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

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

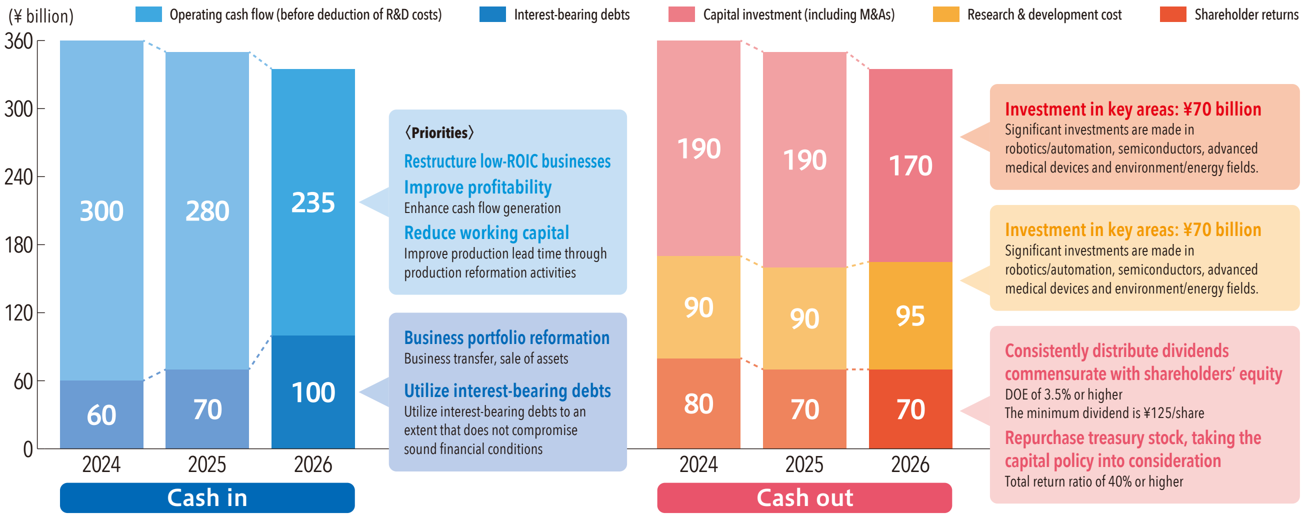
In formulating the next medium-term management plan, we are placing the highest priority on achieving an ROE of 10% or higher. We deeply regret that we failed to meet stakeholders' expectations, having repeatedly revised our profit targets downward during the current medium-term management plan.

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

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

Susumu Takahashi

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.

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.

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

Akio Hamaji

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.

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.

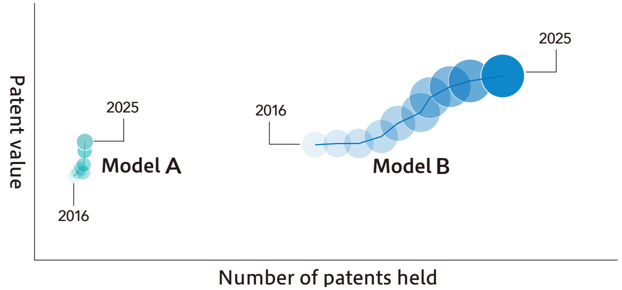
In the robotics/automation field, we released an ultra-compact CYCLO®Drive gear reducer, which was used in an android avatar robot featured in the Future of Life pavilion at EXPO 2025, Osaka, Kansai, Japan. We are also developing new actuators that integrate AI and motion control technologies for commercial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

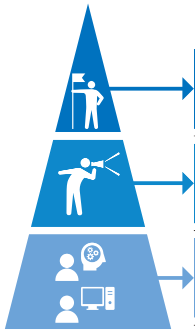
The Next Milestone: Elevating DX into a Driver of Value Creation

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	Presenting a vision for change, supporting the front lines
		Lectures for management	
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