation (DX), building on a series of demonstrations involving specific products and services.

Q3 The SHI Group promotes sustainability as an integral part of its management strategy. From what perspective does the Board oversee these sustainability initiatives?

A The Board of Directors oversees our sustainability initiatives mainly from two perspectives. First, we assess their alignment with our management strategies. We ensure that key themes, such as carbon neutrality, the provision of products that resolve social issues, and the strengthening of supply chains, are consistent with our medium- to long-term growth strategies and business portfolio reform. The capital markets strongly demand that we explain how our sustainability initiatives contribute to our future profitability and competitive advantage.

Second, we monitor the effectiveness of KPIs and progress toward their achievement. Following reports from the Sustainability Committee, the Board discusses why targets have not been met, whether KPIs are sufficiently challenging, and whether concrete actions have been taken to achieve them. By delving into underlying factors and preconditions rather than merely reviewing the numbers, we enhance the quality of our KPIs and our execution capabilities.

Furthermore, we ensure the objectivity of our discussions by referring to indicators from external assessment organizations and international disclosure trends. We promote sustainability not as just another CSR initiative but as a management issue directly associated with enhancing corporate value. The Board will continue to provide effective oversight over the long term.

Message from the Newly Appointed Outside Director

Independent Outside Director and Member of the Selection and Nomination Committee and the Compensation Committee

Miho Hanafusa

〈Profile〉

After joining Mitsubishi Kasei Corporation (currently Mitsubishi Chemical Corporation) in 1989, Miho Hanafusa gained experience across a broad range of areas, including research and development, research planning, business development, and management strategy.

At Mitsubishi Chemical Corporation, she was appointed Executive Officer in 2018 and served as Executive Officer, General Manager of the Development Division, and General Manager of the R&D Promotion Department in 2019, advancing business planning, technology strategy, and research and development management.

Aside from serving as President of Mitsubishi Chemical Research Corporation from 2021 to March 2025, she has administrative experience at the Cabinet Office and Cabinet Secretariat, among others, giving her extensive knowledge in technology, sustainability, as well as talent and organizational management.

Leveraging my knowledge of research and development, sustainability, and business management, I am determined to contribute to sustainable value creation.

■ Creating New Value for Society Through the Power of Technology and Human Capital

On assuming the position of Outside Director, I feel a tremendous sense of responsibility and mission. I have spent many years of my professional career at integrated chemical companies, which may look different from the SHI Group, a comprehensive machinery maker. However, I feel the two have something essential in common: both support social infrastructure and industrial foundations with their technologies, products, and services and create value across a wide range of fields. The Group's principles also deeply resonate with me, and I am determined to leverage the experience and knowledge I have gained throughout my career to help enhance its corporate value.

I have worked across a diverse range of functions, including research and development, business planning, commercialization, human resource strategy, sustainability strategy, and corporate management. I am also involved in networks of government agencies and international organizations in Japan and have served as a committee member or director of academic societies, industry associations, and government-affiliated organizations. Today, businesses find themselves in an increasingly uncertain environment owing to heightened geopolitical risks and accelerating technological innovation. In such times, it is important for businesses to develop a clear idea of what value they deliver to society and what position they aim to build. In particular, as AI technology continues to evolve at a rapid pace, I believe the source of competitiveness lies in the power of people and organizations.

The SHI Group is fortunate to have both tangible and intangible strengths, including data accumulated over many years, trust-based relationships with customers, supply chains, human networks, and tacit knowledge, in addition to its advanced technological prowess and experienced field personnel. By integrating these strengths with cutting-edge technologies across organizational boundaries, and by leveraging collaboration between companies and among industry, academia, and government, I believe we can begin to drive new innovation and create value that contributes to addressing social challenges.

■ Strengthening the Business Foundations That Underpin Sustainable Growth

To make this a reality, we must have an organizational culture that enables each member to take the initiative, demonstrate leadership, and embrace challenges. If we combine diverse knowledge and functions through free and open communication, I believe we can create a virtuous cycle that connects customer value creation, business growth, improved profitability, growth investment, and returns to stakeholders.

As an Outside Director, I will make every effort to ensure that initiatives such as human capital management, business portfolio reform, research and development management, DX, sustainability management, and enhanced governance organically work together to drive sustainable growth. In the research and development domain in particular, I hope to support improvements in the quality and speed of research and development through the use of DX, AI, robotics, data, and open innovation, in addition to the development of competitive business models and intellectual property strategies.

In sustainability management, it is important that we take an approach that combines addressing environmental and social challenges with driving business growth. We are expected to help solve social challenges and address customer issues through our products and services, thereby sustaining our growth. While listening attentively to diverse stakeholders, I will focus on providing advice, input, and oversight in ways that contribute to enhancing corporate value, thereby helping realize a virtuous cycle that supports sustainable growth.

Message from the General Manager, Corporate Technology Management Group

By integrating our diversity and original technologies for the benefit of the entire Group, and by advancing interdivisional collaboration and our intellectual property strategy, we will drive initiatives designed to achieve sustainable revenue growth and resolve social challenges.

Vice President, General Manager, Corporate Technology Management Group

Akira Yamamoto

Key Points

Gear reducers and motors are indispensable components for the arm and leg joints of humanoid robots. At the iREX International Robot Exhibition 2025, we exhibited bipedal walking robots featuring our SCY Series ultracompact CYCLO®Drive gear reducers. An android avatar named Yui, who starred in the Future of Life pavilion, one of the signature pavilions at EXPO 2025, Osaka, Kansai, Japan, was equipped at her joints with one of the industry's smallest actuators featuring built-in drivers and SCY Series gear reducers.

My Role as General Manager, Corporate Technology Management Group

The SHI Group brings a wide array of businesses and products to global markets and diverse applications, many of which are underpinned by our original and unique technologies. Due to their diversity and originality, however, each technological development is often optimized for a specific project. We recognize that this makes it difficult to see how these technologies relate to the Group's concerted efforts to enhance value and achieve our ideal state.

With these challenges in mind, we have reorganized our business into four segments to develop a framework for cooperation across business divisions and strengthen our ability to identify and resolve shared challenges.

To accelerate this reform, the Corporate Technology Management Group will access multiple business and technology domains more flexibly, enabling us to acquire and catalogue new technologies and deploy them effectively for the benefit of the Group as a whole. Meanwhile, my own top priority is to transform static, fixed relationships both within and outside the Group into more flexible and dynamic ones, while also reviewing each division's work processes. By enhancing revenue contribution and corporate value through these reforms, we aim to achieve our ideal state.

Promising New Technologies and Products

FY2025 saw steady progress in our efforts to leverage our core technologies to resolve social challenges, as described below.

In the environment/energy field, a LAES (Liquid Air Energy Storage) facility—a project advanced in partnership with Hiroshima Gas Co., Ltd.—began commercial operation. We also launched BIOIMPACT-AC, our anaerobic treatment facility that converts organic effluent into resources and generates biogas.

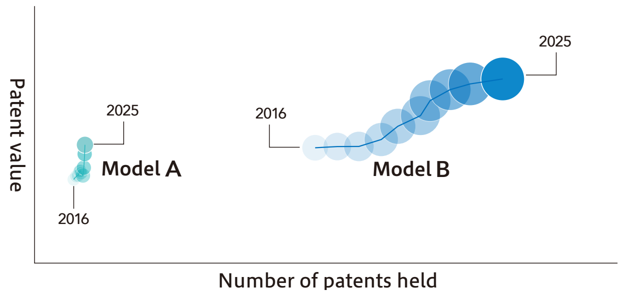
In the robotics/automation field, we released an ultra-compact CYCLO®Drive gear reducer, which was used in an android avatar robot featured in the Future of Life pavilion at EXPO 2025, Osaka, Kansai, Japan. We are also developing new actuators that integrate AI and motion control technologies for commercial application.

In the advanced medical devices field, the social implementation of our projects has accelerated, as seen in developments such as expanded insurance coverage for our PET (Positron Emission Tomography) scans and the designation of BNCT (Boron Neutron Capture Therapy) cancer treatment systems as orphan medical devices.

Initiatives to Enhance the Value of Intangible Assets and Intellectual Property

With the aim of shifting the focus of its intellectual property activities from quantity to quality, the SHI Group is synchronizing the start of development with the formulation of its intellectual property strategy. While developing a framework to support the formulation of intellectual property strategies, the Corporate Technology Management Group has shifted its annual activity goals from the number of patent applications to proprietary value indicators, which are now in use. We are also building a framework that uses a patent value analysis tool to visualize the value of our patent portfolio and to assess and monitor its deterrent effect on competitors.

■ Visualizing Patent Value



Compiled by the Company using data from LexisNexis® PatentSight+ by LexisNexis of the US

Message from the CIO (for DX)

By redefining DX as an engine that contributes to enhancing corporate value, we will draw up an effective DX strategy through collaboration with the Group-wide strategy and those of the four segments and the SBUs.

Vice President and CIO, General Manager, Corporate ICT Group
Kazuhiro Harada

Key Points

- Building DX into an engine for management value creation
- Promoting ICT reform in alignment with business strategies
- Shaping the future with robust digital and IT infrastructure
- As internal DX literacy continues to advance, the SHI Group has obtained DX Certification under the DX certification system established by METI. We will aim even higher

Digital Transformation Certification

Formulating an Effective DX Strategy Based on Business Strategies

As the business environment grows increasingly uncertain, DX is no longer an initiative pursued by the ICT division alone; it now represents management and business strategies themselves. My mission as CIO is to position DX as the management foundation for achieving business growth and enhancing corporate value, and to promote it through integrated activities by the four segments and Headquarters, thereby contributing to the enhancement of corporate value. For many years, the Corporate ICT Group has served as the Group's in-house systems organization, responsible for planning, developing, and operating its IT infrastructure. Going forward, however, we will focus on maximizing corporate value by formulating effective IT strategies aligned with management, minimizing IT-related risks that threaten business continuity, and optimizing IT resources across the Group.

In FY2025, in line with the ongoing medium-term management plan, we made steady progress on foundational measures, including infrastructure upgrades, security enhancements, DX talent development, and contingency planning for mission-critical systems approaching the end of their service life. As DX literacy across the workforce has advanced significantly, DX initiatives are progressing steadily through co-creation with the SBUs. In FY2026, in conjunction with the formulation of the next medium-term management plan, we will further expedite the selection and concentration approach driven by our business strategies and thereby develop effective DX strategies.

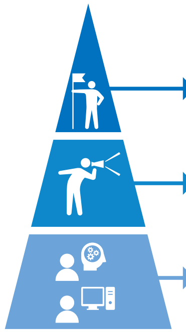
The Next Milestone: Elevating DX into a Driver of Value Creation

Our DX capital comprises a data platform, product IoT, AI utilization, human resources, and organizational capabilities that support multiple businesses. The development team is advancing the design and development processes through DX; the manufacturing team is promoting DX to visualize on-site data and enhance productivity; and the service team is leveraging DX to expand its business centered on product IoT. These initiatives are beginning to create new revenue opportunities and enhance competitiveness. As our next step, we will position product IoT and AI utilization as strategically important technology domains to accelerate the enhancement of the Corporate ICT Group's core competencies, thereby helping the Group, the four segments, and the SBUs realize their business strategies.

We are convinced that DX will be instrumental in addressing social challenges, such as labor shortages, safety, and environmental protection, as well as the Group's material issues. We will measure the effectiveness of ICT investments through KPIs and KGIs. Under appropriate IT governance, we will also establish a framework for continuous improvement.

Our goal is to advance DX from a mere means into a platform for value creation and to firmly establish the necessary rules, principles, basics, and fundamentals. By drawing on each employee's ability to drive change, we will contribute to the sustainable enhancement of corporate value as we shape the future with robust digital and IT infrastructure.

■ Desired Profile of DX Talent



	Role	Ability to bring ideas to life	Ability to drive change
Management layer	Sponsor	Keeping up with the latest technologies and trends Lectures for management	Presenting a vision for change, supporting the front lines
Middle layer	DX leader	Digital talent empowerment skills Selective training (not yet implemented)	Leadership for change, DX literacy e-learning (DX literacy training)
Implementation layer	Implementer	Intermediate/advanced DX skills SHI Open College / e-learning / Specialized technical education Beginner-level DX skills SHI Open College / e-learning	Acceptance of change, DX literacy

Message from the Managing Director of the Regional Headquarters

SHI Europe will further strengthen the competitiveness of its business through enhanced governance and regional coordination, while working to improve profitability, capital efficiency, and ESG performance.

Executive Vice President, Sumitomo Heavy Industries, Ltd.,
Managing Director, Sumitomo Heavy Industries (Europe) B.V.
Shaun Dean

Enhancing SHI's Competitiveness, Governance, and Value Creation in Europe, a Core Strategic Region

Europe represents a strategically important region for the SHI Group, characterized by mature industrial markets, demanding regulatory environments, and customers that place high expectations on quality, reliability, and long-term partnership.

SHI Europe serves as the regional headquarters, providing strategic direction, governance, and shared services opportunities for SHI companies operating across Europe while strengthening alignment with group priorities. There are currently nine core business subsidiaries in Europe that sit within each of the four SHI segments—Mechatronics, Industrial Machinery, Logistics & Construction, Energy & Lifeline—and approximately 40 sub-subsidiaries employing more than 4,500 employees within the region and globally, who underpin the Group's business.

I serve as Managing Director of SHI Europe and am also Executive Vice President of SHI globally. I bring over 30 years of extensive international management experience across SHI businesses, with a strong track record in operational reform, portfolio optimization, and business transformation from a global perspective.

SHI Europe's mission is to strengthen the medium- and long-term competitiveness and profitability of SHI's European operations by improving governance, performance transparency, and regional direction, ensuring close alignment with group strategy and enhancing the resilience and sustainability of the European portfolio.

Regional Management Platform Driving Efficiency and Agility

Over the past decade, the SHI Group has significantly increased its presence through M&As and the constant expansion of its local businesses. As the scale and complexity of business increase, there has been a growing need to further strengthen cross-regional management and establish a flexible and timely decision-making system in response to changes.

Established in 2024, SHI Europe has been addressing these challenges, playing its role in strengthening regional management efficiency, improving coordination across European Group companies, and supporting faster and more effective responses to changes in the external business environment. SHI Europe has also been able to enjoy economies of scale and agility by enhancing governance and the disciplines of execution in the region while respecting the operational and commercial independence of individual businesses. This scheme has enabled our European business to establish a foundation for sustainable value creation.

Creating Competitive Advantages through Governance and Execution Capabilities

In Europe, SHI companies have established strong competitive positions in selected industrial fields. These strengths are supported by specialized manufacturing technologies, deep application knowledge, and a reputation for reliability and safety.

Meanwhile, competitive conditions and profitability drivers vary significantly across markets and segments. SHI Europe does not manage competitiveness at the segment level, but enables it through a common governance framework, stronger performance management, and shared services that promote disciplined cost control, capability sharing, and faster decision-making, thus ensuring competitive advantages are felt.

This approach not only contributes to the improvement of capital efficiency and profit margin but also makes it possible to continuously enhance the performance of the entire European business.

Looking forward, SHI Europe will continue to support the SHI Group's broader globalization agenda, including potential structural evolution of the European organization to further improve resilience and value creation. It has already begun working on strengthening areas of collaboration in safety, people, and communications.

Positioning that Captures Structural Growth Domains

Looking ahead to 2026 and 2027, the European business environment is expected to remain uneven across regions and industries. Some markets continue to face uncertainty driven by macroeconomic conditions and geopolitical risks.

On the other hand, prolonged growth opportunities are anticipated in areas supported by long-term structural trends, such as energy efficiency, electrification, automation, and infrastructure renewal.

Under these circumstances, the precision of portfolio management and execution capabilities determine competitiveness. Through cross-regional optimization, SHI Europe strives to capture growth opportunities without fail and improve profitability at the same time.

Regional Headquarters Function Enhancing ESG Performance

From a sustainability and ESG perspective, SHI Europe plays a regional coordinating role by closely monitoring developments in European regulatory requirements and policy frameworks.

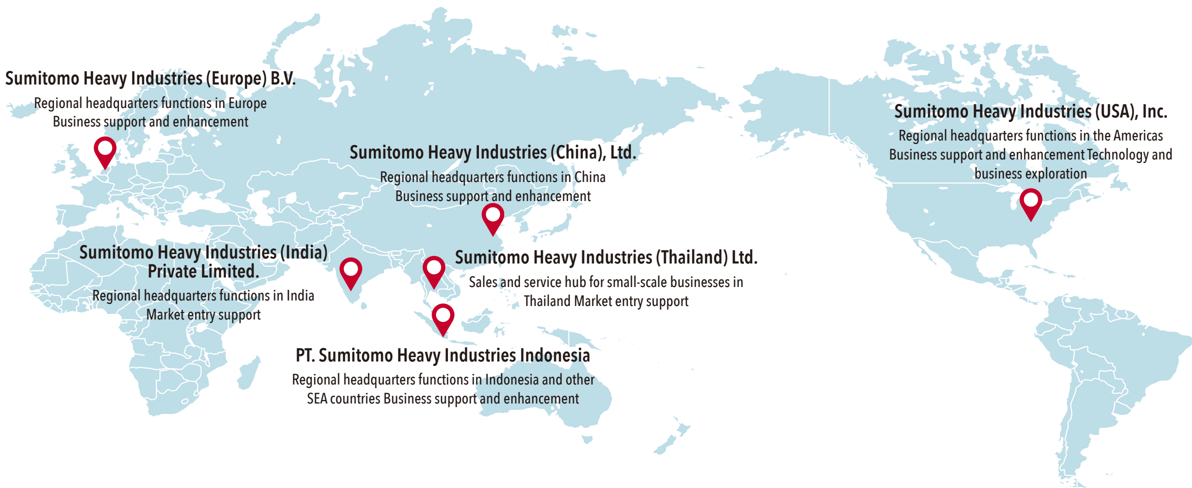
Given the pace and content of regulatory change across Europe, SHI Europe gathers and shares up-to-date information with local Group companies to support timely and appropriate responses within a common Group framework.

By acting as a regional point of leadership, it supports consistent awareness of ESG-related developments across Europe, enabling each Group company to fulfill its responsibilities in a manner suited to its market and business characteristics.

This initiative is directly linked to raising the level of our ESG performance and ensuring business sustainability.

Growing Presence and Roles of Overseas Regional Headquarters

In FY2025, approximately 60% of the SHI Group's consolidated net sales were generated in overseas markets. As such, overseas regional headquarters are playing an increasingly important role in supporting global business growth. Recently, we established new regional headquarters in the Netherlands and India in 2024 and 2025, respectively, building a six-hub global network. Going forward, we will promote initiatives to improve ESG performance and capital efficiency, while strengthening support for our local business divisions in a manner tailored to the cultures and legal systems of each region, with the aim of achieving sustainable growth and enhancing corporate value on a global basis.



Strengthening the Overseas Regional Headquarters Functions

Scope

- Support Business
- Improve Profitability

Pillar of Global Management Strategy

Management efficiency & optimization beyond subsidiaries

- Management efficiency
- Communication among subsidiaries

Area of collaboration

Shared Service | Shared Office | Finance | Purchase | Legal | Sustainability | Governance & Compliance | Marketing Communications

Secure Sustainable Management Structure

- Build global human resource management foundation

Area of collaboration

Promote Global Talent in Corporate Management | Human Resource Management Support

Overview of Our Medium-Term Management Plan

Basic Policy and Key Framework

- We were behind on the three key issues identified in the MTMP26, which resulted in recent underperformance. We therefore revised the targets in February 2025.
- As we are urged to achieve the revised MTMP targets, improving the profitability of our core businesses and semiconductor equipment business has become an urgent priority.

Concept of long-term policy

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

2021-2023	2024-2026		2027-2029	2030
Lay groundwork for solving social issues	Build a business portfolio to solve social issues: Regarding deepening and exploration, engage in further practice		Build a business portfolio to solve social issues: Final phase toward "Our Ideal State"	Realize our ideal state

Basic policy	Develop a robust entity		
Key issues	01 Improve profitability	· · · Strengthen profitability through deepening, and implement a management approach that prioritizes profit	Deepening
	02 Enhance capital efficiency	· · · Thoroughly implementing an ROIC-based management approach	Deepening
	03 Strengthen new business exploration	· · · Identify business opportunities through exploration	Exploration

Basic strategy

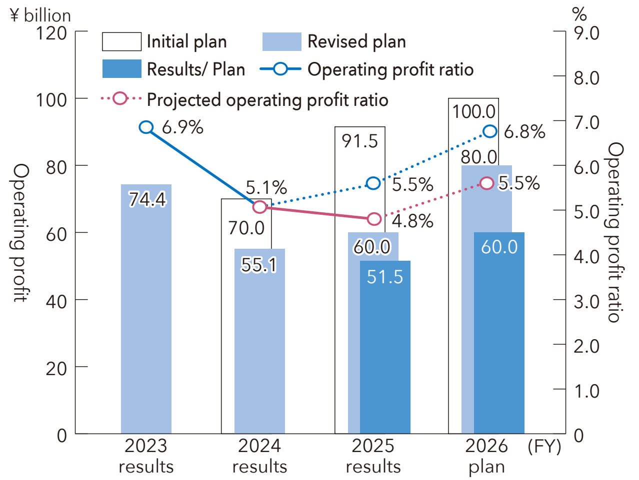
Improve profitability, enhance capital efficiency, and strengthen exploration from both corporate and segment perspectives

Corporate strategy
- Promote business portfolio reformation
- Capital policy
- Strengthen new business exploration functions
- Strengthen the business base (sustainability, human capital, and DX)

Segment strategy
- Strengthen profitability through deepening
- Identify business opportunities through exploration
- Pursue synergies
- Streamline segment organizations

- Changes in the business environment and outlook for MTMP26

Deviations from the initial premises of the business environment	
Businesses in Europe	• Our electric control business saw a decline in production due to supply restrictions resulting from US tariffs. • While the EV demand is on a recovery trend, the projected demand declined due to uncertain outlook, continuing to affect our plastics machinery business.
Semiconductor Business	• Due to sluggish investment demand for semiconductors for non-AI applications and power semiconductors, the recovery in Ion implanter and superconducting magnets for MCZ remained slow. • While the Chinese market is beginning to show signs of recovery, the country is increasingly shifting to domestic production. • The image sensor market is projected to recover in late 2026 or later.
Excavator Business	• Machine utilization in Japan remained unchanged, with the market still saturated. • Shipments declined in 2025 as distributor inventories in the U.S. remained elevated. From 2026, the impact of tariffs has intensified, dampening purchase sentiment and weighing on demand.



Summary of Business Restructuring

While improving profitability and reducing capital investment through business restructuring, we will concentrate management resources in growth domains with the aim of improving our ROIC and ROE.

Revitalize the organization by improving profitability and rebalancing our workforce age profile

Core business restructuring DT-SBU, PS-SBU, Construction Equipment SBU, HSC-SBU, Head Office divisions	•Execute human resource measures · Offer a voluntary retirement program · Review the renewal of reemployment contracts for employees aged 65 or older
	•Review our production system in line with revised demand projections •Restructure production sites in Japan/overseas, etc.
Business portfolio reformation	•Execute from the perspectives of capital efficiency and strategic fit
Asset sales	•Sell securities •Dispose of idle land

Concentrate management resources in growth domains

FY2025 Results	
Operating profit	¥51.5 billion
ROIC	4.2%
ROE	4.7%

FY2026 Outlook	
Operating profit	¥60.0 billion
ROIC	4.8%
ROE	5.0%

Progress on KPIs for Strategic Challenges

- Changes in the external environment have caused delay in improving profitability and capital efficiency.
- The initiative to strengthen the profitability of the gear business, the electric control business, and the plastics machinery business has been progressing mostly as planned.
- In particular, improving the profitability of the semiconductor equipment business and the excavator business is an urgent priority. We will therefore accelerate priority initiatives while carrying out business restructuring, including staffing measures

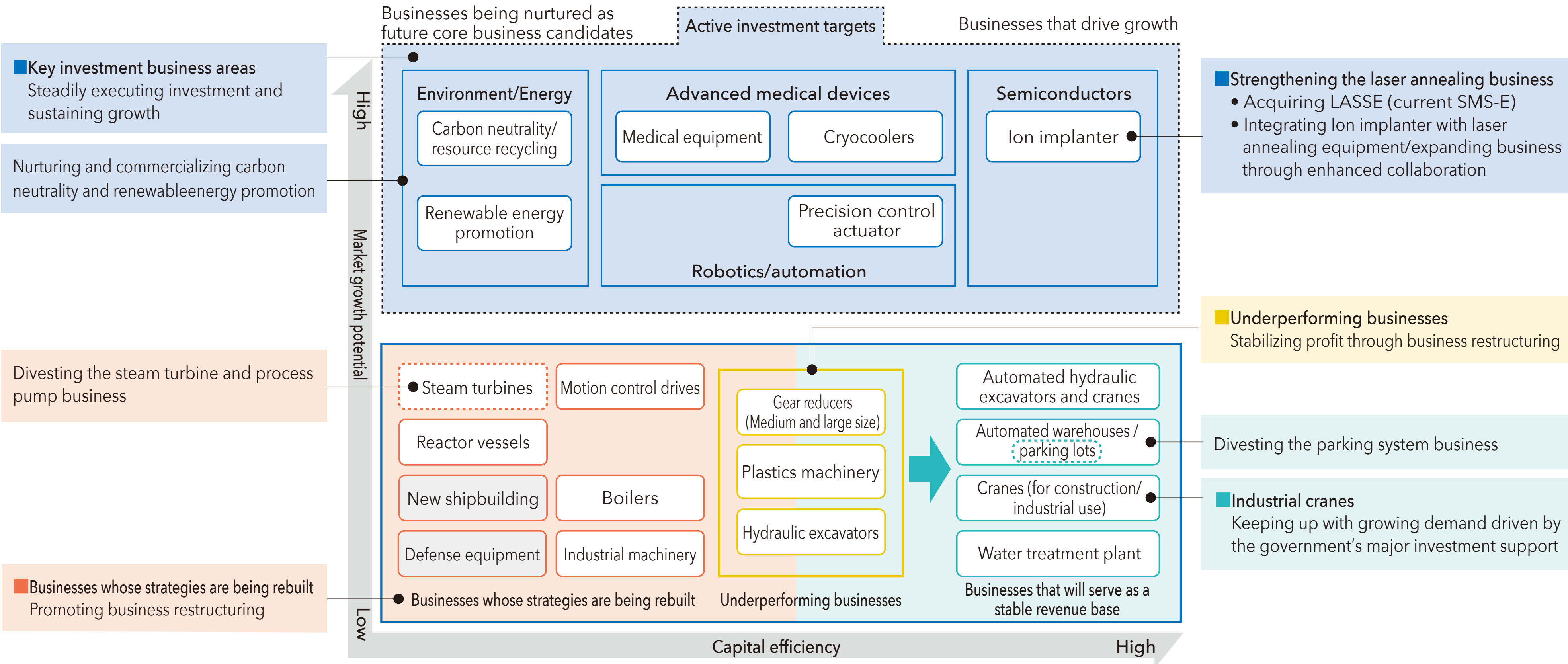
	Strategic Challenges		KPI	Metrics	2026 Plan (As of February 2025)	2026 Projection (February 2026)	Progress
Corporate	Improve profitability	Strengthen profitability through deepening, and implement a management approach that prioritizes profit	Operating profit ratio	Operating profit ratio	6.8%	5.5%	×
				Operating profit	¥80.0 billion	¥60.0 billion	
		Promoting businesses whose strategies are being rebuilt	Formulating and executing reform plans	Progress (%)	100%	100%	○
	Enhance capital efficiency	Promoting ROIC-based management	ROIC	ROIC	7.0%	4.8%	×
	Growing in key investment business areas		Expanding sales of the semiconductor business	Sales	¥117.2 billion	¥86.3 billion	×
Mechatronics	Strengthening the profitability of underperforming businesses		Improving the operating profit ratio of the gear business	Operating profit ratio	9.7%	9.2%	△
			Expanding orders for the electric control business	Orders	¥45.6 billion	¥46.8 billion	○
Industrial Machinery	Strengthening the profitability of underperforming businesses		Improving the operating profit ratio of plastics machinery	Operating profit ratio	6.3%	6.0%	△
Logistics & Construction	Strengthening the profitability of the core businesses		Expanding orders for the excavator business	Orders	¥260.0 billion	¥215.0 billion	×

*Progress rating: ○-Achieved, △-Slightly behind, x-Behind

Business Portfolio and Challenges to Address (Progress Status)

● We will rebuild strategies for low-growth, underperforming businesses and concentrate management resources on four key investment business areas that are expected to grow, with the aim of expanding our business.

Key investment business areas		Underperforming businesses		Businesses whose strategies are being rebuilt	
Business scale **Total net sales: approximately ¥340.0 billion**	• Growth in the robotics/automation field • Growth in the semiconductor field • Growth in the advanced medical devices field • Growth in the environment/energy field	Business scale **Total net sales: approximately ¥450.0 billion**	• Improving the operating profit of the gear business • Expanding orders for the electric control business • Improving the operating profit of plastics machinery • Improving the operating profit of the excavator business • Restructuring European businesses	Business scale **Total net sales: approximately ¥120.0 billion**	• Accelerating portfolio management (steam turbines, reactor vessels, boilers, industrial machinery, motion control drives)



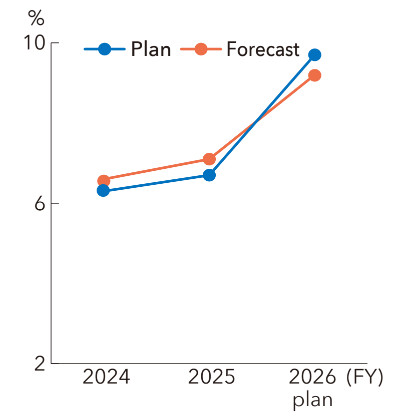
Business Portfolio and Challenges to Address (Progress Status)

● We will resolutely restructure our underperforming businesses and strengthen profitability.

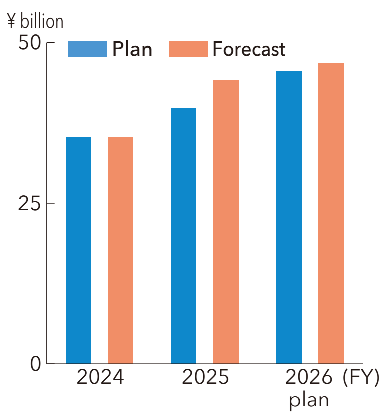
Segment	Mechatronics		Industrial Machinery	Logistics & Construction
SBU	Drive Technologies SBU (DT-SBU)	Drive Technologies SBU (DT-SBU)	Plastics Solutions SBU (PS-SBU)	Construction Equipment SBU
KPI	Improving the operating profit ratio of the gear business	Expanding orders for the electric control business	Improving the operating profit ratio of plastics machinery	Expanding orders for the excavator business
Progress in 2025	• Earnings are on an improving trend due to integration and discontinuation of models, price revisions, and withdrawal from unprofitable deals	• The collaboration between LSPA* and IDL* has allowed us to increase sales synergy and expand into new markets, putting us on track to achieve the plan.	• In addition to discontinuing inefficient models, we restructured our Chiba Works based on demand assumptions. • PS-SBU as a whole achieved its plan, while Europe fell short. Therefore, SDG* is currently exploring additional measures.	• Japan fell short of the plan due to lower rental demand. • For North America, distributor inventories remained elevated amid intensifying competition. The region fell far short of the plan and saw its share decline due to inadequate sales promotion measures.

Plan and Forecast

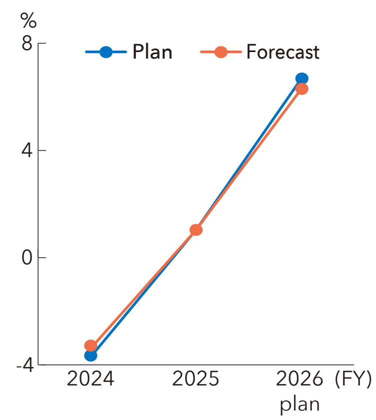
Gear business (Operating profit ratio)



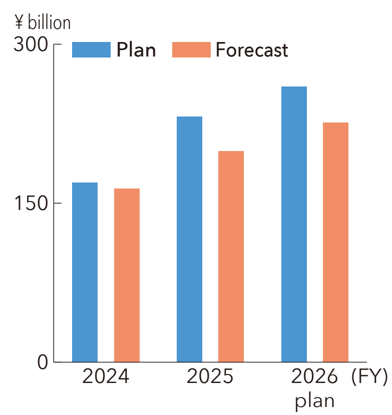
Electric control (orders)



Plastics machinery (operating profit ratio)



Hydraulic excavators (orders)



* LSPA: Lafert S.p.A IDL: Invertek Drives Ltd. SDG: Sumitomo (SHI) Demag Plastics Machinery GmbH

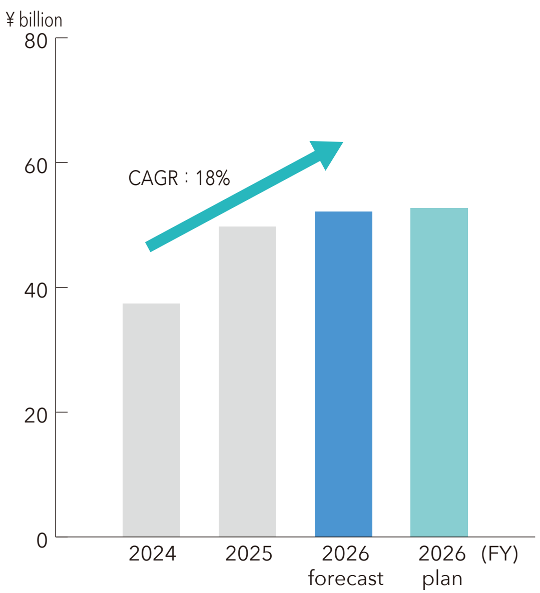
Promoting Reform for Businesses Whose Strategies Are Being Rebuilt

● As part of our initiative to reform our portfolio, we decided to divest our steam turbine and process pump business and our parking system business.

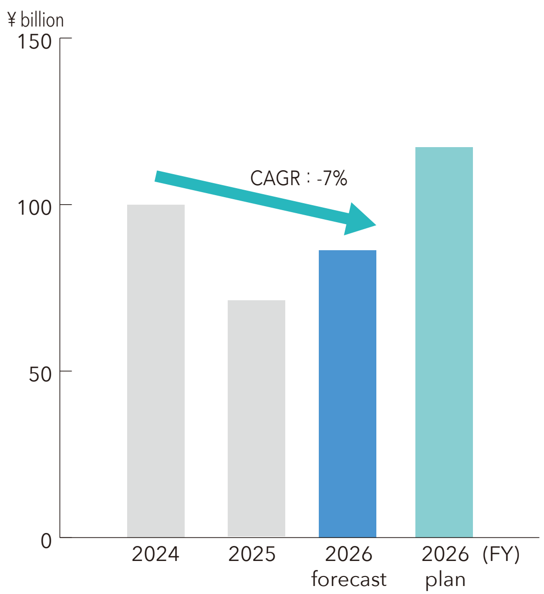
Business and Model	Product Overview	Actions Taken
Steam Turbines and Process Pumps	Steam turbines  Process pumps 	Concluded a share transfer agreement to transfer all the outstanding shares of Shin Nippon Machinery Co., Ltd. ("SNM"), which manufactures and sells steam turbines and process pumps, to Torishima Pump Mfg. Co., Ltd. **Background and expected impact** • Invest proceeds from the divestiture of SNM in businesses that drive growth and in businesses under development that will produce future core models • Concluded that Torishima Pump Mfg. Co., Ltd. is the best owner, as it holds a leading global share in the water pump segment • Scale of business to be divested: net sales ¥20.0 billion (FY2025) • Number of employees to be transferred: 530 • Divestiture scheduled for July 2026
Parking Systems	Parking system (Sumi Park Ace) 	Concluded an absorption-type company split agreement, under which the parking system manufacturing and sales business of Sumitomo Heavy Industries Material Handling Systems Co., Ltd. ("MH") will be succeeded by IHI Transport Machinery Co., Ltd. **Background and expected impact** • IHI Transport Machinery Co., Ltd. is a leading Japanese player in parking systems, and the transfer will strengthen the business foundation and contribute to the development of the industry. MH will shift management resources to other businesses such as cranes, aiming to become an even more highly profitable business entity. • Scale of business to be divested: net sales ¥8.0 billion (FY2025) • Number of employees to be transferred: 90 • Divestiture scheduled for November 2026

Growth in Key Investment Areas: Progress Status

Robotics/automation field: sales over time



Semiconductor field: sales over time



Progress in MTMP26

Robotics/automation field

The CAGR from 2024 to 2026 is expected to be approximately 18%, broadly in line with the plan.

Semiconductor field

Despite growth in advanced semiconductors for AI and other applications, rapid changes in the Chinese market, delayed market recovery, and other factors have affected the semiconductor equipment business. As a result, the business fell far short of the plan.

- Acquired LASSE (current SMS-E)
- Currently augmenting our production system to keep up with strong inquiries for our laser annealing equipment for advanced and other fields

Advanced medical devices field **Environment/energy field**

Roughly in line with the plan

Priority Initiatives Implemented in the Mechatronics Segment

Segment profit	MTMP for fiscal year ending December 2026: ¥24.0 billion	Forecast for fiscal year ending December 2026: ¥22.0 billion	Assessment of the current situation	● In the gear motor business, efforts to strengthen profitability have seen some delay in cost pass-through, while we continue to strengthen and expand our service business. ● Precision positioning equipment faced headwinds as semiconductor deals for PCs and smartphones stalled. We are currently advancing efforts to win business with a targeted major US customer.

	Priority initiatives	Progress	Progress rating
Key investment areas			
Electric control, robotics/ automation (DT-SBU)	● Expand business with a focus on saving energy and improving efficiency in the transportation and logistics market	● Even though the development of gear motors with decentralized-control inverters for the transportation and logistics market was delayed, we are currently acquiring customers globally.	△
	● Expand the small precision module business	● Currently developing products and acquiring lighthouse customers	△
Semiconductor (component) (AT-SBU)	● Expand the new precision positioning equipment market	● Began evaluation of our precision positioning equipment at a targeted US customer	○
	● Establish a semiconductor sub-system component development center in the US and accelerate acquisition of global top-tier customers	● Established a US development center in November 2025, finished installing the equipment for evaluation, and began approaching global top-tier customers	△
Foundational business area			
Medium and large-sized gear reducers (DT-SBU)	● Strengthen services to meet replacement demand, propose drop-in solutions, and enhance the capabilities of gear motor products with high-efficiency motors	● Reviewed the Japanese service system, strengthened E/U activities, and promoted global distribution of drop-in solutions	○
	● Consolidate models	● Integrated and discontinued models, revised prices, and withdrew from unprofitable deals and customers	△

*Progress rating: ○-Achieved, △-Slightly behind, x-Behind

Priority Initiatives Implemented in the Industrial Machinery Segment

Segment profit	MTMP for fiscal year ending December 2026: ¥22.0 billion	Forecast for fiscal year ending December 2026: ¥8.0 billion	Assessment of the current situation	● Ion implanter and superconducting magnets for MCZ are facing headwinds due to sluggish demand in segments other than AI semiconductors. ● Although we restructured the plastics machinery business, the European market is showing slower recovery than expected.

	Priority initiatives	Progress	Progress rating
Key investment areas			
Semiconductor (MS-SBU)	● Develop differentiating products and augment production capabilities to increase the sales of Ion implanter	● In 2025, sales dropped significantly due to decline in demand for image sensors and power semiconductors. In 2026, demand is expected to grow in the logic segment.	×
	● Expand into new segments—memory and logic— while distributing Ion implanter to European and US customers and promoting future development	● Newly established the Semiconductor Business Development Dept. in January 2026, began activities to increase the production of laser annealing equipment, and advanced engagement with new customers and joint development of equipment (Ion implanter, laser annealing equipment)	○
Advanced medical devices (MQS-SBU)	● Implement expansion strategies for proton therapy equipment (superconducting type) and BNCT (next-generation high-current type)	● In proton therapy, earnings deteriorated as a result of delays in construction progress, while BNCT was affected by delays in order intake. An order was received for CyBeam No. 2, a next-generation proton therapy system, and an order for No. 3 is expected in FY2026. For BNCT, No. 4 is scheduled to begin treatment in 2026 and No. 5 was ordered in 2025, with two additional orders anticipated in 2026.	△
Foundational business area			
Plastics machinery (PS-SBU)	● Consolidate models and reform business processes	● Production of 22 models was discontinued by the end of 2025 (one year ahead of schedule).	○
	● Implement additional rebuilding measures	● Revised demand forecast downward, and began restructuring works and their functions as well as the sales systems and organization	○
	● Restructure SDG	● While we are progressing in line with our initial plan, we are exploring additional measures in anticipation of sharper-than-expected drop in demand.	△

*Progress rating: ○-Achieved, △-Slightly behind, x-Behind

Priority Initiatives Implemented in the Logistics & Construction Segment

Segment profit	MTMP for fiscal year ending December 2026: ¥27.0 billion	Forecast for fiscal year ending December 2026: ¥19.0 billion	Assessment of the current situation
			• We are currently promoting the development of advanced technologies, including electrification, remote control, automation, and DX, to address social issues. • Profit declined on lower volumes, reflecting weaker domestic demand for mobile cranes and hydraulic excavators, as well as intensifying competition for hydraulic excavators in North America.

	Priority initiatives	Progress	Progress rating
Key investment areas			
Robotics/automation (segment)	● Establish a development center for this segment	● Added development center staff. Newly established a development department for DX, etc.	○
	● Accelerate shared development in electrification, remote control, automation, DX, etc. (13.5-ton electric excavators, etc.)	● Exhibited a 13.5-ton electric excavator at CSPI-EXPO2025 (International Construction & Survey Productivity Improvement Expo) and released ASTRA1.0, which automates road machinery	○
Foundational business area			
Construction machinery (Construction Equipment SBU) (HSC Cranes SBU)	● Differentiation and improved profitability through introduction of new models	● Gradually introduced new models of hydraulic excavators in major Japanese and U.S. markets to stimulate demand	×
	● Build an optimal production system leveraging Yokosuka Works	● Production to begin in FY2027; full-scale production postponed to FY2028	△
Logistics machinery (Material Handling Systems SBU)	● Develop differentiating products through automation and carbon neutrality (ARTG)	● Delivered FC fuel-replacement-type ARTGs* to the Port of Tokyo	○
	● Increase added value of services through DX (SIRMS®)	● The cumulative number of SIRMS-equipped units rose to 56.	○
	● Capture shipbuilding demand and develop new markets	● Currently reducing design workload through standard proposals while actively channeling resources and planning to strengthen production capabilities to meet growing shipbuilding demand	○

*Progress rating: ○-Achieved, △-Slightly behind, x-Behind

*ARTG: Automatic Rubber Tired Gantry crane

Priority Initiatives Implemented in the Energy & Lifeline Segment

Segment profit	MTMP for fiscal year ending December 2026: ¥7.0 billion	Forecast for fiscal year ending December 2026: ¥8.0 billion	Assessment of the current situation
			• Nurturing and commercialization of the carbon neutrality and renewable energy promotion business are progressing as planned. • The restructuring of the boiler business is largely on plan, and the service business is also growing through enhanced capabilities and a broader menu of proposals.

	Priority initiatives	Progress	Progress rating
Key investment areas			
Carbon neutrality/resource recycling (segment) (Energy & Environment SBU)	● Verify and evaluate carbon capture technology	● Completed the CO_2 separation and capture test in the EU; a FEED study for a commercial-scale unit is underway	○
	● Demonstrate biomass gasification-to-SAF production	● Participated in a NEDO demonstration project for gasification-to-SAF production; selected for a NEDO feasibility study on the Sakata carbon recycling project	○
	● Conduct a demonstration project for carbon fixation from unutilized biomass	● Finished demonstration of biochar production using various feedstocks	○
Renewable energy promotion (Energy & Environment SBU) (Marine & Steel Structures SBU)	● Start commercial operation of the LAES demonstration facility by the end of FY2025	● Began demonstration operation in December 2025 jointly with Hiroshima Gas Co., Ltd.	○
	● Strengthen sales capabilities to commercialize foundational Offshore Wind Foundations	● The first round to be re-tendered; currently preparing quotations to win orders in the second round	△
Foundational business area			
Energy plant (Energy & Environment SBU) Process machinery/plant (PP-SBU) Service (segment)	● Restructure the boiler business	● Implemented additional fixed cost measures in line with the operating volume	△
	● Promote boiler fuel switching modification (TMU)	● Order intake for TMU projects was delayed; strengthened response through a dedicated organizational structure	△
	● Expand the process machinery, water treatment, and food machinery businesses	● Sales plan exceeded thanks to an increase in orders	○
	● Expand the service business and strengthen collaboration within the segment	● Sales in the service business grew, driven by collaboration among business units	○

*Progress rating: ○-Achieved, △-Slightly behind, x-Behind

Mechatronics Segment

Senior Vice President
General Manager, Mechatronics Segment, General Manager, Advanced Technologies SBU

Chie Okamoto

Message from Segment General Manager

What distinguishes the Mechatronics Segment is its unmatched ability to expand globally with components at its core. By leveraging the overseas network and local talent we have cultivated over many years, we will continue to pursue sustainable growth while committing to expanding our global market share.

Our range of components built around three core functions—moving, cooling, and controlling—will help address social issues across a wide range of applications and customers' equipment. In addition, as our Group's flagship mass-production business, we will seek to further advance our manufacturing capabilities and build an organization that is resilient to changing demand. Furthermore, by leveraging our extensive global installed base, we will focus on expanding our service business grounded in customer value, thereby enhancing our profitability and global presence.

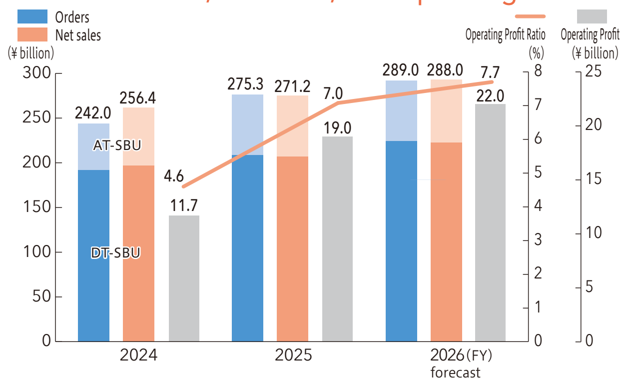
FY2025 Results

In FY2025, orders benefited from a recovery in domestic and overseas demand for gear reducers, while for motors and inverters, inventory adjustments at European customers ran their course. In addition, the increased semiconductor-related demand for cryocoolers resulted in orders of ¥275.3 billion, up 13.8% year on year. Net sales were ¥271.2 billion, up 5.8% year on year, as each business unit achieved higher revenue driven by the increase in orders. Operating profit, driven primarily by the higher revenue, reached ¥19.0 billion, up 62.4% year on year, and the operating profit ratio was 7.0%, up 2.4 percentage points year on year.

FY2026 Forecast

In FY2026, orders are expected to reach ¥289.0 billion, up 5.0% year on year, underpinned by robust demand in the US and Europe for gear reducers and electric and control devices, recovery of the Japanese market, as well as growing demand related to AI semiconductors. Net sales, driven partly by growing orders and price revisions, are projected to reach ¥288.0 billion, up 6.2% year on year. Thanks to an increase in revenue and the effect of business restructuring, operating profit is expected to increase 15.8% year on year to ¥22.0 billion, and the operating profit ratio to recover by 0.7 percentage points to 7.7%.

Historical Orders, Net Sales, and Operating Profit



FY2025 Business Performance by SBU

DT-SBU [Gear reducers, electric and control devices]

In the gear reducer business, we made rigorous efforts to improve productivity through consolidation and discontinuation of our model lineups, curb inventory, and pass higher material costs on to prices. In electric and control devices, we consolidated production sites to improve profitability, and accelerated the development of control devices integrated with gear motors with the aim of promptly introducing them to the market. In services, we flexibly addressed replacement demand for both in-house and third-party products to expand our business.

CYCLO®Drive

Lafert products

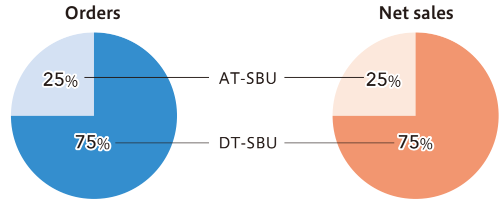
AT-SBU [Cryocoolers, cryopumps, stages, vacuum robots]

In MRI and medicine, low-helium MRI systems are increasingly being deployed in regions where such equipment was previously scarce. This has generated new demand, which continues to grow. In physical and chemical research, the US curbed research budgets, leading to concerns that orders might be delayed or postponed. However, public-sector investment primarily in the quantum and alternative energy fields has sustained demand for cryocoolers. The semiconductor field saw an increase in front-end investment amid growing AI-related demand, and demand for cryopumps, vacuum robots, and precision positioning stages grew.

4KGM Cryocoolers

Cryopump

Orders and Sales Mix by SBU (FY2025)



Business Strategies

In the electric and control/robotics and automation area, we will mainly enhance our measures for 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 reach major global customers.

● Electric and control/robotics and automation

In transportation and logistics, which is one of the key markets for our gear reducer business, the required functions are growing more sophisticated. We aim to leverage our strengths in electric and control/robotics and automation to enhance our measures.

● Semiconductor and advanced technology components

We will globally pursue synergies in sales and services with precision positioning stages, cryopumps, and vacuum robots. 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 meeting needs in cutting-edge fields, including generative AI and power semiconductors.

Investor FAQ

Q1 (DT/AT) Which products in the current business portfolio are expected to drive growth going forward? And why?

A Building on our stable revenue base underpinned by gears and motors, we are further refining our inverter-centered drive system with the aim of creating value sustainably. Amid the growing momentum toward decarbonization and energy saving, control technology serves as a core element that addresses social issues and contributes to customer value. By systematizing our products and rolling out our services, we will strengthen our ability to adapt to the growing market and enhance corporate value over the medium to long term.

Q2 (DT) In competing with overseas manufacturers, what kind of strengths has the Company demonstrated and what kind of challenges is it facing?

A Our comprehensive in-house drive technology, covering gears, motors, and inverters, together with our highly reliable and durable products, has allowed us to build a stable installed base in the industrial space. Meanwhile, progress in decarbonization and automation has heightened the importance of system value, including control devices and software. By advancing to an inverter-centered drive system and strengthening our ability to expand globally, we will address social issues and drive corporate value over the medium to long term.

Q3 (DT) The profitability of the gear reducer business is on a recovery trend. What is your assessment of this situation? What are the key factors to sustain and further enhance the situation?

A We believe that the profitability of our gear reducer business improved not because of temporary market conditions or increased production, but rather as a result of an improvement in the quality of our business structure itself. Our initiatives—revising prices, consolidating and discontinuing model lineups, curbing fixed costs, and reducing costs—are beginning to produce combined effects, bringing us into a phase of reasonably sustainable improvement.

Q4 (AT) In the cryogenics business, what is your outlook for demand trends in the MRI and semiconductor space over the medium to long term?

A For the cryogenics business, demand is expected to grow over the medium to long term. Demand for MRI cryocoolers is expected to remain flat in developed countries, where replacement needs predominate. However, we anticipate growth in new markets, driven by local shortages of MRI systems and demand for low-helium systems. Demand for cryopumps and vacuum robots is projected to grow in the semiconductor field, where AI-driven demand has sustained front-end investment. In addition, growth in fields such as quantum technology and alternative energies like hydrogen is expected to generate medium- to long-term growth opportunities for cryocoolers, including those in the high-temperature range.

Business Opportunities and Strengths in Key Investment and Foundational Business Areas

	Key Investment Areas		Foundational Business Areas
	Electric and control/robotics and automation	Semiconductor and advanced technology components	Gear business
Strengths	● Modular system proposals 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
Business Opportunities	● Increased demand 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 ● Applications expanding for servo and high-efficiency motors ● Sales expansion to regions outside Europe	● Demand increases in new areas, including generative AI and power semiconductors, and accompanying changes in demand for each device ● Energy conservation ● Increased demand for precision positioning stages and vacuum robots, driven by acceleration of semiconductor miniaturization and three-dimensional packaging ● Demand increasing for energy- and helium- saving measures in medical systems	● Shift in market demand from component sales to system provision ● Strong demand for maintenance and repair of aging facilities ● Demand increasing for package modules and maintenance solutions ● Drop-in demand increasing, driven by increased end users in emerging markets

Industrial Machinery Segment

Senior Vice President
General Manager,
Industrial Machinery
Segment
Hiroyuki Tominaga

Message from Segment General Manager

The Industrial Machinery ("IM") Segment helps drive the value of the SHI Group through both strategic businesses that leverage cutting-edge technologies and core businesses that sustain stable profit. In growth areas such as Ion implanter and medical equipment, we will seek to maximize the value of our products and services by combining the high technological and service-proposal capabilities cultivated through our made-to-order products with our systems for quality, cost management, and after-sales service refined through mass-production models. We view the shift to the SBU structure as an opportunity to accelerate resource allocation and investment decisions across business units and to enhance our service businesses. In our core businesses, we will thoroughly streamline our product lineup and reinforce profit-and-loss management, while building a robust business foundation that generates stable revenue throughout the product lifecycle. In addition, by encouraging diverse talent to take on new challenges, we will drive sustainable growth and strengthen our competitiveness, thereby evolving into an even more appealing IM Segment.

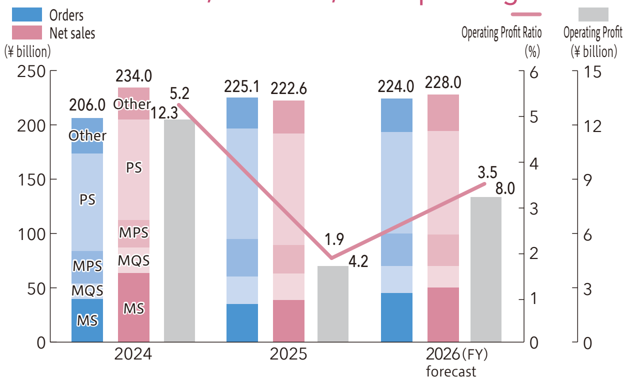
FY2025 Results

In FY2025, orders increased 9.3% year on year to ¥225.1 billion, driven by higher orders for plastics machinery and advanced medical devices. On the other hand, despite increased orders for plastics machinery, the lower order backlog for Ion implanter weighed on net sales, which came in at ¥222.6 billion, down 4.9% year on year. Operating profit fell 65.9% year on year to ¥4.2 billion, primarily due to lower sales of Ion implanter, and the operating profit ratio was 1.9%, down 3.3 percentage points year on year.

FY2026 Forecast

In FY2026, orders for Ion implanter are expected to increase 27.8% year on year, due to a partial resumption of customers' capital investment. However, assuming a reactionary decline in orders for plastics machinery, we project total orders to decrease slightly year on year to ¥224.0 billion. On the other hand, net sales are expected to reach ¥228.0 billion, up 2.4% year on year, driven primarily by increased orders for Ion implanter. Operating profit is projected to grow 90.5% year on year to ¥8.0 billion, driven by higher revenue as well as the restructuring of the plastics machinery business in Europe, among other factors, and the operating profit ratio to reach 3.5%, up 1.6 percentage points year on year.

Historical Orders, Net Sales, and Operating Profit



FY2025 Business Performance by SBU

MS-SBU [Ion implanter, laser annealing equipment]

Semiconductor manufacturing equipment (Ion implanter and laser annealing equipment) saw sluggish orders and sales both in Japan and overseas, due to delays in customer capital investment in the non-AI semiconductor field, particularly weak demand for power semiconductors.


Ion implanter

MQS-SBU [Medicine, advanced medical devices]

In advanced medical devices, we received orders for CyBeam No. 2, next-generation proton therapy systems and BNCT No. 5. Both orders and sales of superconducting magnet for MCZ decreased due to delayed recovery of wafer manufacturers.


BNCT

MPS-SBU [Forging presses, forging blades]

In blades for aircraft jet engines, both orders and sales performed well, underpinned by strong demand in the aircraft market. However, forging presses faced a slowdown in the EV market, and both orders and sales remained sluggish.

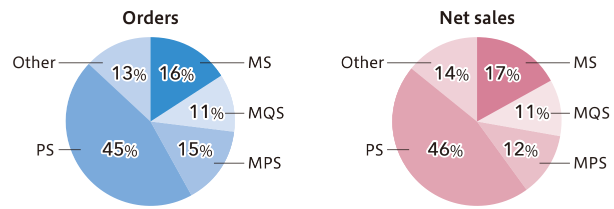

Engine blades

PS-SBU [Plastics machinery]

In plastics machinery, both orders and net sales in the Asian market—particularly the strong Chinese electrical and electronics market—recovered, whereas the European market faced sluggish demand due to the uncertain macroeconomic outlook.


Plastics machinery

Orders and Sales Mix by SBU (FY2025)



Business Strategies

In the Ion implanter business, we newly established the Semiconductor Business Development Dept. in January 2026. Through this department, we will increase production of laser annealing equipment and drive expansion into new areas such as memory and logic to grow the business. In the advanced medical devices business, we aim to further strengthen our competitiveness by winning orders for proton therapy systems and BNCT systems and by expanding the range of applicable areas. By enhancing our services across business units, we will work to reinforce the foundation for stable profit and improve our profitability.

● Ion implanter

Ion implanter for power semiconductors (SMS*)

✓ Complete high-temperature implantation technology

Next-generation Ion implanter (SMS*)

✓ Complete the development of equipment for the memory market and conduct customer evaluations

Laser annealing equipment (SMS-E*)

✓ Currently advancing bundled proposals with Ion implanter for major semiconductor customers in the Americas and Europe

*SMS: Sumitomo Heavy Industries Material Solutions Co., Ltd.
*SMS-E: Sumitomo (SHI) Material Solutions Europe SASU (formerly LASSE)

● Advanced medical devices

Proton Therapy Systems

✓ Secure orders for the next-generation proton therapy system CyBeam

BNCT systems

✓ Expand scope of application to deep-seated cancers through the next-generation high-current BNCT system

● Services

Plastics machinery

✓ Focus on modification sales deals
✓ Promotion of parts sales activities in Vietnam, Indonesia and China

Ion implanter (SMS)

✓ Establish a global service system

Advanced medical devices

✓ Strengthen service business for new orders, and increase major update and upgrade orders

Business Opportunities and Strengths 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	● Increase presence by introducing the next-generation proton therapy system CyBeam ● Introduce the BNCT system to overseas markets	● Advanced technology that reduces molding defect rates and save energy ● Strong organizational capabilities for helping customers solve problems
Business Opportunities	● 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	● Robust project pipeline mainly in Asia ● BNCT systems continue to command high levels of interest, and standards and guidelines are being established both in Japan and overseas.	● Increased demand for products that reduce weight of end products or contribute to achieving carbon neutrality ● Expansion of market opportunities due to progress in electrification

Investor FAQ

Q1 (MS-SBU) What are your key expansion and growth strategies for devices, semiconductor manufacturing processes, etc.?

A In addition to CIS, which has traditionally accounted for a large market share, we are introducing a variety of newly developed devices suited to each region in order to acquire new customers. We are also cross-selling Ion implanter and laser annealing equipment to expand our sales regions while deepening our market penetration through a range of devices.

Q2 (MQS-SBU) This is one of the key investment areas. Tell us about products that drive growth and their future outlook.

A As growth drivers, we are strengthening our BNCT (Boron Neutron Capture Therapy) systems and perovskite solar cell (PSC) coating equipment, which we are developing using our distinctive technology.

Q3 (MPS-SBU) What is the future outlook for your forging blades, one of your core products?

A For blades for aircraft jet engines, we expect annual growth of 5% or higher to continue, underpinned by the growing number of aircraft delivered, advancing engine performance, and innovation in materials technology, among other factors.

Q4 (PS-SBU) What are your strategies for Japan, China, Asia, and Europe?

A For Japan, we aim to enhance molding solutions through our system proposal capabilities. For China, where precision requirements for molded products in the electrical and electronics sector are rising, we will focus our efforts on high-margin markets. For Asia, we will strengthen our response to transplant demand from China in the electrical and electronics industry. For Europe, we will stimulate demand for high-end electric machines in the container and medical markets.

Logistics & Construction Segment

Director
Executive Vice President
General Manager, Ehime Works
General Manager, Logistics & Construction Segment

Haruhiko Tsuzuki

Message from Segment General Manager

Our mission is to continue delivering high value to our customers by incorporating our competitive motion control technology into our product lineup—providing high operability and fuel efficiency as well as safety and comfort—and by continuing to evolve our post-delivery services. Under our next medium-term management plan, we will clarify our target markets and then shift our business model from “selling machinery” to “delivering value and experiences through machinery.” In addition, we will position segments where we can expand the fan base for the SUMITOMO, HSC, and Link-Belt brands as key markets, and seek to maximize LTV (Life Time Value) in those markets. To that end, we aim to build a business structure that can consistently secure an operating profit ratio of 10% or higher by developing frameworks that incorporate SDV (Software Defined Vehicle)-like concepts and by changing our value proposition in line with customers’ priority challenges.

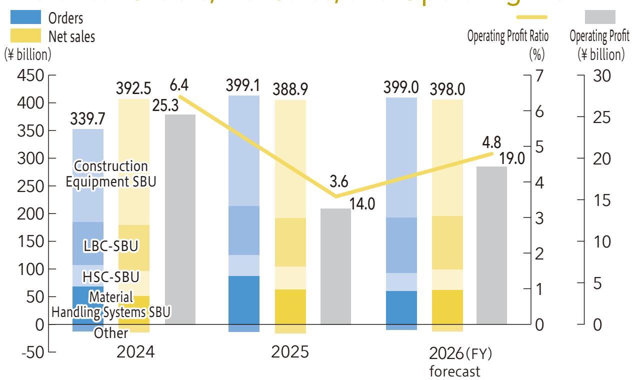
FY2025 Results

In FY2025, orders grew 17.5% year on year to ¥399.1 billion, fueled primarily by a last-minute surge in demand for hydraulic excavators ahead of price revisions in Japan and by higher orders for industrial cranes, mainly for the shipbuilding and steel industries. Meanwhile, despite revenue growth for industrial cranes—attributable to the fulfillment of the order backlog—the low order backlog for hydraulic excavators resulted in a slight year-on-year decrease to ¥388.9 billion. Operating profit was ¥14.0 billion, down 44.7% year on year, and the operating profit ratio was 3.6%, down 2.8 percentage points, due to lower revenue and a worsening product mix, among other factors.

FY2026 Forecast

For FY2026, orders are forecast at ¥399.0 billion, roughly in line with the previous year. While orders for hydraulic excavators and mobile cranes are expected to increase, the segment total partly reflects a reaction to the solid level of orders secured for industrial cranes in the previous fiscal year. That said, depending on future investment trends in shipbuilding cranes, results could exceed this forecast. Net sales are expected to grow 2.3% year on year to ¥398.0 billion, supported by an increase in orders for hydraulic excavators and mobile cranes. Operating profit is expected to grow 35.7% year on year to ¥19.0 billion, driven by higher revenue and the elimination of the recorded allowance for doubtful accounts. The operating profit ratio is forecast at 4.8%, up 1.2 percentage points.

Historical Orders, Net Sales, and Operating Profit



FY2025 Business Performance by SBU

Material Handling Systems SBU [Industrial cranes, logistics systems]

For industrial cranes, to meet the rising demand associated with the Japanese government’s goal of doubling shipbuilding output, we are working to maximize our crane production capacity. In logistics systems, we are steadily receiving orders for our automated storage system (Magic Rack).

Automatic Rubber Tired Gantry crane (ARTG)

HSC-SBU [Mobile cranes: HSC brand products]

Our mobile crane business, led by crawler cranes and earth drills, is facing delays and prolonged customer construction schedules. Under these circumstances, we are strengthening DX and services while advancing differentiation and improving profitability with a focus on high-value-added models that are well regarded by our customers.

Crawler crane

LBC-SBU [Mobile cranes: Link-Belt products]

In FY2025, both sales and orders grew for truck cranes equipped with telescopic booms and crawler cranes fitted with lattice booms, supported by strong demand in North America. By actively introducing new models and model-change units, we are advancing differentiation and strengthening our profitability.

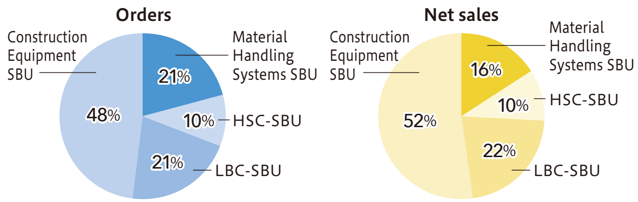
ATC

Construction Equipment SBU [Hydraulic excavators, road machinery]

Amid declining demand in Japan, our key market, and intensifying competition in North America, we are pursuing a wide range of initiatives—from revising prices to improve profitability, to strengthening our strategy for the European market, increasing orders and sales, and curbing fixed costs.

Electric excavators

Orders and Sales Mix by SBU (FY2025)



Business Strategies

To address social issues, we are developing and commercializing advanced technologies, including electrification, remote control, automation, and DX.

In the robotics/automation field, we are developing differentiated products such as electric excavators for carbon neutrality and ARTGs for remote control and automation.

In the service field, 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

Electric excavators

✓ We developed a 13.5-ton electric excavator, the "135e," and exhibited a demonstration unit at the International Construction & Survey Productivity Improvement Expo (June 2025, Makuhari Messe).

ARTG: Automatic Rubber Tired Gantry crane

✓ We delivered FC fuel-replacement-type ARTGs—featuring automation products that include manned truck transfer—to the Port of Tokyo, where they are now in operation.

Services

Large cranes

✓ "SIRMS®" is a highly scalable system used to improve the productivity of large cranes through our DX solution for the shipbuilding industry (SHICuTe, a cloud platform dedicated to the Sumitomo Heavy Industries Group). The cumulative number of large cranes equipped with SIRMS® has grown to 56 units, helping enhance productivity in the shipbuilding industry as part of efforts to revitalize shipbuilding in Japan.

Business Opportunities and Strengths 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
Business Opportunities	●Significant demand for carbon neutrality-related measures ●Increased demand for productivity improvement, safety, and labor saving ●Government support for use and purchase of electric and ICT construction machinery ●Evolution of battery technology	●Domestic demand remains resilient. ●North American demand remains strong, but could soften depending on the policy direction of the current administration ●Improving construction safety, cost reduction, labor shortages, aging population, demand for shorter construction periods ●Acceleration in carbon neutrality efforts by general contractors	●Growing demand for shipbuilding cranes in line with the shipbuilding industry revitalization roadmap ●Sustained demand for upgrading industrial cranes ●Demand for improving logistics efficiency remains solid ●Accelerated carbon neutrality efforts (shift to electric furnaces and renewable energy sources) ●Diversified needs resulting from declining workforce (automation, working environment improvement, etc.)

Investor FAQ

Q1 How will you meet robust crane demand driven by the efforts to reinforce the Japanese shipbuilding industry?

A We are making full use of the SHI Group's development and production functions and sites for large steel structures, such as the Saijo Plant, located adjacent to our manufacturing site in Niihama City, Ehime Prefecture. By doing so, we are conducting various case studies to meet expectations for revitalizing the shipbuilding industry under the initiative of the Japanese government.

Q2 How do you assess the future outlook for hydraulic excavators and mobile cranes in the North American market?

A Despite such issues as tariffs and high interest rates, the North American market has significant potential for medium- to long-term growth, and we also expect local crane demand to increase in public and essential infrastructure development as well as in the oil and gas market. In anticipation of rising demand, we are advancing sales partnerships with our local subsidiaries and developing a stable product supply system.

Q3 Which areas are you currently focusing your capital expenditure and R&D investments on? How is the development of ICT construction machinery going?

A We are focusing our capital and development investments in solutions such as electrification, remote control, and automation. For ICT construction machinery, we are conducting joint R&D on remote-controlled and autonomous excavators with the Technology Research Center. Meanwhile, we have already introduced to the Japanese market a new ICT construction unit with improved efficiency and safety.

Q4 Given your relatively small business scale compared with competitors, what do you see as the strengths and characteristics of your hydraulic excavators?

A In our hydraulic excavator business, we are improving production and sales efficiency by focusing on the 20-ton class, the mainstream segment. Our products are highly rated for their safety and energy-saving performance.

Energy & Lifeline Segment

Representative Director
Senior Executive Vice President
General Manager, Export Administration Dept.
General Manager, Energy & Lifeline Segment

Tatsuro Araki

Message from Segment General Manager

The E&L Segment operates a range of businesses that support society and industrial infrastructure plants, including highly efficient energy plants, water treatment facilities, chemical equipment, and food machinery.

We are currently facing rapidly evolving needs for decarbonization, resource recycling, and alternative energy to address global climate risk and economic security concerns. Viewing these changes as growth opportunities, we are advancing growth strategies across our SBUs, with the core themes of "carbon-neutral energy" and "resource recycling." Specifically, in addition to the real-world implementation of new technologies that support power storage and SAF (sustainable aviation fuel) production, we are combining advanced water-treatment and process technologies to help reduce negative environmental impact and build a clean industrial foundation.

Through robust engineering capabilities and continuous innovation, we will drive corporate value over the medium to long term while living in harmony with the environment in a sustainable manner.

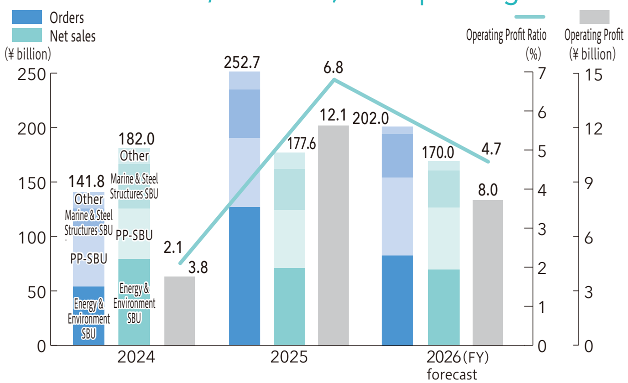
FY2025 Results

Orders for FY2025 significantly exceeded the previous year's result, increasing 78.2% year on year to ¥252.7 billion. This strong performance was driven by orders for large biomass power generation facilities in Japan and by growth in the water treatment business. However, net sales decreased 2.4% year on year to ¥177.6 billion, primarily due to a low order backlog for biomass power generation facilities. Despite the revenue decline, operating profit grew about 3.2 times year on year to ¥12.1 billion, and the operating profit ratio rose 4.7 percentage points year on year to 6.8%, supported by improved project profitability, reduced development costs for Liquid Air Energy Storage (LAES) systems, and the enhancement of our service business.

FY2026 Forecast

In FY2026, orders for process plants are projected to grow, but the segment total is forecast at ¥202.0 billion, down 20.1%, a reaction to the major deals secured in the previous year. Net sales are expected to decrease 4.3% year on year to ¥170.0 billion, primarily due to the divestiture of our steam turbine and process pump businesses. Operating profit, weighed down by the business divestiture and the revenue decline, is forecast at ¥8.0 billion, down 33.9% year on year, and the operating profit ratio at 4.7%, down 2.1 percentage points year on year.

Historical Orders, Net Sales, and Operating Profit



FY2025 Business Performance by SBU

Energy & Environment SBU [Boilers, renewable energy, resource recycling]

Orders were ¥127.6 billion, up ¥73.3 billion year on year, as we offset delays in overseas deals with major domestic deals. Net sales were broadly in line with the plan, and operating profit came in above the plan, owing to improved profitability of the service business and reduced fixed costs. We also fulfilled our first TMU (major modification) order, which helped further solidify our revenue base.

CFB Boilers (Circulating Fluidized Bed Boilers)

PP-SBU [Water treatment plants, chemical equipment, food machinery]

In the water treatment business, we saw a surge in orders across the public sector and the industrial wastewater field, and performance in process and food machinery remained robust. As a result, orders for the SBU reached ¥63.7 billion, up ¥13.1 billion year on year. Net sales also increased, and operating profit grew, driven partly by improved profitability across the product and service businesses.

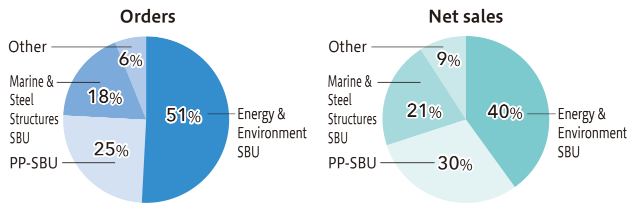
Sludge scrapers

Marine & Steel Structures SBU [Ship-related engineering, large steel structures]

Orders reached ¥40.0 billion, up ¥23.7 billion year on year, supported by solid demand for ship repair work and orders for mega-blocks, training vessels, and the like. However, despite an improvement in product profitability, net sales and operating profit came in below the previous year's results, affected by delays in closing major deals at our consolidated subsidiaries.

Offshore Wind Power Generation

Orders and Sales Mix by SBU (FY2025)



Business Strategies

As part of our efforts to strengthen our service business, we will reinforce traditional services such as basic maintenance and operation management while enhancing decarbonization proposals, including modifications to support boiler fuel conversion.

In our renewable energy promotion business, we will advance the development of a commercialization model, using the start of commercial demonstration operation of a LAES unit as a catalyst. We will also continue strengthening our production system in preparation for the mass production of Offshore Wind Foundations.

● Energy plants (boilers)

✓ Services

We seek to strengthen our operation management and maintenance business, as well as repair proposals for delivered boilers, while working to expand the scope of our periodic inspection services covering both in-house and third-party boilers. In addition, we aim to uncover demand for major modification services, such as fuel-conversion modifications, for customers that own fossil-fuel boilers.

✓ Gasification technology

We have decided to join NEDO's Development Project for Stable and Efficient Production Technologies of Sustainable Aviation Fuel (SAF), together with United Purpose Management Inc. and the Japan Carbon Frontier Organization. In addition to gasification, we are currently building a process for decentralized SAF production technology for local production and consumption. This technology uses FT synthesis technology, which produces liquid fuels from hydrogen and carbon monoxide.

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

✓ LAES

We have completed a demonstration plant at a facility of Hiroshima Gas Co., Ltd. The plant's pilot operation has also been completed. We are continuing demonstration operation with the aim of starting commercial demonstration runs in FY2027. We are currently considering feasibility studies (FS) with multiple users with the aim of winning the Long-Term Decarbonization Auction.

✓ Laying the groundwork to mass-produce foundation structures for Offshore Wind Foundations.

While generating synergies by combining capabilities within the segment, we are advancing the reinforcement and development of production systems for mass-producing foundation structures.

Business Opportunities and Strengths in Key Investment and Foundational Business Areas

	Key Investment Areas		Foundational Business Areas
	Carbon neutrality business	Renewable energy promotion business	Power boilers, water treatment, chemical machinery, food machinery
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		
Business Opportunities	● There is a notable trend for stepping up decarbonization policies prompted by climate change risks. ● Energy security requirements are increasing the need for renewable energy promotion and alternative energy. ● Technology development and infrastructure building for capturing and utilizing CO_2 are progressing.	● Policies and public-private funding programs are being advanced to encourage 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 unstable. ● Although market conditions for boilers, both in Japan and overseas, remain challenging, the Japanese biomass boiler market is expected to recover, underpinned by continued support through the Long-Term Decarbonization Capacity Auction.

Investor FAQ

Q1 For LAES, how is the business modeling progressing, and what is your outlook for commercialization?

A In December 2025, we completed the demonstration plant, and are currently at the demonstration stage. We are not yet at a phase where revenue is expected in the near future, but we are considering feasibility studies (FS) with multiple users. Under our next MTMP, we will ramp up our sales activities, with the aim of achieving gradual revenue generation by 2030.

Q2 For your foundation structure business for offshore wind power, how do you assess market trends, and how will you expand the business?

A The offshore wind power market is expected to grow over the medium to long term, but we recognize that it is taking time to gain momentum. After closely monitoring market trends, we recognized that we were at the stage of developing technology and planning production systems, and we launched a dedicated organization to commercialize foundation structures for offshore wind power generation facilities. By strengthening our sales capabilities to deepen collaboration with companies across our supply chain, we plan to develop a production system in anticipation of starting mass production from 2030 onward.

Q3 What are the growth opportunities and further measures to improve profitability in the water treatment plant business?

A The water treatment plant business is expected to enjoy continued demand for essential infrastructure both from the public and private sectors, making it one of our stable business bases. While introducing new products featuring our latest technologies—such as BIOIMPACT-AC, launched in August 2025—we will combine various service elements such as maintenance and operation support to drive both growth and profitability. We will also take active measures to capture demand for new applications, such as semiconductor manufacturing processes.

Sustainability-oriented Management

Basic Concept

The SHI Group is committed to sustainability-oriented management with the focus on stakeholders. The Board of Directors resolves on our basic sustainability policy and seven material issues of sustainability ("Material Issues"). The Sustainability Committee deliberates on plans and issues concerning sustainability promotion and reports them to the Board of Directors. By addressing the Material Issues under this governance system, we aim to contribute to the creation of a sustainable society and retain the trust of stakeholders.

FY2025 Achievements and Challenges, Actions for FY2026

In FY2025, the Sustainability Committee continued to report and deliberate on our actions to preserve biodiversity and address climate change, and our measures such as human rights due diligence and their progress, in addition to our efforts to meet ESG rating agencies' requirements and preparation for statutory disclosure. The Board of Directors and the Sustainability Committee will take the lead in setting goals related to the Material Issues and ensuring the effective management of their progress.

Management Structure

The General Manager of the Corporate Global Strategy Group oversees the SHI Group's actions for sustainability. The Sustainability Committee deliberates on and monitors initiatives to address Material Issues from a medium- to long-term perspective to serve as the primary driver to implement the Group's sustainability strategies. We have also set up a carbon neutrality project and a human rights risk project (please see "Management Structure" in "Respect for Human Rights" on page 59) to achieve carbon neutrality and to establish human rights management, respectively, and have been working to reach the objectives.

Committee Chair	Representative Director, President and CEO
Members	11 (Vice Presidents in charge of the Head Office, General Managers of the segments, General Manager of the Sustainability Dept. of the Corporate Global Strategy Group)
Observers	2 (Standing Corporate Auditors)
Frequency	Twice a year
Key Areas of Deliberation in FY2025	- Actions for sustainability promotion and statutory disclosure (policy and framework, areas for improvement and progress made) - Actions to address climate change (measures to reduce CO_2 and their outcomes) - Business and actions to protect human rights (reports on human rights due diligence plans and investigation findings) - Actions to preserve biodiversity (risk and opportunity assessments)

Promotion Activities

The Sustainability Dept. leads our activities to establish the Material Issues (page 13) and sustainability-oriented management.

Sustainability Regular Meeting: Divisions involved in sustainability promotion attend this interdepartmental meeting to share information and discuss issues.

Meetings of General Managers (organized by the Head Office divisions): Progress on the Material Issues is reported at the Meetings of General Managers of Development, Design, Production, Quality Assurance, and Environmental Management Departments; Meetings of Procurement Managers; Meetings of Safety Managers; and Meetings of General Administration GL, among others, as necessary.

Public Relations and Sustainability Committee: Committee members from the Strategic Business Units, subsidiaries and affiliates, and works drive campaigns to raise awareness of and establish sustainability-oriented management at their organizations. They also engage in interdepartmental information exchanges. (Please visit our website for the details of our promotion activities and internal campaigns: https://www.shi.co.jp/english/csr/group/index.html)

Risk Management

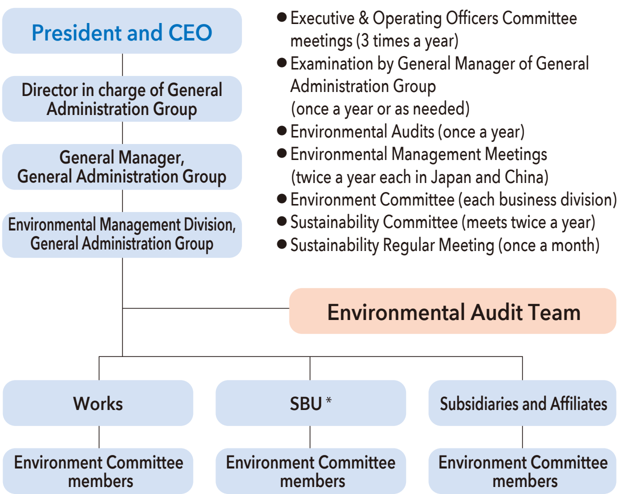
Sustainability-related risks are managed under the SHI Group's risk management structure ("Risk Management" on page 69). Among these risks are climate risks and human rights-related risks. The Sustainability Committee deliberates on and reports on these risks to the Board of Directors.

Environmental Initiatives

Addressing global environmental issues, including climate change, is the responsibility of the SHI Group, which engages in business activities on a global scale. As our business is founded on the provision of industrial machinery to support our customers' production activities, we believe that improving the environmental performance of our products and services will contribute to the realization of a decarbonized society and enhance the competitiveness of our products. In view of this, we are working on environmental initiatives in line with the Sumitomo Heavy Industries Group Environmental Policy through a two-pronged approach that includes reducing the negative environmental impact of our business activities and improving the environmental performance of our products.

Structure

Management of SHI Group-wide environmental activities is implemented by the General Manager of the General Administration Group and the Environmental Management Division under the supervision of the Director in charge of the General Administration Internal environmental audits are conducted in conjunction with on-site reviews to verify the status of environmental management at all manufacturing sites, including those operated by affiliated companies. The results of these activities are reported, and any identified issues are shared across the Group.



* Strategic Business Unit

Medium-Term Environmental Plan

We formulated the 7th Medium-Term Environmental Plan (FY2024 to FY2026) as a medium-term implementation plan for environmental management. Under this plan, we are addressing three priority issues: (1) reduction of total CO_2 emissions, (2) enhancement of environmental management, and (3) reduction of environmental impact in business activities. These targets have been largely achieved, and we will continue strengthening Group-wide activities.

Key issues	● Reduction of total CO_2 emissions ● Enhancement of environmental management ● Reduction of environmental impact in business activities

Index	Item	FY2025		
		Targets	Results	Ratings
Environmental management	Number of serious environmental accidents	Zero	0	✓
Addressing climate change	Total CO_2 emissions	Annual reduction equivalent to 1% of FY2019 emissions	1.3% reduction (Japan) 5.6% increase (overseas)	✓ ×
Reducing environmental impacts	Reduction of water consumption (Japan)	At or below the average for FY2020-2023	1.2% reduction (Japan)	✓
	Reduction of water consumption intensity (overseas)		10.6% reduction (overseas)	✓

Third-Party Assurance of Environmental Impact Data

To enhance the reliability of its environmental impact data, the SHI Group has obtained a third-party assurance from Bureau Veritas Japan, Inc.

Data covered: The following environmental data for the period from January 1, 2025, to December 31, 2025:

- Energy used by the Group through business activities: 31 sites in Japan and 47 overseas sites
- Water usage by the Group through business activities: 14 sites in Japan and 44 sites overseas
- Water discharged by the Group through business activities: 14 sites in Japan
- Scope 1 and Scope 2 greenhouse gas emissions (CO_2 emissions from energy use)
- Scope 3 greenhouse gas emissions (Category 1, 2, 3, 4, 5, 6, 7, and 11)*

* Calculated based on the Company's rules

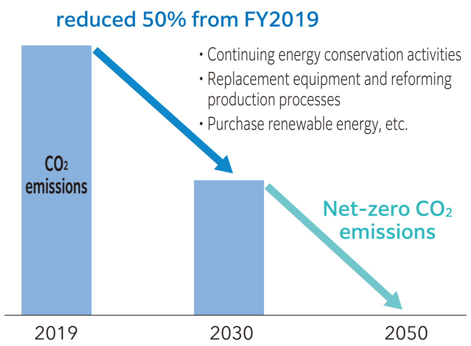
Addressing Climate Change Risks

In May 2022, the SHI Group's Board of Directors adopted a target of achieving carbon neutrality, defined as net-zero CO_2 emissions across the Group, by 2050. The Group also established an interim emissions reduction target for 2030 and is implementing specific initiatives to achieve these targets.

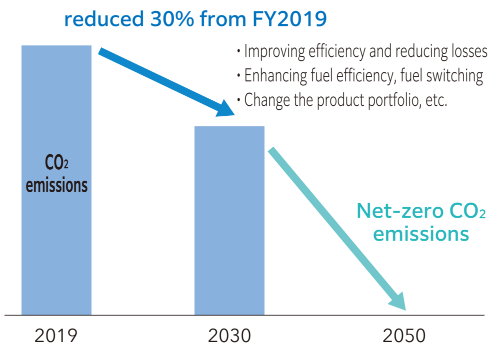
SHI Group's Carbon Neutrality Targets

- Aim to achieve carbon neutrality throughout the entire SHI Group by 2050
- CO_2 emissions during product manufacturing (Scopes 1 and 2) ⇒ 50% reduction by 2030 (compared to FY2019)
- CO_2 emissions during product use (Scope 3, Category 11) ⇒ 30% reduction by 2030 (compared to FY2019)

CO_2 Emissions Reduction Targets During Product Manufacturing



CO_2 Emissions Reduction Targets During Products Use



SBTi Validation

In February 2026, SBTi Services validated the SHI Group's reduction targets by 2030.

The validated near-term targets we have set are as shown below.

(The base year is FY2019 for both targets.)

- Reduce absolute Scope 1 and 2 GHG emissions 50.0% by 2030
- Reduce absolute GHG emissions by 30% by 2030. The target covers Category 11, use of sold products.

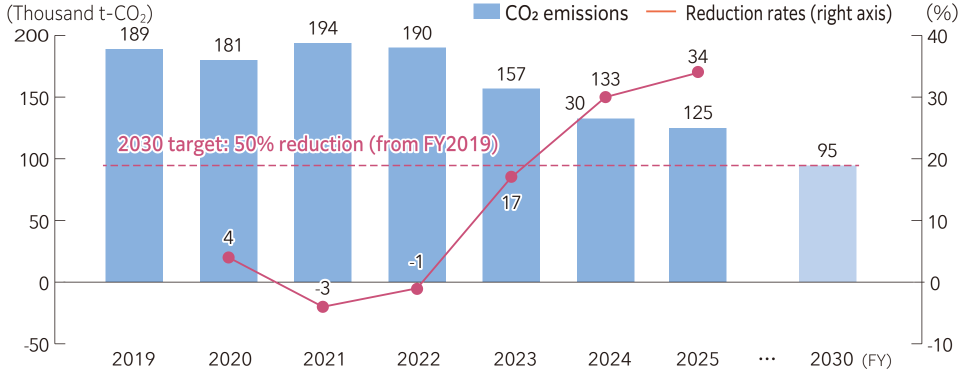
SCIENCE BASED TARGETS

Reducing CO_2 Emissions (Scope 1 and 2)

In FY2025, CO_2 emissions totaled 125,000 t-CO_2 (34% reduction compared to FY2019) as a result of the continued implementation of existing energy-saving measures, the installation of solar power generation facilities, and the purchase of renewable electricity.

Index	Unit	Base year (2019)	FY2023	FY2024	FY2025
CO_2 emissions during manufacturing (Scope1 and 2)	Thousand t-CO_2	189	157	133	125

Trends in CO_2 Emissions



Cross-Group Initiatives

The Carbon Neutral Project launched in January 2025 works to meet Group-wide challenge of achieving carbon neutrality.

In FY2025, the project focused primarily on the following initiatives:

- CO_2 emissions data visualization: Exploring the introduction of a calculation system and ways to improve calculation
- Target setting and disclosure: Obtaining SBTi validation
- Product-related initiatives: Incorporating eco-design criteria into the Quality Management System (QMS) and expanding the calculation of avoided emissions

We will continue to raise awareness of climate change across our business divisions and accelerate our efforts to achieve our targets.

Initiatives to Reduce CO_2 Emissions

The SHI Group plans to increase the share of renewable energy in our electricity procurement to achieve our emissions reduction targets.

● Installation of Solar Power Generation Facilities

We aim to install solar power generation facilities with an expected combined annual output of 40 GWh by 2030. Under MTMP26, we plan to invest ¥3.0 billion in these facilities.

● Purchase of Renewable Electricity

To achieve its emissions reduction targets, the SHI Group is systematically expanding its procurement of renewable electricity worldwide. In FY2025, we purchased 105 GWh of such electricity, bringing the share of renewable electricity, including electricity generated by its solar power systems, to 39%.

In April 2026, Sumitomo Heavy Industries Modern, Ltd. established a scheme to share surplus electricity within the Group, in addition to installing solar power systems for on-site consumption and balancing the supply and demand of renewable electricity. Through these initiatives, the company became the first manufacturing site in the SHI Group to achieve net-zero CO_2 emissions associated with electricity use.

Furthermore, on April 1, 2026, the company joined the Japan Climate Leaders' Partnership (JCLP), a coalition committed to achieving a sustainable decarbonized society, as a supporting member.

Reducing CO_2 Emissions during Product Use (Scope 3, Category 11)

In FY2025, the CO_2 emissions during product use (Scope 3, Category 11) totaled 113 million t-CO_2.

Emissions had declined significantly since 2020, due to a decrease in deliveries of coal-fired boilers. In FY2025, however, two coal-fired boilers were delivered.

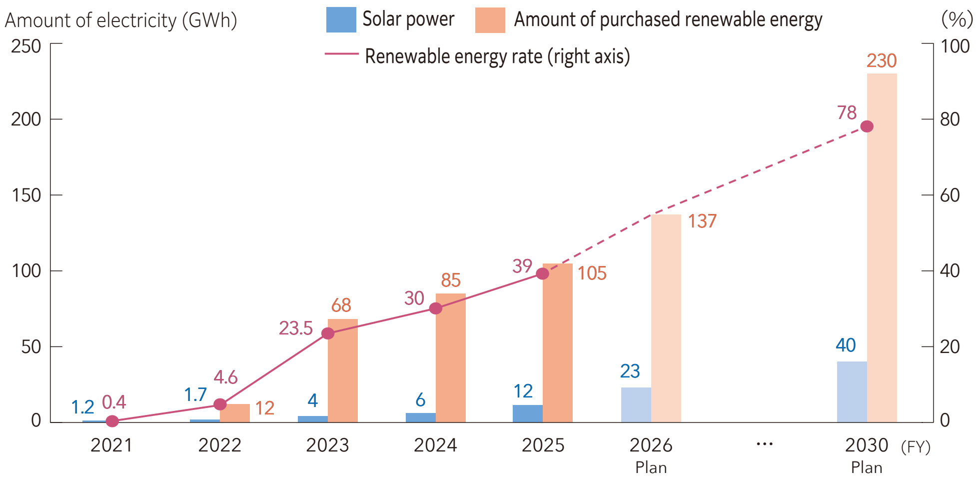
Comment from the Energy & Lifeline Segment

In FY2025, we received an order for coal-fired boiler design support services in the Philippines. Following this order, the SHI Group adopted a policy of restricting the acceptance of new orders related to coal-fired boilers.

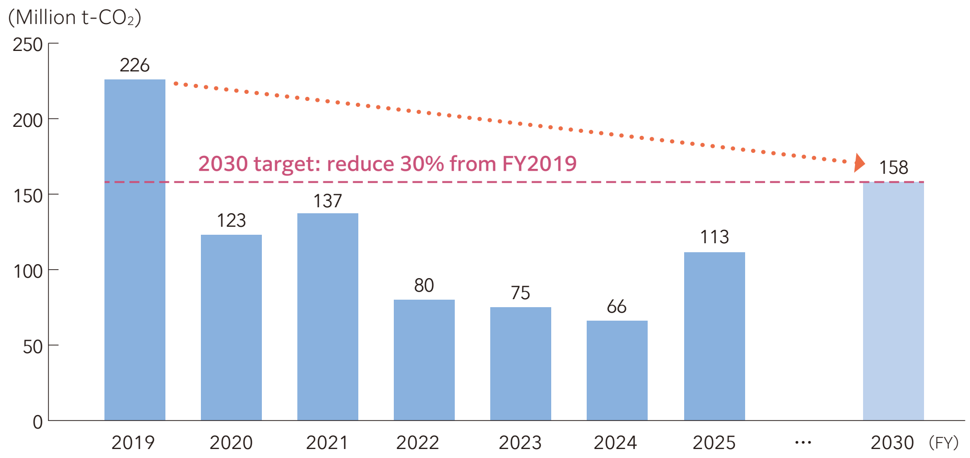
We will continue our services to propose conversion geared to reduce the use of coal to zero or to cut the co-firing ratio in the future, in addition to design support for orders that our subsidiaries and affiliates receive as licensees.

We anticipate an increase in our CO_2 emissions toward 2030 because of our business growth. We will continue developing products that contribute to a decarbonized society.

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



CO_2 Emissions Reduction Status (Scope 3, Category 11)



Avoided Emissions

Since 2014, the SHI Group has been working to realize a low-carbon society by reducing CO_2 emissions during product use. In addition to continuing discussions about avoided emissions* during deliberation on development issues, we also established the CO_2 Reduction Award as a new category of the President's Award in FY2026 and began inviting submissions from across the Group for products that help avoid emissions and initiatives that reduce emissions from manufacturing processes.

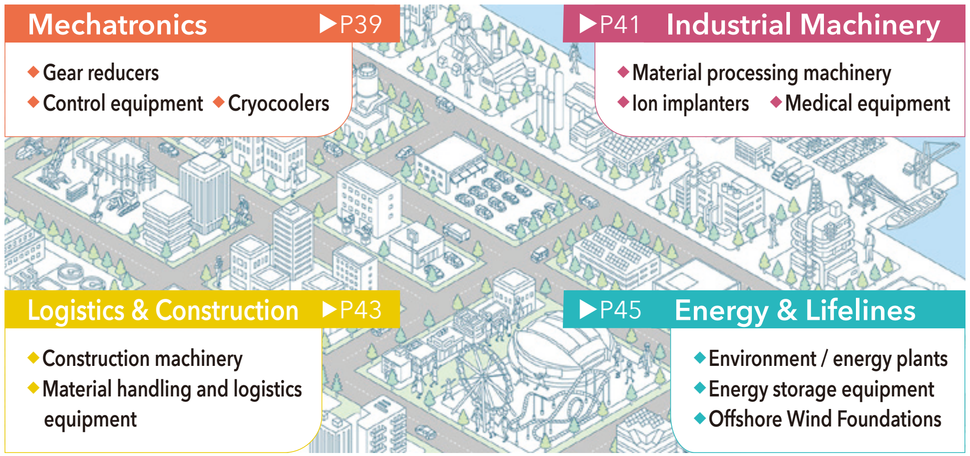
We will leverage the technologies developed over many years to enhance product competitiveness while working toward achieving our Scope 3 target.

*Avoided emissions calculated using the flow method

SBU	Descriptions	FY2025	Calculated
Drive Technologies	Shift to high-efficiency motors and other technologies	2,556,000 t-CO_2	Avoided emissions during the use of applicable products sold in FY2025 through the adoption of high-efficiency motors
Energy & Environment	Fuel conversion through major boiler retrofits	2,532,000 t-CO_2	Avoided emissions from boiler retrofit projects recognized as revenue in FY2025, based on continued coal-fired operation over the boilers' remaining useful lives
Process Plant	Avoided emissions through energy-saving products	84,000 t-CO_2	Avoided emissions during the use of applicable products sold in FY2025, calculated in comparison with the corresponding baseline products
Total		**5,172,000 t-CO_2**	

Contributing to the Environment Through Our Business

The SHI Group contributes to the realization of a carbon-neutral society by providing products and services. (▶P7 "Our Products to Support Society")



Information Disclosure based on the TCFD Recommendations

In October 2021, the SHI Group endorsed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Accordingly, we report the disclosure items recommended by the task force as follows.

Governance (▶ P47 "Sustainability-oriented Management")

We have established the Sustainability Committee, reporting directly to the President and CEO, to promote related initiatives under the supervision of the Board of Directors.

Strategies

Climate change may have a significant impact on the SHI Group's business activities. We therefore analyzed risks and opportunities under the following two scenarios:
(1) 1.5°C scenario: a world in which climate action is taken and temperature rise is limited
(2) 4°C scenario: a world in which effective climate action is not taken and temperatures continue to rise

Definition	
High	Serious impact on business, requiring a review of business strategy
Medium	Limited impact on business, requiring future action
Low	Minimal impact on business

Period	
Short- term	Through 2026 (final year of the MTMP26)
Medium-term	Through 2030 (interim carbon neutrality target)
Long- term	Through 2050 (final carbon neutrality target)

Risk Management (▶ P69 "Risk Management")

Climate-related risks are managed through the Group-wide risk management process.

Metrics and Targets (▶ P49 "Addressing Climate Change Risks")

Through efforts to meet the three targets, we aim to contribute to achieving carbon neutrality.

Scenarios (risks and opportunities)		Description	Impact Level	Period			Major Initiatives
				Short-term	Medium	Long-term	
1.5℃	Risks	**[Higher electricity and renewable energy prices]** Rising electricity and renewable energy prices increase production costs	High		●	●	• Increase the efficiency of production, transportation, etc. • Promote energy and resource conservation
		[Carbon tax] Higher carbon taxes increase the tax burden on subsidiaries and affiliates in Japan and overseas	Medium	●	●	●	• Improve efficiency in production and transportation and promote energy and resource conservation • Introduce internal carbon pricing to promote energy-saving capital investment and purchase renewable energy to facilitate decarbonization
		[Higher development costs and delays in technology development] Delays in technology development lead to increased costs, reduced sales, and lower profits	High	●	●	●	• Accelerate collaboration within the Group and restructure businesses, including by establishing development centers • Standardize technologies to facilitate development
		[Rising in raw material costs] Higher raw material procurement and manufacturing costs erode price competitiveness	High	●	●	●	• Promote energy and resource conservation • Strengthen profitability by consolidating models and revising pricing
	Opportunities	**[Mechatronics]** Electrification of customers' production equipment; rising demand for energy-saving, high-efficiency products; and growing demand for precision positioning equipment and vacuum robots, driven by semiconductor miniaturization and advances in 3D packaging	Low	●	●	●	• Expand sales territories and strengthen production and supply capacity in each market • Expand application-specific sales, maintain our competitive edge, and strengthen profitability • Strengthen the installed-base business
		[Mechatronics] Rising demand for energy-efficient and helium-saving cryogenic and superconducting technologies	Low	●	●	●	• Accelerate the development of next-generation models and make effective use of the US assessment and development center • Maintain competitive edge by expanding sales of energy-efficient refrigeration systems and accelerated cooling solutions for low-helium applications
		[IM] Expansion of applicable models through the development of new materials and processes, and increased demand driven by process development and process advancement with leading global customers	Low	●	●	●	• Strengthen competitiveness by developing differentiated products • Create synergies through business integration and enhance global operations • Consolidate models and reform business processes
		[IM] Rising demand for products that reduce the weight of end products or contribute to carbon neutrality, along with market growth driven by increased electrification	Low	●	●	●	• Keep the development of the next flagship models on schedule • Improve profitability through business restructuring
		[L&C] Electrification of construction machinery and logistics systems; government support for electric and ICT construction machinery; advances in battery technology; accelerating carbon-neutrality efforts; and investment in forest resources	Medium		●	●	• Achieve differentiation and improve profitability through introduction of new models • Promote the development of standardized technologies for electrification, remote control, automation, and DX, and establish a development center
		[L&C] Increased demand for higher productivity, improved safety, and labor-saving solutions, including automation and improvements to the work environment	Medium	●	●	●	• Increase the added value of services through DX • Enhance production capacity • Promote the development of standardized technologies (electrification/remote, automation/DX) and establish a development center
		[E&L] Expansion of the biomass power generation, energy conversion, and energy storage markets **[E&L]** Development of biomass fuels	High		●	●	• Demonstrate CO_2 separation and capture, and carbon-negative technologies • Develop LAES business models, and advance proposals for existing boilers' fuel switching and conversion • Strengthen the service business through closer coordination within the segment and increased resources • Establish CCU and gasification technologies • Participate in studies on regional collaborative carbon management projects
4.0℃	Risks	**[Damage and relocation of manufacturing sites and supply chains]** Costs associated with restoring equipment damaged by increasingly severe natural disasters and relocating facilities due to impacts such as sea-level rise **[Rising raw material costs, procurement difficulties]** Higher raw material procurement and manufacturing costs erode price competitiveness	High		●	●	• Enhance business continuity plans (BCPs) for manufacturing sites and supply chains
	Opportunities	**[L&C]** Machinery and equipment for disaster recovery	Low	●	●	●	• Develop high-value-added products and brands differentiated by performance and quality • Provide responsive, high-value-added services
		[E&L] Growing demand for resilient public infrastructure and facilities	Medium		●	●	• Operation and maintenance services leveraging accumulated expertise

Initiatives for Biodiversity Conservation and Natural Capital

In accordance with the SHI Group Environmental Policy, we conduct environmental management activities that respect biodiversity. In line with the recommendations of the TNFD*, we disclose information on our dependencies and impacts on biodiversity and natural capital.

*The Taskforce on Nature-related Financial Disclosures (TNFD) provides a framework for companies and other organizations to assess and disclose the impacts of their economic activities on the natural environment and biodiversity.

Understanding Our Relationship with Nature Using ENCORE

We selected key businesses from each of our four business segments and used ENCORE to analyze processes related to the main raw materials used in procurement activities (upstream). For manufacturing activities (direct operations), we analyzed business processes and selected multiple manufacturing processes considered to have relatively high environmental impacts.

● Dependencies on Nature

The analysis found that the Group's key businesses generally do not have a high level of dependency on nature.

● Impacts on Nature

"Emissions of toxic pollutants to water and soil" was rated "Very High," indicating that emissions of chemicals, heavy metals, and other substances from manufacturing processes could have significant impacts on soil and water quality. "Emissions of non-GHG air pollutants" was rated "High," indicating the potential impacts of emissions of NOx, SOx, dust, and other air pollutants. Based on these results, we decided to conduct a separate analysis of water-related risks.

Our Key Businesses' Dependencies and Impacts on Nature

			Dependencies on nature							Impacts on nature					
Segment	Key Businesses	Tier in the supply chain	Solid waste remediation	Soil and sediment retention	Water purification	Flood mitigation	Global climate regulation	Water supply	Storm mitigation	Disturbances (noise, light, etc.)	GHG emissions	Emissions of non-GHG air pollutants	Emissions of toxic substances into soil and water	Generation and release of solid waste	Volume of water use
Mechatronics	Gearmotors, gear reducers, precision control actuators	Procurement	M	L	M	M	VL	M	M	M	L	L	VH	L	M
		Manufacturing	M	L	M	M	VL	M	M	M	M	H	VH	L	M
IM	Molding machines, Medical equipment, Ion implanter	Procurement	M	L	M	M	VL	M	M	M	L	L	VH	L	M
		Manufacturing	M	L	M	M	VL	M	M	M	M	H	VH	L	M
L&C	Construction machinery	Procurement	M	L	M	M	VL	M	M	M	L	L	VH	L	M
		Manufacturing	M	L	M	M	VL	M	M	M	L	L	VH	L	M
E&L	Boilers	Procurement	L	L	M	M	VL	M	M	M	L	L	M	L	M
		Manufacturing	L	L	M	M	VL	M	M	M	L	L	M	L	M

Legend VL : Very Low, L : Low, M : Medium, H : High, VH : Very High

Results of Site-Specific Water Risk Assessments and Future Initiatives

We assessed water risks at 57 manufacturing sites in Japan and overseas using Aqueduct, a tool provided by the World Resources Institute.

Five manufacturing sites were rated "Extremely High" for "Overall water risk." We conducted site-specific assessments at a total of seven sites, comprising these five sites and two additional sites in Japan with high water use.

(For details of the assessment results for each item, please visit our corporate website.: https://www.shi.co.jp/english/csr/environment/biodiversity/index.html)

● Future Initiatives

For manufacturing sites rated "High" or below for "Overall water risk," we will continue to identify water risks at all manufacturing sites using questionnaires as part of our FY2026 environmental audits.

In addition, as part of our supply chain engagement activities in 2026, we plan to add biodiversity-related items and conduct interviews during on-site visits.

Aqueduct Results Following Site-Specific Assessments

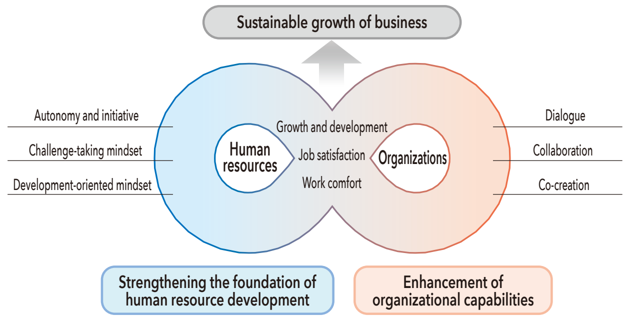
Country	Site	Physical risks (quantity)			Physical risks (quality)		Regulatory and reputational risks	
		Water stress (total water demand)	Flood risks (riverine)	Flood risks (coastal)	Untreated wastewater	Eutrophication	Drinking water	Sanitation
Indonesia	A	△	×→○				△	△→○
Italy	B	×				×→○		
	C	×				×→○		
Japan	D	△		△→○		×→○		
	E	△		△		×		
China	F	×	△→○	△→○	△→○			×→○
	G	×	△→○	△→○	△→○			×→○

Legend: ○: Low, △: Medium-High, ×: Extremely High

Our Human Resource Strategy

The SHI Group is keenly aware of the significance of aligning its management strategies and human resource strategies. We maintain that human resources are our greatest assets, and that the sustainable growth of a business is rooted in the growth and development of both individuals and organizations. Hence, human resources are at the core of our business management and operations. As the figure on the right shows, a stronger foundation for human resource development and enhanced organizational capabilities are central to our human resource strategy. We continue to focus on these pivotal elements as we work toward the transition to an environment and corporate culture where individuals and the organization grow and prosper together.

Guided by this set of principles, we offer educational opportunities to facilitate the growth of each employee's skills and uniqueness, make organizational changes to enable diverse talent with different values and experiences to pursue successful careers, and provide the workplace environment that serves as the foundation for achieving the growth and success.



Indicators and Targets

● Talent Acquisition (Targets are for FY2026)

Indicator	Targets	Results (FY2025)
More human resources in the key investment areas	Consolidated in Japan: Approximate total of 500	Consolidated in Japan: Total of 305
More human resources for DX	Approximate total of 50 in Japan (non-consolidated)	Total of 38 in Japan (non-consolidated)
Ratio of new female graduate recruits	Non-consolidated: 20% or over	Non-consolidated: 23.9%

● Strengthening the Foundation of Human Resource Development (Targets are for FY2026)

Indicator		Targets	Results (FY2025)
Employee training enhancement	Training hours per employee	Consolidated +20% from FY2024 in Japan	Consolidated +18.4% (33.8 hours) in Japan
	Training expenses per employee		Consolidated +4.3% (¥78,785) in Japan
Development of global talent	Enrollment in the Global Talent Program	Consolidated in Japan: Total of 360	Consolidated in Japan: Total of 358
Digital transformation (DX) human resource development	DX literacy training participation rate	Consolidated in Japan: 100% each year	Consolidated in Japan: 96.4%

● Enhancement of Organizational Capabilities (Targets are for January 1, 2027)

Indicator	Targets	Results (FY2025)
Number of female directors	2	2
Ratio of female managers	Consolidated in Japan: 3.7% Non-consolidated: over 5.0%	Consolidated in Japan: 2.6% Non-consolidated: 3.4%
Ratio of mid-career hires among managers	Non-consolidated: 30% or over	Non-consolidated: 26.5%
Ratio of foreign employees among managers	Non-consolidated: 1.4%	Non-consolidated: 0.6%
Ratio of male employees taking childcare leave	Consolidated in Japan: 100% Non-consolidated: 100%	Consolidated in Japan: 89.0% Non-consolidated: 94.5%

● Workplace Environment

Indicator	Targets	Results (FY2025)
Boost employee engagement	Manufacturing industry average in Japan (Note 1)	49%
Work-related fatalities	0	0 (Note 2)
Percentage of smokers	25% or lower maintained	23.3% (Note 3)
Cardiovascular disease hospitalization rate	0.7% or lower maintained	0.8% (Note 4)

Note 1: The FY2025 manufacturing industry average in Japan is 55% according to the latest survey (the benchmark data from the employee engagement survey by Korn Ferry Japan).
Note 2: The number is the non-consolidated total for Sumitomo Heavy Industries and the total for subsidiaries and affiliates in Japan.
Note 3: The number is the non-consolidated total of Sumitomo Heavy Industries employees aged 40 and above.
Note 4: The number is the non-consolidated total for Sumitomo Heavy Industries and the total for subsidiaries and affiliates in Japan.

Message from the Director in charge of Human Resources

Director, Executive Vice President
General Manager, Corporate Global Strategy Group
Masaki Arai

We continue to recruit talent aligned with our business needs, with a particular focus on hiring for businesses in our key investment areas and reallocating talent within the Group. The cornerstone of our human resource strategy is strengthening our talent development foundation and organizational capabilities, and this will remain a key area of focus.

Human Capital Investment

Q1 Under the banner of "improve profitability" and "enhance capital efficiency," you are pushing forward with the restructuring of flagship businesses and business portfolio reform. As part of this, you are optimizing the workforce. Could you share your thoughts on human capital investment?

A To advance our business portfolio reform, we are pursuing a strategy of selection and concentration by preferentially allocating management resources to business domains with high growth potential. We reduced the headcount of our Group companies in Japan by approximately 500 through a voluntary retirement program and a review of reemployment contracts for employees aged 65 or over. It was undoubtedly a difficult decision, but to accomplish the business portfolio reform, we must also transform our human resource portfolio. We decided that taking action at this point was vital to the Group's future. After extensive discussions, we gained the understanding of the labor unions and moved forward with the initiative.

This workforce adjustment was intended to reshape our talent portfolio, optimize our workforce composition, and reduce indirect costs. It was never intended to curtail our investment in human capital. For the SHI Group to achieve sustainable growth, we recognize that it is essential to revitalize the organization through continued forward-looking investments in reforming both our business portfolio and our talent portfolio, rather than simply reducing headcount and fixed costs.

Specifically, we intend to continue recruiting talent aligned with our business needs, with a particular focus on hiring for businesses in our key investment areas and reallocating talent within the Group. For example, although our semiconductor equipment business is facing a challenging market environment due to delays in market recovery, it remains one of our most active businesses in recruiting talent. We will also strengthen our talent development foundation and organizational capabilities, which form the cornerstone of our human resource strategy.

Through these initiatives, we aim to transition to an "environment and culture that fosters mutual growth and development among people and the organization," enhance employee engagement, and drive the sustainable growth of the SHI Group. To this end, we will continue to make the investments necessary for the future while ensuring that everyone across the Group fully recognizes the importance of investing in human capital.

Development and Promotion of Global Talent

Q2 One of the keys to the SHI Group's sustainable growth is how we expand our overseas business, and this requires talent capable of delivering on this objective. How are you developing and promoting global talent?

A That is an important point. It is difficult to imagine that any of our Group businesses will see significant growth in their respective markets in Japan. Thus, it is no exaggeration to say that the extent to which we can expand our overseas operations holds the key to our sustainable growth, and talent capable of leading this effort is indeed essential.

Recognizing this, the Human Resources Group has identified the development of a global talent management foundation as one of the key issues in its medium-term plan. Accordingly, in FY2024, we launched a global talent program as a concrete step to strengthen the readiness of our Japanese employees for global assignments.

In this program, employees selected from each division are expected to cultivate a global mindset, gain business knowledge and skills, and improve their language proficiency. Over a two-year period up to the end of FY2025, a total of 358 employees have taken the program. In FY2025, we also launched an overseas trainee program, offering younger employees' opportunities to apply and deepen what they learned in the global talent program through firsthand experience working and living abroad. Initially, two employees were assigned to the US.

Furthermore, we have established regular meetings between the General Managers of each segment and the Human Resources Group to align on succession plans for key positions, both in Japan and overseas, within their respective segments and to assess the readiness of successor candidates annually. The SHI President and the Human Resources Group also hold similar meetings to discuss key positions across the Group. Going forward, besides reviewing succession plans for key positions across the Group and each segment, we will take the next step by discussing how we can better develop and place successor candidates.

Whether in Japan or overseas, we will place high-potential talent in the right positions and provide them with challenging assignments to develop the next generation of global leaders.

Organizational Development Activities

Q3 You are working to transition to an "environment and culture that fosters mutual growth and development among people and the organization." Could you update me on the outcomes that the PRIDE PJ, a cross-Group organizational development project, has achieved over the 5 years since its launch in FY2020?

A To realize our envisioned business models and management strategies, the SHI Group continuously promotes organizational development activities aimed at building organizations in which employees take ownership of these initiatives, think proactively, and take action to drive the growth and improvement of their own organizations. The status of these activities varies across business divisions. However, now that five years have passed since the project's launch, the majority of divisions are continuing the activities on their own. A steadily growing number of business divisions have gone through the preparation and implementation phases and are now approaching the embedding phase. Some divisions are also strengthening their promotion framework by, for example, establishing dedicated departments responsible for organizational development.

Other divisions have begun to see tangible results from activities designed to foster independence and autonomy, review strategies, and strengthen execution capabilities. In these business divisions, employees who participated in these initiatives showed significant improvements in their employee awareness survey results across departments and organizational levels. We believe this shows that each and every employee is beginning to feel their organization changing as they themselves embrace and drive change as members of their teams.

These changes are correlated, to some extent, with employee engagement and are reflected in responses to the "Initiatives taken since the previous survey" section of our employee awareness survey, which many companies consider a key indicator underpinning organizational culture improvement. Within the SHI Group, the percentage of affirmative responses to these questions has been improving and is higher than both the national average in Japan and the average for Japanese manufacturers. We believe this indicates that our organizational development activities are gaining traction.

Organizational development activities are not simply intended to improve corporate culture; they are beginning to function as a foundation for strengthening our ability to execute strategies and support sustainable growth. A closer look, however, shows that some business divisions are progressing faster than others. Looking ahead, we aim to further advance these activities across the Group by linking organizational development even more closely with management strategies, while taking into account the business environment and challenges of each business division.

Employee Awareness Surveys

Q4 Employee awareness surveys have been conducted regularly since FY2016. What measures have you taken based on the survey findings, and what outcomes have they produced?

A Often referred to as a "health checkup for organizations," employee awareness surveys provide a snapshot of the state of an organization and the challenges it faces at the time of the survey. Since FY2025, the SHI Group has increased the frequency of the survey from once every two years to annually. This has helped accelerate the PDCA cycle, enabling us to more quickly assess the state of our organizations, identify challenges, and take action to drive improvement.

In responding to the survey results, each organizational level—(1) The entire Group, (2) Each business division, and (3) Each workplace—needs to take ownership and take action at their respective levels. We believe that employee engagement improves as a result of all these efforts.

Actions taken at Level 1 relate to raising awareness of our Purpose and help shape personnel measures common across the Group. To promote awareness of our Purpose, we designate individuals responsible for its promotion in each segment, business division, and Head Office division. These individuals work to raise awareness and engage in dialogue with their counterparts while sharing benchmark examples. For the personnel measures common across the Group, we are implementing a range of initiatives, including enhancing education and training, promoting diversity, and revising personnel systems.

Based on the findings for each business division, actions taken at Level 2 are designed to enhance the value and significance of the contributions made by its products and services while strengthening vertical and horizontal collaboration across divisions. As for actions taken at Level 3, we increase communication opportunities, improve workplace facilities, and actively introduce new tools.

Regrettably, it is still too early to say with confidence that these initiatives have resulted in higher employee engagement. However, the gap between our results and the average for Japanese manufacturers, our benchmark, is gradually narrowing. Precisely because employee engagement does not improve overnight or dramatically, we must continue making sustained efforts. We will engage the entire Group in these ongoing efforts.

Our Actions

Talent Acquisition

We have set out to hire about 500 more employees in the key investment areas and 50 more for DX during the MTMP26 period. While we have adjusted the pace of hiring to changes in the business environment, our focus remains on talent acquisition. During the two years leading up to the end of FY2025, we added 305 employees to the key investment areas and 38 for DX. We have also set the target ratio of 20% for new female graduate recruits since 2017 to ensure greater diversity across the organization, and we again achieved this target for the cohort joining in April 2026. This proactive recruitment of female talent has gradually increased gender diversity across the Group. Furthermore, to integrate mid-career hires smoothly into the workplace, we conduct follow-up interviews with them, coupled with a survey on how and what they feel as they work, as our onboarding activities. In doing so, we aim to establish an organizational structure and an environment that enable them to work comfortably.

Strengthening the Foundation of Human Resource Development

The SHI Group believes that it should offer its employees opportunities designed to support their autonomous growth and career development. We also consider it vital to strengthen the foundation of human resource development by providing practical training programs as we implement our management and business strategies. We are also aware that developing human resources we will need going forward is key to the Group's sustainable growth, and take the following actions accordingly:

● Promoting Career Autonomy

Guided by the principle that each employee's career autonomy and growth lead to sustainable business growth, we encourage and support our employees in their career autonomy. We have also implemented activities for career autonomy designed to motivate, assign, and train employees in alignment with our business needs since FY2025. We have phased in an e-learning program about career autonomy for all employees, lectures for officers and business managers, career counseling services, career management training, the introduction of an interview guide for supervisors, and internal job posting and self-nomination systems on a trial basis.

● Employee Training Enhancement

Businesses today increasingly need to reskill their employees to adapt to change in the business environment, or upskill them to acquire deeper expertise. We are working to develop employee training that will drive organizational growth and honor employees' own intentions at the same time. We have been investing more in human resources, offering our employees opportunities to acquire certain skills aligned with our business strategies, coupled with opportunities for self-directed learning, to establish a mechanism by which employees acquire, apply, and integrate skills. In addition to further developing level-specific training, we have added more courses to SHI Open College, at which employees voluntarily enroll, and more specialized technical education courses that combine classroom learning and practical training. As of the end of FY2025, we offer 32 SHI Open College courses and 103 specialized technical education courses.

● Development of Global Talent

As businesses increasingly globalize, training employees to become globally competent is one of our key management challenges. In FY2024, we introduced the Global Talent Program. In this program, employees selected from each division cultivate a global mindset, acquire business knowledge and skills, and improve their foreign language skills, thereby enhancing their ability to remain competent in global settings. We set the total target enrollment of 360 during the MTMP26 period, and 358 in total enrolled over the two years leading up to the end of FY2025.

In FY2025, we also launched an overseas trainee program, which aims to enable younger employees to apply and further explore what they have learned in the Global Talent Program through hands-on work experience and life abroad, and sent two employees to the US.

● Digital Transformation (DX) Human Resource Development

Pursuing DX across all business areas is essential for continuing to provide value to society and customers through our products and services. In line with this, we have established our DX vision, which is to "utilize the power of digital technologies to make on-site work around the world more comfortable and bring happiness to everyone involved." We have also set up DX literacy levels based on the Digital Skill Standards for DX literacy defined by the Ministry of Economy, Trade and Industry, and have continued to provide training for all employees in Japan since FY2022. Our DX Literacy Training and Mindset Cultivation Project that advances these activities won the Excellent Project Award in the Large Project Category, coupled with the PMI Asia Pacific Award, at PM Award 2025 hosted by Project Management Institute (PMI) Japan.

● Development of Management Talent

For over 20 years, the SHI Group has continued its solution-oriented management talent training program for prospective business leaders selected from its divisions, thereby successfully developing numerous management talent. We have the Sumitomo Heavy Industries Business School (SBS) for managers and the Keiei-juku Management Training for general managers, which have annual enrollment of upwards of 10 and of around 7, respectively. The Keiei-juku aims to develop management talent with a focus on cultivating business managers' perspectives and aspirations, and its training revolves around medium- to long-term strategic planning and execution. This program endeavors to develop management talent by having our top management provide guidance directly to trainees and engage in conversation with them; advancing trainees' understanding of Sumitomo's Business Philosophy in Niihama, home to the Sumitomo Group; and having trainees join the business school where they engage with people from different industries. The SBS aims to discover prospective management talent while they are still early in their careers and train them over the medium- to long-term. It is a program in which participants set their own business growth-oriented themes and complete the whole process from developing a strategic business scenario to validating a hypothesis over the two-year period. Furthermore, in FY2024, we launched the Management School, in which participants acquire the basics of management literacy before they are selected for the SBS in order to create a more dynamic pool of prospective business leaders. We also conduct assessments to measure the aptitude and qualities of our human resources to develop leadership ability in them through their self-understanding and introspection, and to effectively use quantitative data to discover the right talent.

Enhancement of Organizational Capabilities

To achieve sustainable growth, the SHI Group considers it essential to enhance its organizational capabilities needed to successfully implement its business strategies, and pursues the following activities accordingly:

● Organizational Development Activities

We have engaged in a company-wide organizational development initiative called PRIDE Project (“PRIDE PJ”) since FY2020. PRIDE PJ aims to foster a culture in which individuals within each organization think for themselves and take proactive actions for the growth and improvement of their organization. We have established a promotion office at each business division, Head Office division, and subsidiary and affiliate. These promotion offices lead the initiative, with “dialogue” and “collaboration” as its core themes.

● Building an Organization Where Diverse Talent Thrives

The SHI Group considers diversity an indispensable foundation for its growth. We therefore respect differences in the traits and attributes of each person (e.g., age, nationality, birthplace, gender, gender identity, sexual orientation, sexual expression, the presence of disabilities), and we strive to foster an organizational culture and establish a workplace environment where every one of our diverse employees reaches their full potential and to work with enthusiasm. We have developed the SHI Group Diversity Declaration to pursue the activities outlined below, with “raising awareness,” “revising systems,” and “improving workplace environments” as the three pillars of our approaches.

These continuous efforts have been recognized by work with Pride, an organization that supports the promotion and integration of LGBTQ+ diversity management. We have been awarded Gold, the highest rank according to the PRIDE Indicator for LGBTQ+ initiatives, for three consecutive years since 2023.

Women’s career advancement	Interview female employees and their supervisors to support the employees’ career development Hold diversity management training for managers, etc.
Promotion of the use of childcare leave among male employees	Endorse the 100% Childcare Leave Declaration promoted by Work-Life Balance Co., Ltd. Call on eligible employees and their supervisors to take the leave Hold events intended to encourage the use of the leave, distribute personal accounts by employees who have taken the leave and other information for reference
Employment of persons with disabilities	Establish a special subsidiary (e.g., Sumiju Will Co., Ltd.), etc.
Efforts to ensure that LGBTQ+ persons are comfortable working for us	Distribute copies of a booklet designed to advance employees’ understanding Host lectures Extend internal fringe benefits to employees’ same-sex partners Install pull-down changing platforms in all-gender restrooms (restrooms for everyone), etc.

Workplace Environment

To achieve sustainable growth in a disruptive era full of uncertainty, the SHI Group considers it vital to establish a workplace environment that serves as the foundation for the organization’s development as well as employees’ personal growth, and thus we pursue the following activities:

● Updating Human Resource Systems

We are updating our HR systems with three basic policies: 1. Encourage employees’ proactive behavior, 2. Promote the success of diverse talent, and 3. Reward employees for their roles, duties, and achievements. More specifically, other than updating HR, salary, and retirement benefit systems, we launched the Plus Career System, which allows employees who meet certain conditions to have a second job. In doing so, we hope that these employees achieve self-fulfillment and autonomous career development, and that they bring benefits to their primary jobs and contribute to innovation. We have also extended our internal fringe benefits to employees’ same-sex partners as part of our efforts to create a workplace environment where LGBTQ+ employees comfortably work.

● Challenge System

We have implemented the Challenge System across the Group to cultivate in our employees a drive to meet challenges and to invest in future products and technologies. Instead of the company assigning tasks, employees submit the themes around which they seek to build their success. Consequently, we offer a platform for the pursuit of dreams to employees with skills, ideas, and/or product visions. The Challenge System not only fosters a drive to rise to challenges in our employees, but also enables us to keep taking up the challenge of creating products and technologies for the future.

Our achievements through the Challenge System include the world’s first electric energy recovery technology from anaerobically treated wastewater, and new magnetic-wheeled robots capable of traveling over curved surfaces of steel structures.

● Actions to Ensure Employee Health and Safety

For the sustainable growth of the SHI Group, we believe it is essential to establish a robust health management system and prepare a workplace environment aligned with the system so that every employee can continue to work, enjoying physical and mental well-being. In line with this belief, we have established the SHI Group’s Declaration on Health Promotion. With the President and CEO serving as the Chief Health Manager, our businesses, the health insurance association, and the labor union work together in Health Promotion Councils and collaborative health management to promote a range of health support initiatives, including data health, mental health care, women’s health care, and oncology-related support. Furthermore, to ensure the safety and security of everyone involved in the Group’s business activities, we have drawn up the SHI Group Basic Safety and Health Philosophy. We implement essential and engineering controls through various training that incorporates hands-on exercises as well as risk assessments as part of our efforts to create the workplace where each employee works with a smile.

Respect for Human Rights

Basic Concept

Guided by our business principle "Respect people," the SHI Group is committed to ensuring respect for human rights in accordance with the Human Rights Policy for the Sumitomo Heavy Industries Group.

As our businesses globalize, it is increasingly critical to demonstrate our adherence to human rights across each value chain. In July 2025, we updated the Human Rights Policy to specify that we practice the Ten Principles of the UN Global Compact, thereby clearly setting out our commitment to respect for human rights.

Management Structure

The Board of Directors supervises our efforts to ensure respect for human rights, and the Director in charge of the Corporate Global Strategy Group is responsible for the promotion of these efforts. The status of the efforts is discussed at meetings of the Sustainability Committee, and the details of these discussions are regularly reported on at meetings of the Board of Directors (twice per year).

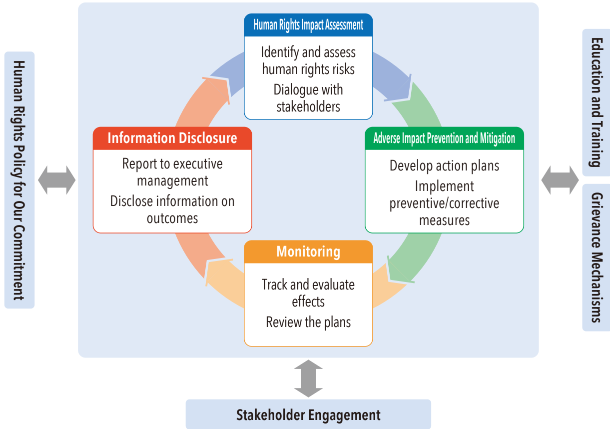
We make these efforts mostly through a company-wide human rights risk project. We pursue various activities to ensure respect for human rights based on the plans that have been finalized in this project.

SBU: Strategic Business Unit

Human Rights Due Diligence

As part of our efforts to identify, prevent, and reduce adverse impact on human rights in alignment with the United Nations Guiding Principles on Business and Human Rights, we implement efforts at multiple priority levels, with a focus on high-risk areas.

Human Rights Due Diligence Process



Human Rights Due Diligence Implementation Status (FY2025)

Initiatives	Results and Challenges
Work environment surveys We assessed working conditions across the SHI Group's supply chains, referring to expert insights offered by ASSC*1, an NGO with expertise in international human rights and labor issues. *1 The Global Alliance for Sustainable Supply Chain  Supplier surveys in India	• We found no critical issues, including life-threatening ones that would require immediate protection of workers. Yet we did find areas for improvement in labor management and in occupational health and safety, and urged the suppliers to take corrective actions.*2 • The surveys conducted at two companies in India did not include employee interviews. Ensuring that employee interviews are conducted will be a key task for future surveys. *2 For detailed survey findings and corrective actions, please see "Responsible Procurement" (page 60).
Respecting the human rights of subcontractors and temporary workers on our premises To ensure that subcontractors and temporary employment agencies who send their workers to our premises are clear about and fully practice the principle of respect for human rights, we receive written pledges from subcontractors and sign memoranda of understanding with temporary employment agencies in stages in order of priority.	• Yokosuka, Tanashi, and Okayama Works, which are our main factories, undertook the initiative. • Ratio of memoranda of understanding signed with temporary employment agencies (100%)*3, Ratio of pledges received from subcontractors (98.6%)*3 • Target implementation ratio (in proportion to net sales) of 80% achieved (current cumulative total at the end of June 2026: 82.4%). The same initiative is also under consideration for our subsidiaries and affiliates as the next step. *3 Cumulative total as of the end of June 2026

Please visit our website for the details of our human rights due diligence, including the process of identifying human rights risks : https://www.shi.co.jp/english/csr/social/humanrights/index.html

Grievance Mechanisms (Human Rights Consultation Service)

To receive and respond to concerns and reports from stakeholders in our supply chains, we have established a dedicated contact point for suppliers on our corporate website. We are developing a framework to provide access to remedy through appropriate processes and information management, with the highest priority placed on protecting those who seek consultation or make reports.

Education and Awareness Raising

We continually educate employees on human rights to raise their awareness through level-specific training, e-learning, messages from the President and CEO, and company newsletters. We are committed to advancing our employees' understanding of global human rights issues to reinforce their human rights awareness.

Responsible Procurement

Basic Concept

The SHI Group has established the CSR Procurement Guidelines aligned with the Basic Procurement Policy below. We advance responsible procurement across each supply chain to realize a sustainable society.

Basic Procurement Policy		
Open and Fair Competition	Compliance and Ethics	Social Responsibility

CSR Procurement Guidelines Updated April 2026

1. Fair and equitable competition and transactions and thorough attention to compliance
2. Human rights, labor, and health and safety
3. Consideration of the environment
4. Promotion of communication with stakeholders through information disclosure
5. Social contribution and coexistence/co-prosperity with local communities
6. Application throughout the supply chain

Supplier Survey

Key Checkpoints

In Japan and overseas, the survey focused mostly on labor management (e.g., employment contracts, wages, work hours), human rights practices (e.g., no forced labor, child labor, or discrimination; consideration for foreign workers), and occupational health and safety (e.g., protective equipment, evacuation routes, first-aid kits, emergency exits). We found no serious human rights violation or severe non-compliance.

FY2025 Survey Results in Japan—Number of Companies	
Potentially high-risk suppliers	5
Suppliers surveyed based on questionnaire results	5
Suppliers engaged with for the environment	3
Total	13

Overseas Survey Results by Fiscal Year—Countries (Numbers of Companies)	
FY2023	The Philippines (1)
FY2024	South Korea (4), Vietnam (3), Indonesia (2), Finland (1)
FY2025	Indonesia (2), India (2)

● Japan

Based on the number of foreign workers they employ and the ratio of their revenue from the SHI Group, we have identified 24 suppliers as potentially high-risk suppliers we focus our monitoring on and have been conducting on-site surveys that we aim to complete by the end of FY2026.

During FY2025, we surveyed five of these 24 companies (bringing the cumulative total visited in this category to 21), along with another five suppliers for a survey based on questionnaire results and three others we engage with for environmental practices. The areas for improvement we found included the absence of evacuation route maps and regular evacuation drills, and lack of consideration for workers whose Japanese comprehension is limited. We requested that corrective actions be taken for each of these areas.

● Overseas

We conduct supplier surveys mostly in regions where the SHI Group's factories and other business sites are located. These surveys are based on the global supply chain risk analysis by our human rights risk project.

During FY2025, we visited four suppliers, two in Indonesia and two in India, to look into their working conditions through on-site surveys and engagement activities, referring to expert insights offered by ASSC*, an NGO with expertise in international human rights and labor issues. The areas for improvement we found included a lack of emergency exits, locked emergency exits, windows with iron bars as structural barriers to evacuation, employees not wearing protective gear, first aid kits and hygiene management that have room for improvement. We requested that corrective actions be taken for each of these areas.

* The Global Alliance for Sustainable Supply Chain

Key On-site Findings

Areas of Strength	Areas for Improvement
Japanese language workshops hosted for employees	Removal of obstacles blocking emergency exits
Documents and other written materials available in multiple languages	Full enforcement of the use of protective gear
Employee interaction advanced through club activities	Full enforcement of proper work hour management

Responsible Mineral Procurement

Guided by our policy updated in September 2024, we are in the process of identifying and assessing mineral sourcing risks in the Democratic Republic of the Congo and its surrounding countries, and in Conflict-Affected and High-Risk Areas (CAHRAs), in compliance with the OECD guidance.

In November 2024, we joined the Responsible Minerals Initiative (RMI), an international initiative to advance responsible mineral procurement, to establish the foundation for the use of international frameworks, including questionnaires and an assessment program for smelters and refiners.

In FY2025, at our customers' request, we identified cobalt and mica sourcing risks, in addition to those related to tin, tantalum, tungsten, and gold (3TG), associated with products offered by our precision equipment and Ion implanter businesses. Furthermore, our CSR procurement training for relevant internal staff members discusses how to ensure responsible mineral procurement. We are also looking into procurement across each of our supply chains to verify it is responsibly done. (Please visit our website for details: https://www.shi.co.jp/english/csr/social/supplychain/index.html)

● SHI Group's Five Steps

STEP 1	Develop a policy
STEP 2	Select and survey items for investigation
STEP 3	Request corrective actions
STEP 4	Support Responsible Minerals Assurance Process (RMAP)
STEP 5	Information Disclosure

Stakeholder Engagement

To fulfill our Group's PURPOSE of "enhancing society and those within it with compassion," we view collaboration and communication with all relevant stakeholders as our principal business base. In addition to incorporating the views of society into our management through ongoing dialogue, we strive to foster greater understanding of and confidence in our Group through appropriate information disclosure.

Coexistence and Co-prosperity with Local Communities

With our business sites located around the world, the SHI Group recognizes the importance of building relationships of trust with local communities. As such, we have identified our emphasis on coexistence and co-prosperity with local communities as one of the material issues of sustainability. Our basic social contribution policy consists of (1) supporting the education of the next generation, (2) engaging with local communities, and (3) enriching society. With these three pillars, we pursue activities that align with regional characteristics.

We remain committed to our contributions to the realization of a sustainable society through talent development for the next generation, the advancement of engagement and mutual understanding with local communities, and the value we offer through our businesses (please visit our website for the details of our CSR activities: https://www.shi.co.jp/english/csr/social/community/index.html).

Our employees cleaning the street around Yokosuka Works

■ Status of Engagement

The numbers are from the FY2025 record.

Customers	We are committed to understanding customers' needs through our daily sales activities, and to resolving issues customers have and meeting customers' expectations in order to build long-term relationships of trust.
Shareholders and investors	We are committed to maintaining and improving market confidence in our company and ongoing dialogue through general meetings of shareholders, IR activities, and timely disclosure. • One-on-one interviews (Japan) : 87 (19 conducted by officers) • One-on-one interviews (overseas) : 128 (45 conducted by officers) • Small meetings attended by Outside Directors : 11 companies attended in Japan, 3 companies overseas
Suppliers	We are committed to building sound and mutually enhancing relationships to advance understanding through our CSR procurement survey and the dissemination of the CSR Procurement Guidelines, in addition to routine business communication.
Employees	We are committed to promoting communication with employees through various channels, including the company newsletter (4 issues per year), Intranet, employee engagement surveys (once per year), labor-management consultations (500 times in total), and our Ethics Hotline (274 reports).
Local communities and NGOs / NPOs	Guided by the Sumitomo Heavy Industries Group's Policy for CSR Activities, we work to understand issues and needs facing each region through dialogue and collaboration with local communities, NGOs, and NPOs. We continue to participate in CSR activities that include volunteering, making donations, and sponsoring events. We also work closely with organizations involved in these activities to work toward the resolution of issues.

TOPICS Promoting STEAM Education through the "School for a Compassionate Future" Workshop

Details of the School for a Compassionate Future: https://mirai-gakko.shi.co.jp/

[Ehime]

Dates: Sat. and Sun., September 20–21, 2025

Location: Main Building of Niihama Plant, Ehime Works (Niihama, Ehime Prefecture)

Participants: approximately 70 elementary school students in Grades 4–6 from Ehime Prefecture

Feature: The workshop was held as a new project led by Ehime Works.

[Aichi]

Dates: Sun. and Mon. (public holiday), October 12–13, 2025

Location: Obu Cultural Exchange Center (allobu) (Obu, Aichi Prefecture)

Participants: approximately 100 elementary school students in Grades 1–6 from Aichi Prefecture

Feature: This is the third workshop held as a continuation of an established initiative.

Group photo from the "School for a Compassionate Future" workshop

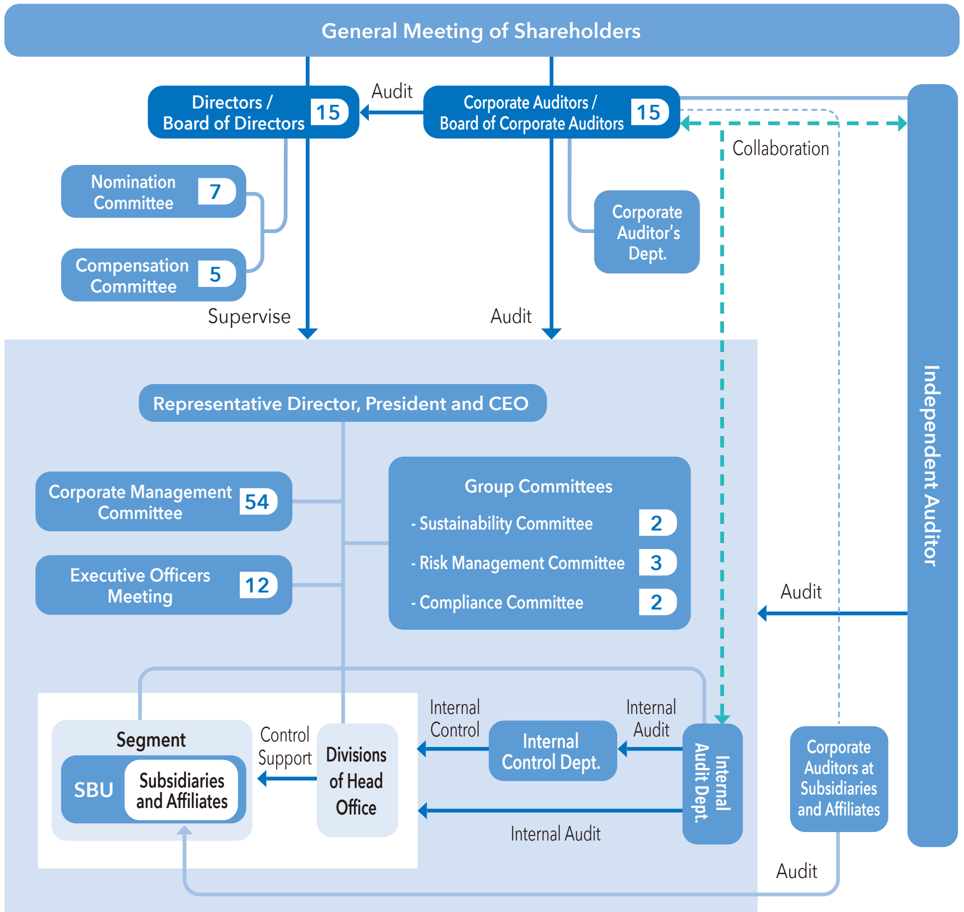
Children developing project ideas using Technodea Cards and worksheets

In FY2025, we held STEAM education workshops titled "School for a Compassionate Future" at two venues. Under the theme of "Future Ways of Living," children explored everyday issues and social challenges and engaged in hands-on activities to transform their ideas of "Wouldn't it be nice if…" into tangible creations. Through dialogue and hands-on making activities, the workshops provided opportunities for children to learn Science, Technology, Engineering, Arts, and Mathematics (STEAM) in an integrated way while fostering their creativity and their ability to think independently and learn through trial and error.

Corporate Governance System

We have adopted the form of a company with a board of corporate auditors. To enhance the transparency and fairness of management within the framework, we make sure that one-third of the board of directors are outside directors. We also have in place the Nomination Committee and the Compensation Committee, where outside directors comprise the majority, to ensure a rigorous supervisory function. We have introduced an executive officer system as part of the above framework, and we keep the business execution function and supervisory function separate in terms of our management.

Corporate Governance System Chart



Note: **The numbers highlighted in blue** are the numbers of times the boards / committees met during FY2025.

Board of Corporate Auditors

Body	Board of Directors	Board of Corporate Auditors	Nomination Committee	Compensation Committee
Composition	5 inside + 4 outside	2 inside + 3 outside	2 inside + 4 outside	2 inside + 4 outside
Ratio of outside officers	44%	60%	67%	67%
Chaired by	Representative Director, Chairman of the Board	Standing corporate auditor	Outside director	Outside director
Secretariat	Legal Dept.	Corporate Auditor's Dept.	Human Resources Group	Human Resources Group

- **Corporate Management Committee** ···· [Chair] President and CEO
  [Membership] 9 (primarily vice presidents appointed by the President)
- **Executive Officers Meeting** ··········· [Chair] President and CEO
  [Membership] 20 (inside directors, standing corporate auditors and vice presidents)
- **Sustainability Committee** ············ [Chair] President and CEO
  [Membership] 11 (vice presidents in charge of Head Office, heads of the segments, General Manager of the Sustainability Dept. of Corporate Global Strategy Group)
  [Observers] 2 (standing corporate auditors)
- **Risk Management Committee** ········ [Chair] President and CEO
  [Membership] 14 (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 Dept.)
- **Compliance Committee** ············· [Chair] President and CEO
  [Membership] 14 (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 Dept.)

Director and Corporate Auditor Skills Matrix

Board of Directors

Name	 Shinji Shimomura	 Toshiro Watanabe	 Tatsuro Araki	 Haruhiko Tsuzuki	 Masaki Arai	 Susumu Takahashi	 Akio Hamaji
Gender	Male	Male	Male	Male	Male	Male	Male
Position	Representative Director, Chairman of the Board	Representative Director, President and CEO	Representative Director Senior Executive Vice President General Manager, Export Administration Dept. General Manager, Energy & Lifeline Segment	Director, Executive Vice President General Manager, Ehime Works General Manager, Logistics & Construction Segment	Director, Executive Vice President General Manager, Corporate Global Strategy Group	Outside Director	Outside Director
Status	Nomination Compensation	Nomination Compensation				Outside Independent Nomination Compensation	Outside Independent Nomination, Chair Compensation, Chair
Tenure (As of the conclusion of the Ordinary General Meeting of Shareholders in March 2026)	9 years and 9 months	3 years and 9 months	3 years	(Appointed in March 2026)	(Appointed in March 2026)	11 years and 9 months	5 years and 9 months
Board of Directors Meeting Attendance Rate (FY2025)	15/15 (100%)	15/15 (100%)	15/15 (100%)	—	—	14/15 (93%)	15/15 (100%)
Board of Corporate Auditors Meeting Attendance Rate (FY2025)	—	—	—	—	—	—	—
Necessary Attributes of the Board of Directors (Core Areas of Experience and Expertise)							
Corporate Management	✓					✓	✓
Legal Affairs / Compliance / Risk Management	✓		✓	✓	✓	✓	✓
ESG / Sustainability	✓	✓			✓	✓	✓
Business Strategy / Marketing			✓	✓	✓		
Global	✓		✓		✓	✓	✓
Technology / IT / Production	✓		✓	✓			✓
Finance / Accounting		✓					✓

:Male :Female

Corporate Auditors

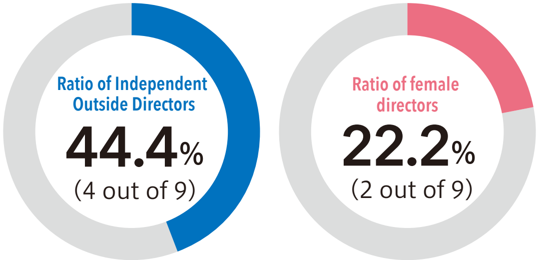
							Name
Sumie Morita	**Miho Hanafusa**	**Hideo Suzuki**	**Kazunori Jikihara**	**Masaichi Nakamura**	**Mio Minaki**	**Hajime Watanabe**	
Female	Female	Male	Male	Male	Female	Male	Gender
Outside Director	Outside Director	Standing Corporate Auditor	Standing Corporate Auditor	Outside Corporate Auditor	Outside Corporate Auditor	Outside Corporate Auditor	Position
Outside, Independent, Nomination, Compensation	Outside, Independent, Nomination, Compensation			Outside, Independent	Outside, Independent	Outside, Independent	Status
3 years	(Appointed in March 2026)	3 years and 9 months	(Appointed in March 2026)	8 years and 9 months	2 years	1 year	Tenure (As of the conclusion of the Ordinary General Meeting of Shareholders in March 2026)
15/15 (100%)	—	15/15 (100%)	—	15/15 (100%)	15/15 (100%)	11/11 (100%) (Appointed as Corporate Auditor in March 2025)	Board of Directors Meeting Attendance Rate (FY2025)
—	—	15/15 (100%)	—	15/15 (100%)	15/15 (100%)	11/11 (100%) (Appointed as Corporate Auditor in March 2025)	Board of Corporate Auditors Meeting Attendance Rate (FY2025)
	●						Necessary Attributes of the Board of Directors (Core Areas of Experience and Expertise): Corporate Management
	●	●	●	●	●	●	Legal Affairs / Compliance / Risk Management
●	●	●		●	●		ESG / Sustainability
							Business Strategy / Marketing
●						●	Global
●	●		●				Technology / IT / Production
		●		●		●	Finance / Accounting

Note: This matrix does not represent all the knowledge and expertise possessed by the Directors and Corporate Auditors. For information regarding director nominations, including the reasons for selecting the skills required for the Board of Directors, please refer to our corporate website.: https://www.shi.co.jp/english/csr/governance/corporate/nomination.html

Message from the Representative Director, Chairman of the Board

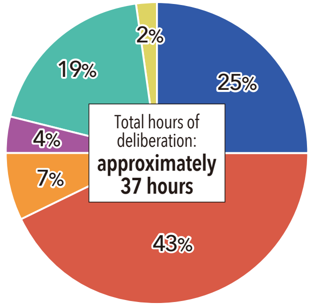
Representative Director,
Chairman of the Board
Shinji Shimomura

Composition of the Board of Directors



Note: As of the conclusion of the Ordinary General Meeting of Shareholders held in March 2026

Key Areas of Deliberation for the Board of Directors (FY2025)



Amid growing calls for greater profitability, businesses are finding it imperative to improve the effectiveness of the Board of Directors, which lies at the heart of corporate governance, and we are no exception. Since I assumed the role of the Board Chair in January 2026, the Board's composition has changed, including a reduction in the number of Inside Directors in March. With this in mind, and to improve the effectiveness of our Board, I have given a great deal of thought to the current challenges and the ideal state we should aspire to as I settle into my new role.

Recently, our Board has begun initiatives designed to realize its ideal state as one focused on the supervisory function. For example, we revised the agenda criteria to delegate substantial authority to executive officers, and we ensured through group discussions and other means that all Board members share a common understanding of the role of the Board of Directors. Consequently, we have had more substantive discussions than before on medium- to long-term management strategies and other key issues, and we have begun to see a shift in the mindset of our executive officers in response to the candid suggestions and challenging perspectives offered by our Outside Directors from the market's point of view. Overall, I believe these changes have made our Board more effective. At the same time, as our business environment and management priorities grow increasingly complex, the role our Board is expected to play is rapidly evolving, and I recognize the imperative for the Board to respond to these changes swiftly and appropriately.

To further enhance the effectiveness of our Board, we need to transform it into a platform for more fundamental, big-picture discussions on such matters as medium- to long-term management strategies, our business portfolio, the allocation of investment capital, and the enhancement of capital efficiency while encouraging an appropriate level of risk-taking in business segments that are rapidly emerging under the new SBU* framework. By fully sharing the Board's policies and awareness of issues with the executive team, we will strive to achieve an optimal relationship between the supervisory and executive teams that maximizes our profitability.

The Board's effectiveness is largely determined by its composition and diversity, as well as by each Director's understanding of their role. Accordingly, we will leverage the strengths of each Inside and Outside Director while maintaining a balanced representation of both corporate-wide and business segment perspectives. Concurrently, we will continue our discussions on the attributes expected of Board members, with due consideration given to the Board's diversity.

With the entire Board consistently working to increase its effectiveness and presenting a clear direction for the Company to pursue, we remain committed to fulfilling our roles and responsibilities to achieve sustainable growth and enhance corporate value over the medium to long term.

Corporate Governance	Board of Directors effectiveness evaluation
	Succession Planning
	Officers' remuneration
	Dialogue with shareholders
	Matters required by law and Articles of Incorporation
Management strategy	Amendment of the medium-term management plan
	Progress of the medium-term management plan
	Business portfolio reformation
	Enhancement of segment organizational capabilities
	Human resources strategy
	Financial strategy
	R&D strategy
	Intellectual property strategy
Sustainability	Status of sustainability promotion
	Revision of the Human Rights Policy
Compliance	Activities of the Risk Management Committee and Compliance Committee
Budgets and financial results	Budgets and financial results
	Revision of the earnings forecast
Individual case	Reorganization within the group

* Strategic Business Unit

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.

FY2025 Analysis and Evaluation Process

Survey
- Explored what angles could be adopted for the evaluation as well as what to include in the questionnaire, referring to advice from a third party.
- Outside officers met to discuss and decide on the content of the questionnaire

<<Content of questionnaire (44 questions)>>
To identify issues in all aspects of the Board of Directors, we set up a wide range of questions across 12 areas, including the role, the structure, management, and discussions of the Board of Directors, as well as the Board's performance, dialogues with shareholders, and respondents' own initiatives. Each question asked the respondent to provide an evaluation on a 5-point scale. A comment box was provided in each area of the questions to prompt the respondent to offer free-form opinions.

Interview: Interviewer: Outside Director | Interviewees: All directors (11) and all corporate auditors (5)

Outside officers' meeting
- Identified challenges from the survey and interview results
- Discussed the evaluation results and the selection of issues for the following fiscal year based on the results

Board of Directors: Deliberated and decided on issues for the following fiscal year

[Ensuring objectivity]
- Outside officers were involved in developing the survey.
- An Outside Director interviewed all members of the Board of Directors
- The results were finalized through discussions at outside officer meetings

[Diverse and many opinions]
- Through the interviews, we gathered more than 250 diverse opinions based on each interviewee's expertise.

FY2025 Initiatives Based on the Previous Year's Results

In FY2025, as in the previous year, we sought to deepen Board discussions on the role of the supervisory function, as well as on the operations and deliberations for exercising it effectively, primarily through the following initiatives.

Conducting group discussions	We held two group discussions in which we built a shared understanding of the roles expected of the inside and outside directors on our Board, as well as of how the Board should be shaped to strengthen our supervisory function.
Deliberating important themes	We enriched our deliberations on following up on the Medium-Term Management Plan and reforming our business portfolio—themes that many felt warranted deeper discussion—as well as on other high-priority topics.
Delegating broader authority to executives	To shift the Board of Directors toward a supervisory role, we substantially revised the criteria for selecting agenda items and expanded the scope of authority delegated to executives. In addition, to ensure the rationality and transparency of the executive's decision-making process, we disclosed materials and minutes for important internal meetings to the Board of Directors.
Providing training on organization design	We invited external experts to hold a training session. We fostered understanding of each type of organizational design, including its features and recent market trends.
Dialogue between Outside Directors and institutional investors, feedback for the Board of Directors	We held dialogues between our Outside Directors and institutional investors and reported the outcomes to the Board of Directors, thereby reflecting investors' views in the Board's discussions.

Overview of the FY2025 Evaluation Results and Future Initiatives

Overview of the evaluation results

- As a result of the survey, interviews, discussions at outside officer meetings, and deliberation by the Board of Directors, we confirmed that the Board of Directors was effective and functioning properly in FY2025.
- Based on the results, we have organized the issues for the Board of Directors to discuss into seven categories. In relation to each issue, the following matters were proposed for improvement and discussion:

Role of the Board of Directors
- Become aligned on **the scope** of the Board's **supervision**
- Establish **the executive system that allows** the Board of Directors to focus on **supervision**

Composition of the Board of Directors
- Lack of HR-related skills
- Review the inside director composition and consider adding outside directors

Operating the Board of Directors
- There are **too many agenda items for adequate discussion**
- Prepare materials, give presentations, and set agendas **from a supervisory perspective**

Discussion by the Board of Directors
- Enhance strategy-linked KPIs and process KPIs so that **the supervisory function can be effectively exercised**

Internal control and risk management
- Clarifying **the optimal overall picture of global governance** remains a challenge
- Need to monitor China-related risks and discuss risks related to management strategies

Support system for directors and corporate auditors
Need to provide further training on organization design, investor relations, shareholder relations, IT, human resources, geopolitical risks, etc.

Shareholder (investor) dialogue
- **Refine** and externally share our **value creation story** developed based on issues raised by investors
- Spread the substance of investor dialogues to the executive side, through business-line directors' own participation in such dialogues, etc.

- We have reaffirmed that the Board of Directors should aim to focus on supervision.
- Meanwhile, **the framework and the foundation of the Board of Directors**, including the executive system, **are not adequate for exercising the supervisory function.**

Initiatives for this fiscal year

- Continuing from the previous year, we will conduct activities to strengthen the supervisory function of the Board of Directors.
- We will deepen shared understanding with the executive side on the operational improvements that underpin the supervisory function, on investors' views, and on the direction the Board of Directors seeks to take.

(For the FY2025 effectiveness evaluation results, please also see our website: https://www.shi.co.jp/english/csr/governance/corporate/pdf/structure_02.pdf)

Officers' Selection and 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 director 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.

Status of Activities by the Nomination Committee/Compensation Committee

Upon receiving consultation from the Board of Directors, the Nomination Committee and the Compensation Committee deliberate on matters such as the selection and dismissal of executives, succession plans, and remuneration systems, etc.

◆Main agenda items for FY2025 Nomination Committee meetings (held seven times)

- Succession plans for CEO and other executives
- Nomination of candidates for directors and corporate auditors
- Selection of representative directors and directors with managerial positions
- Skill matrix for directors and corporate auditors
- Revision of the Nomination Committee Regulations

◆Main agenda items for FY2025 Compensation Committee meetings (held five times)

- Revision of officers' remuneration for FY2025
- Extension of the stock-based remuneration system
- Update of the performance-linked remuneration (remuneration based on divisions' performance) system
- The latest trends in officers' remuneration, issues with the current officer remuneration system, and the future direction of the officer remuneration system

Message from the Chair

From Perfunctory Governance to the Engine of Value Creation

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

The question I consistently posed at both committees throughout FY2025 was: "Does our current corporate governance system truly inspire management to change its behavior in ways that genuinely enhance our Group's corporate value?" I believe that nomination and remuneration are not merely elements of a management framework but should serve as key drivers for improving the quality of management decisions and accelerating the execution of strategy.

The Nomination Committee not only selects candidates for future executive positions, but also determines the kind of leadership we will need by backcasting from the future state we aspire to achieve. Emphasizing candidates' ability to transform our business portfolio and deepen sustainability-oriented management, we rigorously monitor the quality of business execution through objective evaluations that also incorporate an outside perspective.

As regards the succession of Board members, we prioritize optimizing the overall composition of the Board rather than considering each position in isolation. By recruiting individuals with diverse specialties and ensuring timely generational renewal, we aim to continuously improve the effectiveness of the supervisory function.

As for the remuneration system, we consider it important that it function as a mechanism that fosters change, not merely one that shares the rewards of success. By linking remuneration to medium- to long-term shareholder value and nonfinancial KPIs, as well as to short-term business performance, we help management make decisions that embrace business restructuring. Particularly, we will focus on designing incentives that align with the enhancement of capital efficiency, with a view to promoting a shift toward management conscious of the cost of capital.

The effectiveness of governance should be demonstrated through tangible results, not merely words. We are only halfway through the Company's transformation, and we must accelerate the reorganization of our business portfolio and enhance capital efficiency with a sense of urgency. As chair of the two committees, I intend to contribute to the sustainable enhancement of our corporate value by bringing greater discipline and dynamism to management through nomination and remuneration.

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 Dept. 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 Dept., which reports directly to the President and consists of a General Manager and 16 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 2025, the Board of Corporate Auditors met 15 times, adopted 10 resolutions, deliberated and discussed 11 matters, and made 35 reports.

Theme	Description/Action
Risk Management and Governance	• Conducted a review of risk awareness and governance status across business units and subsidiaries. • Engaged in discussions with Representative Directors. • Participated in the Risk Management Committee. (Standing Corporate Auditors)
Compliance	• Reviewed the headquarters' monitoring efforts regarding recurrence prevention measures. • Attended Compliance Committee meetings (Standing Corporate Auditor)
Key Strategic Issues	• Participated in the Long-term Strategy Meeting. • Provided suggestions aimed at enhancing corporate value and promoting sustainability.

Executive Officers

We have introduced an executive officer system to ensure a swift and precise response to rapid changes in the business environment.

:Male :Female

Current position	Director	Name	Gender	Appointments
President and CEO	○	Toshiro Watanabe		
Senior Executive Vice President	○	Tatsuro Araki		General Manager, Export Administration Dept.; General Manager, Energy & Lifeline Segment
Executive Vice President		Taiji Tsuchiya		General Manager, Semiconductor Business Development Dept.
Executive Vice President		Shaun Dean		Sumitomo Heavy Industries (Europe) B. V. Managing Director
Executive Vice President	○	Haruhiko Tsuzuki		General Manager, Ehime Works and General Manager, Logistics & Construction Segment (In charge of Production Engineering Dept.)
Executive Vice President	○	Masaki Arai		General Manager, Corporate Global Strategy Group Human Resources Group (In charge of Purchasing Div.)
Senior Vice President		Morihiro Kondo		Regional General Manager, Kansai Office; Chairman of Sumitomo Heavy Industries (China), Ltd. (In charge of Internal Control Group, Legal Dept., Internal Audit Dept., Corporate Economic Security Dept., and General Administration Group)
Senior Vice President		Mitsukuni Tsukihara		General Manager, Material Solutions SBU, Industrial Machinery Segment Representative Director, President and CEO, Sumitomo Heavy Industries Material Solutions Co., Ltd.
Senior Vice President		Melvin Porter		General Manager, Link-Belt Cranes SBU, Logistics & Construction Segment LBCE Holdings, Inc. Chairman, Director, President and CEO
Senior Vice President		Hiroyuki Tominaga		General Manager, Industrial Machinery Segment
Senior Vice President		Chie Okamoto		General Manager, Mechatronics Segment and Advanced Technologies SBU
Vice President		Takanori Nagai		General Manager, Process Plant SBU, Industrial Machinery Segment Representative Director, President and CEO, Sumitomo Heavy Industries Environment Co., Ltd.
Vice President		Yoichi Kato		General Manager, Energy & Environment SBU
Vice President		Isamu Mitsuhashi		General Manager, Construction Equipment SBU Representative Director, President and CEO of Sumitomo Construction Machinery Co., Ltd.; Representative Director, President and CEO of Sumitomo Construction Machinery Sales Co., Ltd.
Vice President / CIO		Kazuhiro Harada		General Manager, Corporate ICT Group
Vice President		Akihisa Miwa		General Manager, Drive Technologies SBU, PTC Segment
Vice President		Akira Yamamoto		General Manager, Corporate Technology Management Group (In charge of Corporate Quality Group)
Vice President		Arata Ishimaru		General Manager, Corporate Finance, Accounting & Administration Group

Note: At the end of the General Meeting of Shareholders in March 2026

Risk Management

The SHI Group manages risks in accordance with the Basic Policy for the Establish of the Internal Control System. The Head Office divisions manage the business and operational risks that fall within their areas of 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 the 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 operations and keep track of how those risks are controlled.

Identify risks	• The Committee holds private meetings with each division responsible for managing the identified risks • Checks the previous year's list of risks and discusses with the relevant divisions whether any updates are needed.
Check risk controls	• The Committee holds private meetings with each division responsible for managing the identified risks • Checks how the risks are controlled and monitored using the list of risk controls.
Risk assessment	• Risk Assessment Subcommittee (held in November) • Evaluates the risks on a five-point scale based on their likelihood and potential impact (69 risks in FY2025). From the list of high-impact risks, select ones that require further action for mitigation.
Identify Group's material risks	• Risk Management Committee (held in November) • Based on the results of the evaluation by the Risk Assessment Subcommittee, this committee identifies risks that particularly require action as Group's material risks, and directs the heads of the divisions responsible for managing those risks to work out their risk control plans.
Develop plans to control Group's material risks	• The Risk Management Committee (held in January) • Deliberates on reports on the risk control plans received from the heads of the divisions responsible for managing the risks
Check the status of plans to control the Group's material risks	• The Risk Management Committee (held in July and November) • Deliberates on the report received on the progress of the planned risk controls

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.

Group's Material Risks in FY2026
Economic security risk
Quality fraud/Legal or regulatory noncompliance risks
Risk of noncompliance with the Antimonopoly Act
Information security risk
Risks involved in the transition to a decarbonized economy
Human rights risk

Compliance

Compliance in the SHI Group means complying with applicable laws and internal regulations as a member of society. It also signifies practicing the corporate ethics that are based on Sumitomo's Business Philosophy, our Purpose, and our Business Principles, and doing honest and fair business as a sensible member of the business community.

As part of our efforts to strengthen compliance, we have compiled the Compliance Manual, which outlines the rules and specific behavioral guidelines that must be observed by officers and employees of the SHI Group. This manual is distributed to all employees in an effort to ensure full commitment to compliance. Furthermore, we conduct an annual compliance awareness survey to gauge our employees' understanding of and commitment to compliance standards.
(For further details regarding our compliance initiatives, please visit our corporate website: https://www.shi.co.jp/english/csr/governance/control/index.html)

Compliance with the Competition Laws

The SHI Group places high priority on compliance with the Competition Laws. To ensure full compliance across the entire Group and to commit to fair competitions and fair trades, we have established the SHI Group Basic Policy on Compliance with the Competition Laws, which includes maintaining internal regulations and providing training for officers and employees.

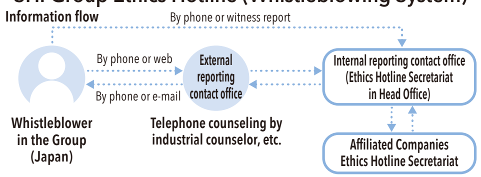
Anti-bribery Measures

To prevent bribery, the SHI Group has established the SHI Group Anti-Bribery Basic Policy and operates a Group-wide preliminary review system for entertainment and gifts offered to public officials in Japan and overseas.

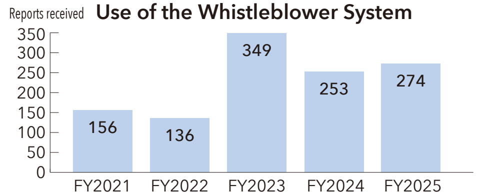
SHI Group Ethics Hotline (Whistleblowing System)

The SHI Group operates a whistleblowing system that allows officers and employees to report or seek consultation on any violation of laws or internal rules, or any facts that may constitute a violation, as well as a consultation service exclusively for workplace harassment issues. Through various training programs and other opportunities, we promote awareness regarding the use of these services, including whistleblower protection and the strict prohibition of disadvantageous treatment.

SHI Group Ethics Hotline (Whistleblowing System)



Use of the Whistleblower System



Quality Management

Basic Concept

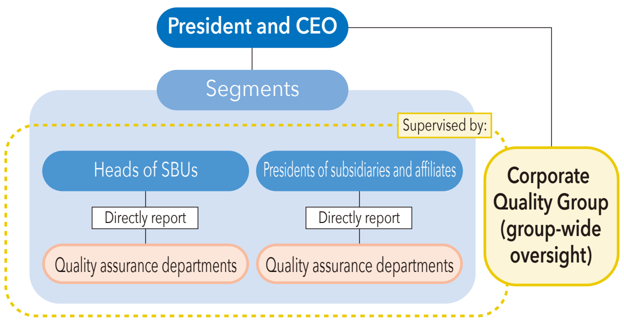
The Group's mission is to contribute to the development of society by providing first-rate products and services. We believe that earning the long-term trust of customers around the world will lead to the sustainable development of the Group and enhance its corporate value, while enabling us to meet the expectations of all stakeholders.

In order to continue providing high-quality products and services that customers can use with satisfaction and confidence across various industries, we have built quality assurance systems suitable for each product and adhere to the processes defined within these systems, while striving to pursue continual quality improvement.

Our quality philosophy and policy:
https://www.shi.co.jp/english/csr/social/customer/index.html

Quality Assurance System and Quality & Safety Governance

The Group has established a system of management oversight in which critical quality and safety nonconformities and customer complaints, as well as risks of legal and regulatory violations, are reported to the appropriate bodies according to the significance of each matter.



To ensure independence of the quality assurance function, quality assurance departments directly report to the head of each Strategic Business Unit (SBU) and the presidents of our subsidiaries and affiliates. In addition, these quality assurance activities are overseen group-wide by the Corporate Quality Group from the perspectives of management quality and the quality of products and services.

Risks of legal and regulatory violations and important compliance matters are monitored through the Compliance Committee and reported regularly—at least twice a year—to the Board of Directors. In addition, critical quality and safety matters are promptly reported to the management through the responsible SBU, subsidiary, or affiliate, and information sharing and supervision are conducted by the Board of Directors, as needed.

Initiatives to Improve Quality

The Group conducts a QMS (Quality Management System) audit once a year to review the processes through which quality improvement activities are implemented, thereby evaluating the effectiveness of its quality assurance system. Among our major manufacturing business divisions, 96% have become ISO9001 certified, as we strive to embed quality management practices in line with the international standards.

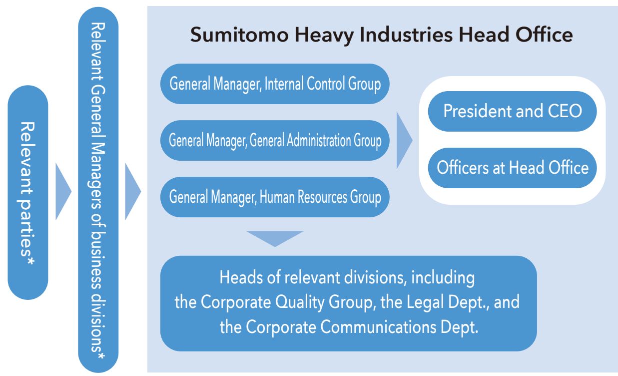
By explicitly prohibiting improper conduct in quality control, strengthening the process and the audit system, and educating our employees, we are working to ensure rigorous compliance in quality-related activities. In addition, through quality assurance general manager meetings, our SBUs, subsidiaries, and affiliates share approaches and policies for improving quality, and engage in continuous and multifaceted discussions. Furthermore, we regard ensuring the security of our products and services as a key management priority, and promote product security measures across the entire lifecycle, beginning at the design and development stage.

On the ground, with a focus on improving quality, we conduct an annual process review in which the head of each segment tours the production floor and assesses the operational processes. Focusing primarily on quality and manufacturing challenges, they engage in deep discussions with operational managers to delve into process-related issues and areas of improvement, thereby driving continuous improvement.

On the talent development front, we educate all new employees on basic quality concepts. We also introduced Six Sigma in FY1999, and have been improving our processes and organizational capabilities by developing certified professionals. As of the end of FY2025, 2,630 employees have been certified as Green Belts and 211 as Black Belts.

Reporting Flow for Product-Related Incidents

In the event of a serious accident, such as a fire or personal injury caused by a product supplied by the Group, we report the matter in accordance with the Sumitomo Heavy Industries Group Emergency Contact Guidelines to ensure prompt communication with top management, accurate information gathering, and swift and appropriate action.



*This includes the Sumitomo Heavy Industries Head Office, works, branches, SBUs, subsidiaries, and affiliates.

Eleven-Year Summary and Key Financial Data

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

	(Unit)		FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022 *8	FY2022 (Jan. to Dec.) Reference values *9	FY2023	FY2024	FY2025
Summary of Income (for the financial year)	(million yen)	Net sales	700,838	674,328	791,025	903,051	864,490	849,065	943,979	854,093	1,018,261	1,081,533	1,071,126	**1,066,881**
		R&D expenses	12,299	11,276	14,805	16,836	18,753	19,434	20,181	17,431	—	24,800	33,682	**31,147**
		Operating profit	50,568	48,431	69,921	75,244	56,806	51,342	65,678	44,803	59,950	74,367	55,103	**51,482**
		EBITDA *1	70,289	68,742	92,925	101,219	84,758	81,089	96,609	74,437	—	110,741	92,480	**90,078**
		Ordinary profit	49,131	48,274	67,466	72,623	52,642	49,544	64,847	43,253	58,837	70,250	49,184	**47,311**
		Profit attributable to owners of parent	33,133	33,613	34,660	45,650	32,807	26,764	44,053	5,782	16,259	32,742	7,721	**30,937**
Cash Flows (for the financial year)	(million yen)	Cash flows from operating activities	18,315	38,158	71,111	55,173	36,263	64,131	61,679	21,366	—	65,370	12,763	**63,666**
		Cash flows from investing activities	(15,350)	(25,852)	(37,810)	(54,973)	(57,752)	(43,729)	(49,678)	(37,279)	—	(43,271)	(49,482)	**(59,357)**
		Free cash flows *2	2,965	12,306	33,301	199	(21,489)	20,402	12,000	(15,913)	—	22,099	(36,719)	**4,309**
		Cash flows from financing activities	(23,789)	(17,809)	(10,146)	(13,314)	35,964	(7,959)	(28,106)	21,677	—	(17,207)	41,908	**(7,145)**
		Cash and cash equivalents at the end of the period	68,625	61,017	85,503	69,776	83,630	96,242	84,992	93,727	—	100,235	107,542	**107,622**
Financial Position (at financial year-end)	(million yen)	Total assets	782,859	796,484	894,835	954,051	996,111	1,030,684	1,094,930	1,148,870	—	1,200,857	1,260,242	**1,320,527**
		Interest-bearing debt	68,232	60,460	64,181	73,311	124,669	124,439	111,251	160,765	—	162,230	238,620	**252,703**
		Net interest-bearing debt *3	(2,572)	(3,360)	(24,052)	(278)	37,602	24,921	22,468	63,289	—	57,772	127,488	**141,632**
		Total net assets	382,817	409,171	444,964	465,001	477,648	504,928	566,843	576,922	—	627,464	646,418	**686,223**
Amounts per Share of Common Stock *4	(yen)	Earnings *5	54.06	54.85	282.83	372.56	267.77	218.46	359.61	47.20	—	267.30	63.86	**257.42**
		Net assets	614.51	650.47	3,517.33	3,701.01	3,790.99	4,005.43	4,501.11	4,647.20	—	5,059.88	5,331.01	**5,671.98**
		Cash dividends	16.00	16.00	85.00	112.00	91.00	65.00	115.00	90.00	—	120.00	125.00	**125.00**
Financial Indexes	(%)	Operating profit ratio	7.2	7.2	8.8	8.3	6.6	6.0	7.0	5.2	5.9	6.9	5.1	**4.8**
		EBITDA ratio	10.0	10.2	11.7	11.2	9.8	9.6	10.2	8.7	—	10.2	8.6	**8.4**
		R&D expenses ratio to net sales	1.8	1.7	1.9	1.9	2.2	2.3	2.1	2.0	—	2.3	3.1	**2.9**
		Return on assets (ROA)	4.2	4.2	3.9	4.8	3.3	2.6	4.0	0.5	1.4	2.7	0.6	**2.3**
		Return on equity (ROE)	9.0	8.7	8.4	10.3	7.1	5.6	8.5	1.0	3.0	5.5	1.2	**4.7**
		Stockholders' equity ratio	48.1	50.0	48.2	47.5	46.6	47.6	50.4	49.5	—	51.6	50.8	**51.6**
		Interest-bearing debt ratio	8.7	7.6	7.2	7.7	12.5	12.1	10.2	14.0	—	13.5	18.9	**19.1**
		D/E ratio (times)	0.2	0.2	0.1	0.2	0.3	0.3	0.2	0.3	—	0.3	0.4	**0.4**
		ROIC *6	7.6	7.3	10.3	10.5	7.3	6.1	7.3	4.6	6.2	7.0	4.8	**4.2**
Investment in Plant and Equipment and Others	(million yen)	Capital expenditures *7	23,721	27,539	30,432	33,713	39,435	39,885	46,729	44,629	—	42,502	46,784	**58,053**
		Depreciation	19,720	20,311	23,003	25,975	27,953	29,746	30,930	29,634	—	36,374	37,377	**38,596**

*1. EBITDA (Earnings before Interest, Taxes, Depreciation) = Operating profit + Depreciation
*2. Free cash flows = Cash flows from operating activities + Cash flows from investing activities
*3. Net interest-bearing debt = Interest-bearing debt – (Cash and deposits + Securities)
*4. The Company carried out a 5-to-1 reverse stock split for its common stock with an effective date of October 1, 2017. Amounts per share of common stock was calculated, under the assumption that such share consolidation was conducted at the beginning of FY2017.
*5. Earnings per share of common stock are based on the weighted average number of shares outstanding in each year.
*6. ROIC (Return on invested capital) = $\frac{\text{(Operating profit + Interest and dividend income) x (1 – Effective tax rate*)}}{\text{(FY average of stockholders' equity + FY average of interest-bearing debt)}}$
* Effective tax rate = 35% for FY2015 and FY2016, 31% from FY2017
*7. Capital expenditures are capitalized and recorded as assets.
*8. Due to a change in our accounting period, FY2022 will be a nine-month accounting period from April 2022 to December 2022.
*9. To compare our FY2022 results to past accounting periods, the FY2022 (nine-month accounting period) results have been converted to figures for the period from January to December.

Non-Financial Key Data

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

Supplementary note on the coverage: "Consolidated coverage ratio" refers to the percentage of net sales within the covered scope relative to total consolidated net sales.

Supplementary note on the coverage: The consolidated coverage ratio for "non-consolidated" (parent company) social data is approximately 17.5%, while that for "Japanese consolidated" is approximately 52.5% (both based on FY2025 actual results, calculated on a headcount basis).

Environment

Addressing Climate Change

		Unit	2021	2022	2023	2024	2025
GHG Emissions (Scope 1)	Total	t-CO_2	★ 37,418	★ 38,419	★ 36,272	★ 31,601	★ 32,885
	Consolidated Coverage	%	92.6	91.1	92.3	99.9	99.9
GHG Emissions (Scope 2)	Total *1	t-CO_2	★ 156,518	★ 151,681	★ 120,631	★ 101,003	★ 92,238
	Consolidated Coverage	%	92.6	91.1	92.3	99.9	99.9
GHG Emissions (Scope 1, 2 total)	Total *1	t-CO_2	★ 193,936	★ 190,100	★ 156,903	★ 132,604	★ 125,123
	Consolidated Coverage	%	92.6	91.1	92.3	99.9	99.9
GHG Emissions (Scope 3)	Cat-01 Raw Materials *2	t-CO_2	★ 351,365	★ 406,638	★ 1,095,515	★ 1,295,085	★ 2,477,920
	Cat-02 Capital Goods	t-CO_2	★ 154,343	★ 147,464	★ 140,793	★ 151,381	★ 195,837
	Cat-03 Energy-Related Activities	t-CO_2	★ 21,349	★ 26,955	★ 26,712	★ 26,158	★ 26,372
	Cat-04 Upstream Logistics	t-CO_2	★ 11,082	★ 11,045	★ 10,160	★ 8,899	★ 8,178
	Cat-05 Operational Waste	t-CO_2	★ 5,578	★ 5,355	★ 5,405	★ 5,030	★ 5,238
	Cat-06 Business Travel	t-CO_2	★ 3,761	★ 3,277	★ 3,289	★ 3,294	★ 3,266
	Cat-07 Employee Commuting	t-CO_2	★ 11,138	★ 11,322	★ 12,264	★ 10,210	★ 10,798
	Cat-08 Upstream Leased Assets	t-CO_2	0	0	0	0	0
	Cat-09 Downstream Logistics	t-CO_2	0	—	—	—	—
	Cat-10 Processing of Sold Products	t-CO_2	0	—	—	—	—
	Cat-11 Use of Sold Products	t-CO_2	★ 136,614,107	★ 79,946,933	★ 75,463,187	★ 65,887,134	★ 113,004,957
	Cat-12 Product End-of-Life	t-CO_2	0	—	—	—	—
	Cat-13 Downstream Leased Assets	t-CO_2	0	—	—	—	—
	Cat-14 Franchises	t-CO_2	—	—	—	—	—
	Cat-15 Investments	t-CO_2	2,422	2,873	3,780	3,048	172,728
	Total	t-CO_2	137,175,145	80,561,862	76,761,104	67,390,239	115,905,294
	Cat-11Consolidated Coverage	%	96.5	94.6	94.6	91.8	93.6
CO_2 Emission Intensity	Intensity	t-CO_2/ million yen	0.21	0.22	0.15	0.12	0.12
	Consolidated Coverage	%	92.6	91.1	92.3	99.9	99.9
Energy Consumption	Fuel Consumption	MWh	192,766	196,579	174,657	★ 160,538	★ 169,938
	Electricity Consumption	MWh	303,676	307,192	309,077	★ 302,547	★ 308,457
	Chilled and Hot Water	MWh	10,249	9,306	10,686	★ 11,407	★ 9,250
	Total	MWh	506,691	513,077	494,421	★ 474,493	★ 487,646
	Consolidated Coverage	%	92.6	91.1	92.3	99.9	99.9
Renewable Energy Consumption	Total	MWh	1,298	14,203	72,617	★ 90,963	★ 117,975
	Consolidated Coverage	%	92.6	91.1	92.3	99.9	99.9

*1 Scope 2 emissions in Japan are calculated using the market-based method. *2 Scope expanded since FY2023; accuracy improved through intensity-based allocation since FY2025. ★: Third-party assurance

Environmental Management

		Unit	2021	2022	2023	2024	2025
ISO 14001 Certification	Number of Certified Sites	Instances	58	57	61	62	57
	Certification Rate	%	79.4	75.2	79.8	86.1	80.3
Serious Violations of Environmental Laws and Regulations *3	Number of Cases	Instances	0	0	0	0	0
	Of which, number of violations related to wastewater	Instances	0	0	0	0	0
	Consolidated Coverage	%	79.4	75.2	79.8	86.1	82.7

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

Waste Management

		Unit	2021	2022	2023	2024	2025
Total Waste Generated =Ⓐ+Ⓑ+Ⓒ	①Waste Generation	t	44,390	40,386	38,741	35,666	31,423
	②Final Disposal Amount	t	1,273	960	731	881	633
	③Total Volume of Recycled Waste (Japan Only)	t	7,925	7,131	7,567	6,905	6,217
	Consolidated Coverage	%	80.3	82.2	83.9	82.1	83.5
ⒶVolume of Waste Disposed (Excl.Ⓑ)	①Waste Generation	t	10,381	9,439	9,827	8,750	8,004
	②Final Disposal Volume	t	28	32	7	4	7
	③Amount Recycled (Total Amount of Recovered and Reused Waste, etc.)	t	7,556	6,693	7,092	6,437	5,823
	Amount of Waste Incinerated with Energy Recovery	t	2,573	2,327	2,265	1,969	1,859
	Amount of Waste Incinerated without Energy Recovery	t	224	386	463	339	316
ⒷVolume of Hazardous Waste Disposed	①Waste Generation	t	708	692	650	737	638
	②Final Disposal Volume	t	0.1	0.2	0.2	14.5	0.2
	③Recycled Volume (Total Amount of Recovered and Reused Waste, etc.)	t	369	438	475	468	395
	Amount of Waste Incinerated with Energy Recovery	t	222	208	145	157	150
	Amount of Waste Incinerated without Energy Recovery	t	118	46	30	98	93
Applicable to both Ⓐ and Ⓑ	Data Coverage Ratio	%	47.7	44.4	50.9	49.2	48.6
	Scope		Japanese production sites				Japanese production sites
ⒸVolume of Overseas Waste Disposed	①Waste Generation	t	33,301	30,255	28,264	26,179	22,781
	②Final Disposal Volume	t	1,245	927	724	862	626
	Data Coverage Ratio	%	32.6	37.8	33.0	32.9	34.9
Volume of Waste Diverted from Disposal (Valuable Recyclables)	Recycled Volume	t	15,380	14,809	16,354	12,978	14,233
	Data Coverage Ratio	%	47.7	44.4	50.9	49.2	48.6
	Scope		Japanese production sites				Japanese production sites

Water Resources Conservation

			Unit	2021	2022	2023	2024	2025
Water Withdrawals	Municipal Water Supply	Tap Water	thousand m^3	737	736	698	★ 718	★ 710
		Industrial Water	thousand m^3	618	613	604	★ 615	★ 618
	Surface Water		thousand m^3	0	0	0	★ 0	★ 0
	Groundwater		thousand m^3	185	161	135	★ 195	★ 189
	Total		thousand m^3	1,541	1,510	1,436	★ 1,529	★ 1,517
	Consolidated Coverage		%	76.5	80.2	82.0	78.3	81.3
Wastewater Discharge	Total		thousand m^3	460	434	934	★ 970	★ 902
	Consolidated Coverage		%	47.5	43.6	49.3	49.2	48.6
	Surface Water		thousand m^3	—	—	—	112.0	101.0
	Groundwater		thousand m^3	—	—	—	0.0	0.0
	Seawater		thousand m^3	—	—	—	690.0	626.0
	Water Discharged to Other Organizations		thousand m^3	—	—	—	168.0	175.0
	Scope			—	—	—	Japanese production sites	Japanese production sites

★: Third-party assurance

Pollution Prevention

			Unit	2021	2022	2023	2024	2025
Volume of Volatile Organic Compounds (VOCs)	Total		t	623	636	544	703	670
	Consolidated Coverage		%	86.0	87.2	86.6	84.3	85.3
	Breakdown in Japan	Toluene	t	100	91	69	63	70
		Xylene	t	258	280	211	251	252
		Ethylbenzene	t	149	154	163	247	229
NOx Emissions	Total		t	3.3	3.9	2.5	15.9	10.9
	Consolidated Coverage		%	45.3	43.8	49.3	47.4	46.6
SOx Emissions	Total		t	0.18	0.15	0.15	1.49	1.21
	Consolidated Coverage		%	45.3	43.8	49.3	47.4	46.6
Discharges to Water Bodies	COD		t	1.5	1.5	1.4	1.6	1.3
	Total Nitrogen (T-N)		t	6.2	5.6	4.9	4.6	6.3
	Total Phosphorus (T-P)		t	0.5	0.5	0.4	0.4	0.4
	Total		t	8.1	7.6	6.6	6.6	8.0
	Consolidated Coverage		%	47.5	43.6	49.3	47.4	46.6

Social

Employee Data

		Unit	2021	2022	2023	2024	2025
Employees (consolidated)	Male	Number of employees	—	20,138	21,256	21,152	20,874
	Female	Number of employees	—	4,120	4,228	4,185	4,249
	Ratio of Women	%	—	17.0	16.6	16.5	16.9
	Total	Number of employees	24,584	24,258	25,484	25,337	25,123
Employees (SHI)	Male	Number of employees	2,965	3,350	3,497	3,774	3,749
	Female	Number of employees	405	499	536	636	651
	Ratio of Women	%	12.0	13.0	13.3	14.4	14.8
	Total	Number of employees	3,370	3,849	4,033	4,410	4,400
Managers	Male	Number of employees	916	3,290	3,355	3,504	3,648
	Female	Number of employees	22	220	247	251	270
	Ratio of Women	%	2.3	6.3	6.9	6.7	6.9
	Total	Number of employees	938	3,510	3,602	3,755	3,918
	Scope		Non-consolidated	Consolidated			Consolidated
Assistant Managers	Male	Number of employees	—	1,786	1,850	2,075	2,019
	Female	Number of employees	—	174	183	218	226
	Ratio of Women	%	—	8.9	9.0	9.5	10.1
	Total	Number of employees	—	1,960	2,033	2,293	2,245
	Scope		—	Consolidated			Consolidated
Employees by Age Group	Under 30	Number of employees	529	4,452	4,622	4,349	4,131
	30～39	Number of employees	869	6,868	7,136	6,989	6,901
	40～49	Number of employees	839	5,835	6,144	6,239	6,183
	50～59	Number of employees	872	5,049	5,414	5,542	5,607
	Above 60	Number of employees	261	2,054	2,168	2,218	2,301
	Total	Number of employees	3,370	24,258	25,484	25,337	25,123
	Scope		Non-consolidated	Consolidated			Consolidated
Average Length of Service by Gender	Male	Years	16.6	14.4	14.5	14.6	14.6
	Female	Years	12.1	10.5	11.2	10.6	10.7
	Total	Years	16.1	14.2	14.1	14.1	14.1
	Scope		Non-consolidated	Japanese consolidated			Japanese consolidated
Employment Ratio of Disabled People	Total	%	2.36	2.39	2.52	3.04	3.06
	Scope		Non-consolidated			Non-consolidated (Incl. special subsidiaries)	Non-consolidated (Incl. special subsidiaries)
Percentage of Employees Covered by Collective Bargaining Agreements	Total	%	60.4	63.4	63.9	63.6	64.7
	Scope		Non-consolidated				Japanese consolidated
Rounds of Collective Bargaining (Labor-Management Consultations) with Labor Unions	Total	Rounds	106	74	103	102	500
	Scope		Non-consolidated				Japanese consolidated
New Graduate Hires	Male	Number of employees	119	236	262	258	238
	Female	Number of employees	31	35	46	46	66
	Ratio of Women	%	20.7	12.9	14.9	15.1	21.7
	Total	Number of employees	150	271	308	304	304
	Scope		Non-consolidated	Japanese consolidated			Japanese consolidated

		Unit	2021	2022	2023	2024	2025
Career Hires	Male	Number of employees	90	299	386	413	241
	Female	Number of employees	8	40	52	45	43
	Ratio of Women	%	8.2	11.8	11.9	9.8	15.1
	Total	Number of employees	98	339	438	458	284
	Ratio of Mid-career Hires to Full-time Workers	%	39.5	55.6	58.7	60.1	48.3
	Scope		Non-consolidated	Japanese consolidated			Japanese consolidated
Wage Difference Between Men and Women *4	Full-Time Employees	%	—	70.6	72.8	71.5	72.0
	Non-Full-Time Employees	%	—	66.3	69.8	66.7	75.9
	All Workers	%	—	68.6	70.2	69.6	70.8
	Scope		—	Non-consolidated			Non-consolidated
Total Turnover Rate	Male	%	2.4	2.7	3.7	3.3	3.5
	Female	%	4.2	3.1	3.3	4.3	3.4
	Total	%	2.6	2.7	3.7	3.4	3.4
	Scope		Non-consolidated	Japanese consolidated			Japanese consolidated
Turnover Rate for Personal Reasons	Male	%	2.1	2.0	3.0	2.7	2.6
	Female	%	3.0	2.3	2.7	3.6	2.9
	Total	%	2.2	2.0	3.0	2.8	2.7
	Scope		Non-consolidated	Japanese consolidated			Japanese consolidated
Working Hours Per Year	Total	Hours	1,987	1,972	1,972	1,930	1,924
	Scope		Non-consolidated (general employees)	Japanese consolidated (general employees)			Japanese consolidated (general employees)
Employee Awareness Survey Results	Percentage of Highly Engaged Employees	%	—	48	—	48	49
	Scope		—	SHI and 30 consolidated subsidiaries	—	SHI and 29 consolidated subsidiaries *5	SHI and 28 consolidated subsidiaries *5
Percentage of Employees Taking Paid Vacations	Total	%	68.6	75.3	79.0	80.2	81.7
	Scope		Non-consolidated (general employees)	Japanese consolidated (general employees)			Japanese consolidated (general employees)
Childcare Leave Utilization Ratio	Male	%	68.9	69.2	85.5	88.8	89.0
	Female	%	100	100	97.7	97.7	100.0
	Total	%	72.0	71.9	87.1	90.0	90.2
	Scope		Non-consolidated	Japanese consolidated			Japanese consolidated
Average Number of Days of Childcare Leave Taken by Male Employees	Total	Days	33.3	23.1	30.8	35.6	45.8
	Scope		Non-consolidated	Japanese consolidated			Japanese consolidated
Employees Utilizing Shortened Working Hours for Employees with Childcare Needs	Male	Number of employees	—	7	7	10	22
	Female	Number of employees	—	82	89	83	106
	Total	Number of employees	—	89	96	93	128
	Scope		—	Japanese consolidated			Japanese consolidated
Annual Training Hours Per Employee *6	Total	Hours	4.2	11.1	10.9	28.6	33.8
	Scope		Japanese consolidated				Japanese consolidated
Annual Training Expenses Per Employee	Total	Yen	79,228	53,222	69,305	75,532	78,785
	Scope		Non-consolidated	Japanese consolidated			Japanese consolidated

*4 Female wages as a % of male wages
*5 Consolidated coverage is approximately 54.7% (based on headcount)
*6 Data for FY2023 covers only training programs organized by the headquarters. From FY2024, programs by business divisions are also included.

Occupational Health and Safety / Health Management

		Unit	2021	2022	2023	2024	2025
Fatalities	Total	Number of employees	0	0	0	0	0
	Scope		Non-consolidated	Consolidated			Consolidated
Occupational Accident Frequency Rate (employees)	Frequency Rate	%	0.3	0.4	0.7	0.9	0.1
	Scope		Non-consolidated				Non-consolidated
Occupational Accident Frequency Rate (employees and contract workers)	Frequency Rate	%	0.6	0.5	0.7	0.8	0.2
	Scope		Non-consolidated				Non-consolidated
Percentage of Companies with ISO 45001 Certification	Total	%	50.0	66.6	66.6	83.3	83.3
	Scope		Japanese Main Works				Japanese Main Works
Percentage of Smokers	Total	%	26.6	23.1	23.4	25.0	23.3
	Scope		Non-consolidated				Non-consolidated

Social Contribution Activities

		Unit	2021	2022	2023	2024	2025
Social Contribution Expenditures	Total	million yen	33	26	156	267	270
	Scope		Non-consolidated			Japanese consolidated and eight overseas affiliates	Japanese consolidated and eight overseas affiliates

Supply Chain Management

		Unit	2021	2022	2023	2024	2025
Supplier Status by Region (procurement amount ratio)	Japan	%	68.9	62.2	67.3	64.7	63.6
	China	%	12.1	12.0	9.3	10.6	10.7
	South Korea	%	2.4	2.4	2.7	2.7	2.6
	Taiwan	%	0.3	0.3	0.4	0.2	0.2
	Asia, etc.	%	6.3	8.3	7.1	8.1	8.2
	North America and Latin America	%	3.4	6.9	5.4	6.9	8.0
	Europe	%	6.6	7.7	7.7	6.6	6.7
	Other Areas	%	0.0	0.0	0.1	0.1	0.1
Suppliers	Number of Tier 1 Suppliers	Companies	7,481	6,230	5,658	5,825	5,773
Supplier Survey	Number of Surveyed Companies *7	Companies	—	—	—	702	—
	Number of Responding Companies *8	Companies	409	—	—	573	—
	Response Rate	%	—	—	—	81.6	—
	Number of Companies Audited On-Site (Japan) *9	Companies	—	—	7	8	5
	Number of Companies Audited On-Site (Overseas) *10	Companies	—	—	1	10	4
% of Purchasing Division Employees Who Received Sustainable Procurement Training		%	—	9.5	89.8	85.0	100.0
	Scope		—	SHI and 9 consolidated subsidiaries	SHI and 16 consolidated subsidiaries		SHI and 16 consolidated subsidiaries

*7 Number of Tier 1 suppliers accounting for the top 80% of the SHI Group's total procurement value
*8 Conducted for non-substitutable suppliers in 2019 and 2021
*9 Implemented for 24 suppliers designated for priority follow-up, based on the employment status of foreign workers, etc. (through 2026).
*10 Implemented for targets selected through the global supply chain risk analysis under the Human Rights Risk Project.

Product Safety and Product Quality

	Unit	2021	2022	2023	2024	2025
ISO 9001 Certification Acquisition Rate of Major Production and Business Divisions	%	—	93	94	96	96
Number of Serious Legal Violations Related to Product	Instances	0	0	0	0	0

Governance

Corporate Governance

		Unit	2021	2022	2023	2024	2025	2026
Composition of Directors *11	Total Number	Number of employees	9	9	11	11	11	9
	Executive Directors	Number of employees	6	6	7	7	7	5
	Non-executive Directors	Number of employees	3	3	4	4	4	4
	Outside Directors	Number of employees	3	3	4	4	4	4
	Female Directors	Number of employees	0	0	1	2	2	2
	Non-Japanese Directors	Number of employees	0	0	0	0	0	0
Average Attendance Rate at Board of Directors Meetings	Average	%	98.5	96.6	100	99.4	98.7	—
Average Tenure of Directors *11	Average	Years	4.7	3.8	3.7	3.9	4.9	4.1
Composition of Corporate Auditors *11	Total Number	Number of employees	4	4	4	4	5	5
	Outside Corporate Auditors	Number of employees	2	2	2	2	3	3
	Female Corporate Auditors	Number of employees	1	1	1	1	1	1
	Non-Japanese Corporate Auditors	Number of employees	0	0	0	0	0	0
Average Attendance Rate at Board of Corporate Auditors Meetings	Average	%	100	100	100	100	100	—

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

Business Ethics

			Unit	2021	2022	2023	2024	2025
Compliance Education by E-learning *12	Total		Number of employees	14,489	—	15,997	15,885	16,162
	Completion Rate		%	97.3	—	99.1	99.5	99.5
	Scope			Japanese consolidated	—	Japanese consolidated		Japanese consolidated
	Implementation Rate (% of all employees who have completed the program)		%	58.9	—	62.8	62.7	64.3
	Scope			Consolidated	—	Consolidated		Consolidated
Employees Who Submitted the Compliance Pledge *13	Total		Number of employees	3,213	3,211	3,392	3,460	3,533
	Submission Rate (% of all employees who submitted the pledge)		%	13.1	13.2	13.3	13.7	14.1
	Scope			3,217	3,218	3,397	3,472	3,547
Number of Cases Reported to Ethics Hotline	Total		Instances	156	136	349	253	274
	Break-down	Harassment	Instances	71	61	151	116	120
		HR and Labor	Instances	38	41	131	48	76
		Violations of Company Regulations and Rules	Instances	13	14	16	15	39
		Other Matters	Instances	34	20	51	74	39
	Cases for Which Corrections Were Made		Instances	71	41	114	95	104
Number of Significant Compliance Violations	Total		Instances	—	—	—	1 *14	1 *15
Amount of Political Donations	Total		¥ million	1.5	1.5	1.5	1.7	1.7
	Scope			Non-consolidated				Non-consolidated

*12 Target participants: Employees in Japan, China, and the ASEAN region
*13 Employees in management positions in Japan are eligible to submit the application
*14 Violations of the Subcontract Act by affiliated companies
*15 Antimonopoly Act violation by an affiliate (received cease-and-desist and surcharge payment orders)

Corporate Data (As of March 31, 2026)

Corporate Data

Company Name	Sumitomo Heavy Industries, Ltd.
Head Office	1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan
TEL	03-6737-2000
URL	https://www.shi.co.jp
Stock Exchange Listing	Prime Market of the Tokyo Stock Exchange
Founded	1888
Incorporated	November 1, 1934
Paid-In Capital	¥30,871,651,300

Domestic Offices

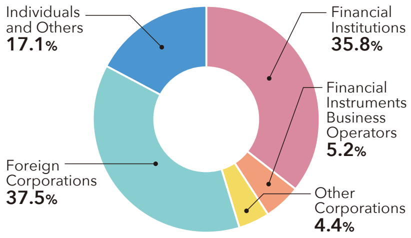
https://www.shi.co.jp/english/company/base/domestic/index.html

Stock-Related Information (As of December 31, 2025)

Basic Information

Total number of authorized shares	360,000,000
Total number of issued shares	122,905,481
Number of shareholders	42,747

Breakdown of Shares Held by Shareholders



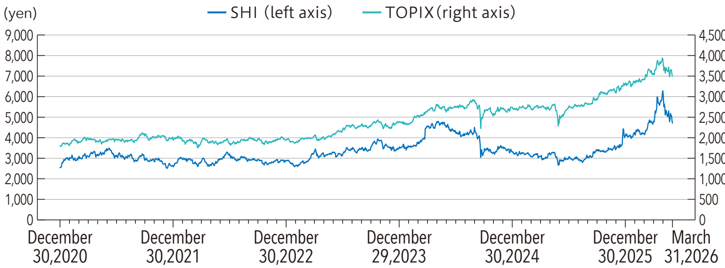
Note: Treasury shares were 2,588,382 shares, which are included in "Individuals and Others".

Major Shareholders

Name of shareholder	Number of shares held (shares)	Percentage of number of shares held (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	20,011,800	16.6
Custody Bank of Japan, Ltd. (Trust account)	10,923,500	9.1
STATE STREET BANK AND TRUST COMPANY 505001	6,775,801	5.6
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	5,272,000	4.4
Sumitomo Life Insurance Company	4,333,128	3.6
Sumitomo Heavy Industries, Ltd. Kyoeikai	3,454,900	2.9
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	3,062,290	2.5
NORTHERN TRUST CO. (AVFC) RE NON TREATY CLIENTS ACCOUNT	2,129,905	1.8
Sumitomo Heavy Industries Employee Stock Ownership Association	1,997,349	1.7
STATE STREET BANK AND TRUST COMPANY 505223	1,868,016	1.6
Total	59,828,689	49.8

Note: In addition to the above, we have 2,588,382 shares of treasury shares.

Share Price Chart



Total Shareholder Return (TSR)

Investment Period	1 Year December 2024 ~ December 2025	2 Years December 2023 ~ December 2025	3 Years December 2022 ~ December 2025
Sumitomo Heavy Industries	31.7%	23.7%	70.9%
TOPIX	25.5%	51.5%	93.8%
TOPIX Sector Index (Machinery)	31.0%	60.9%	118.2%
Relative to TOPIX	6.2%	−27.8%	−22.9%
Relative to TOPIX Sector Index (Machinery)	0.7%	−37.2%	−47.3%

Note: The Company changed its fiscal year-end from March 31 to December 31 starting with the 127th fiscal year (fiscal year ended December 2022). Figures for fiscal years prior to the fiscal year ended March 2022 are based on the share price as of the end of March.

Stock Valuation

	Unit	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Stock price at end of term	(Yen)	2,818	2,644	3,555	3,245	4,149
PBR	(Times)	0.6	0.6	0.7	0.6	0.7
ROE	(%)	8.5	1.0	5.5	1.2	4.7
PER	(Times)	7.8	56.0	13.3	50.8	16.1
Dividend yield	(%)	4.1	3.4	3.4	3.9	3.0
DOE (Dividend on equity)	(%)	3.2	2.3	3.1	3.1	3.2
Market capitalization	(Billions of yen)	345.2	324.1	435.7	390.2	509.9

Note: Market capitalization is calculated based on the number of shares issued, excluding treasury shares. For fiscal years up to and including FY2021, the fiscal year-end was March 31. DOE (Dividend on Equity) is calculated by dividing the annual dividend increase by shareholders' equity.

External Evaluation

(As of end of June 2026)

- FTSE Blossom Japan Index
- MSCI Nihonkabu ESG Select Leaders Index
- SOMPO Sustainability Index
- CDP
- DX-Certification by METI
- NIKKEI Sustainable Management Survey - SDGs Edition
- FTSE Blossom Japan Sector Relative Index
- S&P/JPX Carbon Efficient Index
- EcoVadis
- "Platinum Kurumin" certification by MHLW
- PRIDE Index Gold Rating
- NIKKEI Sustainable Management Survey - Smart Work Edition

Sumitomo Heavy Industries, Ltd.