

Financial Summary for FY2022 Performance Forecast for FY2023 and Progress of “Medium-Term Management Plan 2023”

2023/2/13



Sumitomo Heavy Industries, Ltd.

President Shinji Shimomura

INDEX

01

Financial Summary for FY2022

02

Performance Forecast for FY2023

03

Progress of “Medium-Term Management Plan 2023”

04

Promoting Sustainability

01

Financial Summary for FY2022

01

Change in Fiscal Year End (Financial Year End) (Reproduction of Announcement Made in May 2022)

[Earnings results for FY2022]

Starting from the fiscal year (ended December 31, 2022) under review, the financial year end is December 31.

This fiscal year (FY2022), which is a transition period, **consists of nine months** with regard to Sumitomo Heavy Industries and its subsidiaries in Japan (hereinafter referred to as “Domestic”).

	FY2021	FY2022	1Q	2Q	3Q	FY2023
Domestic	April 2021 to March 2022	April 2022 to December 2022 (9 months)	April to June (3 months)	July to September	October to December	January 2023 to December 2023
Overseas	January 2021 to December 2021	January 2022 to December 2022 (12 months)	January to June (6 months)			

	2022				2023
	January to March	April to June	July to September	October to December	January to March
Domestic		1Q	2Q	3Q	
		1H of FY2022		2H of FY2022	
		FY2022 Domestic 9 months			
Overseas	1Q	2Q	3Q		
		1H of FY2022		2H of FY2022	
		FY2022 Overseas 12 months			

01

Financial Summary for FY2022

Actual FY2022	<p>Orders: JPY984.7 billion</p> <hr/> <p>Net sales: JPY854.1 billion</p> <hr/> <p>Operating profit: JPY44.8 billion / Current profit: JPY5.8 billion</p>
Year-on-year comparison	<ul style="list-style-type: none"> - Orders: Demand for machinery was strong and orders increased in all segments. - Net sales: Increased in all segment except Energy & Lifelines, because demand was strong despite production constraints, etc. due to difficulty in parts. - Operating profit: Decreased due to price increases of raw materials and procured products and declining profit margins of energy plant projects in Europe. - Current profit: Significantly decreased due to recognition of extraordinary losses.
Comparison with forecast as of November 2022	<ul style="list-style-type: none"> - Orders: Demand for machinery was strong and increased in all segments except Industrial Machinery. - Net sales: Decreased in all segments except Energy & Lifelines because of production constraints due to difficulty in parts procurement. - Operating profit: Despite a sales decrease, operating profit increased due partly to a change in the model configuration. - Current profit: Significantly decreased due to recognition of extraordinary losses.

01

Financial Summary for FY2022

	Domestic	Overseas
*1	9 months Apr. - Dec. 2021/2022	12 months Apr. - Dec. 2021/2022
*2	12 months Apr. 2021 - Mar. 2022	12 months Jan. - Dec. 2021

The same applies hereinafter to all tables

Unit: JPY billion	FY2021*1 Actual	FY2022*1		Change	
		Latest forecast (November 2022)	Actual	Year-on-year change	Comparison with latest forecast (November 2022)
Orders	895.2	970.0	984.7	89.6	14.7
Net sales	779.8	870.0	854.1	74.3	(15.9)
Operating profit	50.6	43.0	44.8	(5.8)	1.8
Operating profit ratio	6.5%	4.9%	5.2%	-	-
Ordinary profit	493	44.0	43.3	(6.1)	(0.7)
Ordinary profit ratio	6.3%	5.1%	5.1%	-	-
Extraordinary loss	(0.4)	(2.0)	(25.5)	(25.1)	(23.5)
Current profit	32.4	26.0	5.8	(26.6)	(20.2)
Current profit ratio	4.2%	3.0%	0.7%	-	-
Dividend per share	*2 JPY115	JPY90	JPY90	(JPY25)	JPY0
Dividend payout ratio	*2 32.0%	42.4%	190.8%	-	-
ROIC (after Tax)	*2 7.3%	5.8%	*3 6.2%	*3 Annual bases -	-
[Ref.] ROE	*2 8.5%	6.0%	*3 3.0%	-	-
Currency exchange rate (US dollars)	*2 ¥112	¥145	¥133	-	-

01

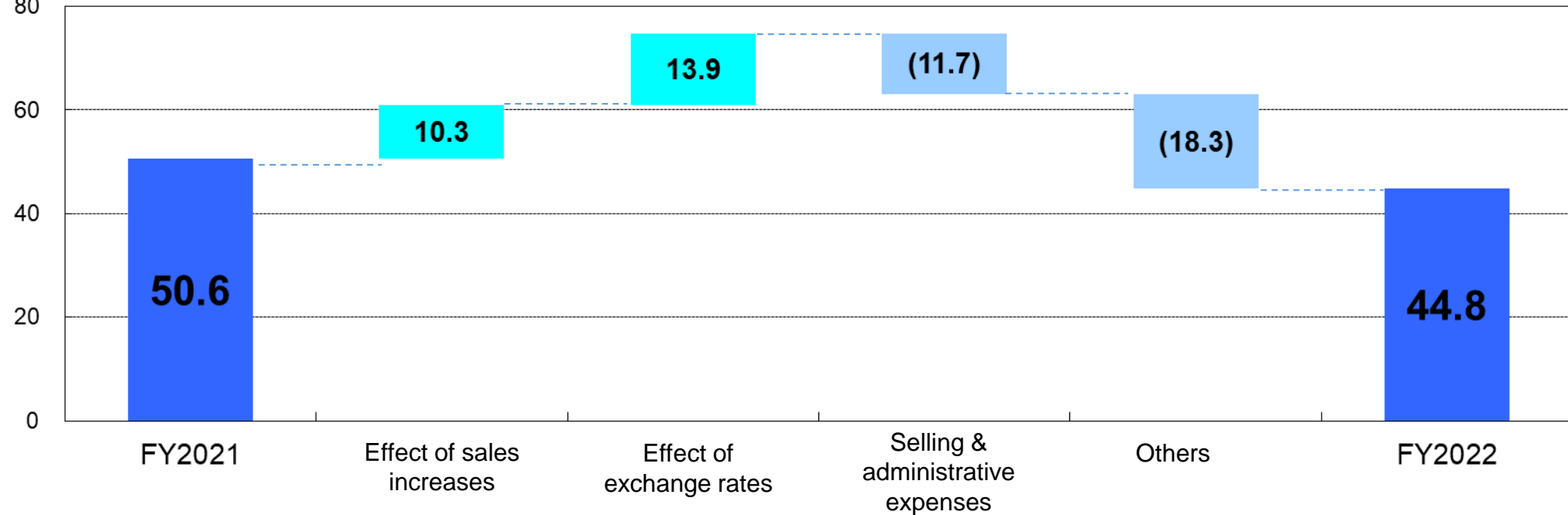
Performance by Segment for FY2022

	Orders			Net sales			Operating profit				
	FY2021*1 Actual	FY2022*1 Actual	Change	FY2021*1 Actual	FY2022*1 Actual	Change	FY2021*1 Actual /Operating profit ratio (%)		FY2022*1 Actual /Operating profit ratio (%)		Change
Unit: JPY billion											
Mechatronics	178.0	204.1	26.1	144.5	181.4	36.9	6.7	4.6	9.5	5.2	2.8
(Plastics machinery)	104.3	97.6	(6.6)	96.4	97.2	0.8					
(Others)	123.4	169.0	45.6	94.8	127.7	32.9					
Industrial Machinery	227.6	266.7	39.0	191.3	224.9	33.7	14.2	7.4	21.3	9.5	7.1
(Hydraulic excavators)	216.0	218.0	2.0	177.3	178.0	0.7					
(Others)	122.2	136.2	13.9	107.2	122.3	15.1					
Logistics & Construction	338.2	354.1	15.9	284.5	300.3	15.8	15.8	5.5	13.0	4.3	(2.8)
Energy & Lifelines	146.5	155.2	8.7	155.0	143.3	(11.7)	12.4	8.0	(0.5)	(0.3)	(12.9)
Others	4.7	4.6	(0.1)	4.5	4.1	(0.4)	1.6	-	1.5	-	(0.1)
Total	895.2	984.7	89.6	779.8	854.1	74.3	50.6	6.5	44.8	5.2	(5.8)

01

Analysis of Changes in Operating Profit for FY2022

Unit: JPY billion



<Effect of sales increases by segment>

Unit: JPY billion

Mechatronics	6.1
Industrial Machinery	8.4
Logistics & Construction	(0.9)
Energy & Lifelines	(3.3)

<Selling & administrative expenses>

Sales transportation expenses, personnel costs and the allowance for doubtful accounts increased as a result of increased sales.

<Others>

- Impact from price increases of raw materials and procured products: decrease of JPY23.0 billion
- Improvement by price transfer: increase of JPY15.5 billion, etc.
- Decrease in sales of energy plants and declining profit margins for individual projects: decrease of JPY8.9 billion, etc.

01

Recording of Extraordinary Losses in FY2022

Expense item	Details of loss	Amount of loss	Timing of acquisition/investment	Amount of acquisition/investment	Location of head office	Segment
Impairment loss	1. Non-current assets including goodwill related to SFW	JPY17.7 billion	June 2017	JPY22.8 billion	Netherlands	Energy & Lifelines
	2. Non-current assets including goodwill related to LMS	JPY3.0 billion	May 2020	JPY3.2 billion	Germany	Industrial Machinery
	3. Business assets, etc.	JPY0.5 billion				
Valuation loss on investment securities	4. Investment amount related to Highview	JPY5.2 billion	February 2020	JPY5.2 billion	UK	Energy & Lifelines
Total		JPY26.4 billion				

1. SFW: Sumitomo SHI FW Energie B.V.
 2. LMS: Leifeld Metal Spinning GmbH
 4. Highview: Highview Enterprises Limited

01

Consolidated Balance Sheet (Assets)

Unit: JPY billion	March 2022	December 2022	Change
Current Assets	648.1	711.4	63.3
Cash and deposits	88.8	97.5	8.7
Notes and accounts receivable	294.8	300.3	5.5
Inventories	232.1	275.5	43.4
Others	32.4	38.1	5.7
Non-current Assets	446.8	437.5	(9.3)
Property, plant and equipment	301.0	320.1	19.1
Intangible assets	77.6	56.6	(20.9)
Investments and other assets	68.3	60.8	(7.5)
Total	1,094.9	1,148.9	53.9

■ Total assets:

Largely affected by an increase in inventories resulting from a rise in orders.

■ Notes and accounts receivable:

Increased due to increased sales.

■ Inventories:

Increased in all segments due to increased orders. Impacted by prolongation of lead times due to a delay in parts procurement and insufficient production capacity.

■ Property, plant and equipment:

Increased due to active capital investment.

■ Intangible assets

Decreased due to impaired goodwill.

01

Consolidated Balance Sheet (Liabilities and Net Assets)

Unit: JPY billion	March 2022	December 2022	Change
Liabilities	528.1	571.9	43.9
Notes and accounts payable - trade	172.6	186.3	13.7
Interest-bearing debts	111.3	160.8	49.5
Others	244.2	224.9	(19.3)
Net Assets	566.8	576.9	10.1
Shareholders' equity	478.9	468.5	(10.4)
Accumulated other comprehensive income	72.5	100.8	28.3
Non-controlling interests	15.5	7.7	(7.8)
Total liabilities and net assets	1,094.9	1,148.9	53.9
Net interest-bearing debts ratio	2.1%	5.5%	3.5%
Shareholders' equity ratio	50.4%	49.5%	(0.8)%

■ Notes and accounts payable – trade:
Increased due to increased sales.

■ Interest-bearing debts:
Net interest-bearing debts after deduction of cash and deposits increased by JPY40.8 billion.

■ Net Assets:
Of shareholders' equity, retained earnings decreased by JPY9.5 billion.
Of accumulated other comprehensive income, foreign currency translation adjustments increased by JPY26.9 billion due to the weaker yen.

01

Consolidated Cash Flows Statement

Unit: JPY billion

Item	FY2022
Operating Activities	21.4
Profit before income taxes	17.8
Depreciation & amortization	29.6
Working capital	(14.9)
Other (such as taxes)	(11.1)
Investing Activities	(37.3)
(Free Cash Flows)	(15.9)
Financing Activities	21.7
Net increase (decrease) in cash and cash equivalents	8.7
Cash and cash equivalents at the end of the period	93.7

■ Cash flows from operating activities:

Inventories increased, although notes and accounts receivable decreased.

■ Cash flows from investing activities:

High-level investment continued to be made.

■ Trend of cash flow indicators

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Free cash flow (JPY billion)	33.3	0.2	(21.5)	20.4	12.0	(15.9)
Debt repayment term (years)*1	0.9	1.3	3.4	1.9	1.8	7.5
Interest coverage ratio (times)*2	72.5	51.2	30.5	66.2	81.8	20.0

*1 Interest-bearing debts / cash flows from operating activities

*2 Cash flows from operating activities / interest expenses

02

Performance Forecast for FY2023

02

Performance Forecast for FY2023

Forecast FY2023	<p>Orders : JPY1,080.0 billion</p> <hr/> <p>Net sales: JPY1,050.0 billion</p> <hr/> <p>Operating profit: JPY64.0 billion / Current profit: JPY38.0 billion</p>
Year-on-year comparison	<ul style="list-style-type: none"> - Orders: Despite the assumption of strong markets, orders are expected to decrease in all segments as a result of their increase in the previous fiscal year. - Net sales: Although there will remain production constraints due to difficulty in parts procurement, there are many backlogs of orders mainly for mass produced machinery and therefore net sales will increase except in Energy & Lifelines. - Operating profit: Although a sales increase is expected, improvement will be limited due to the stronger yen and the remaining impact of higher prices of raw materials and procured products on some models.
Topics and market condition recognition	<ul style="list-style-type: none"> ■ Markets are expected to be generally strong, but the outlook is uncertain. In addition, market conditions vary depending on the region. ■ We will take price pass-on measures to respond to higher prices of procured products, thereby securing a certain level of profitability improvement. ■ Some models including hydraulic excavators will continue to be affected by disruptions in supply chains. ■ For geopolitical risks, rapid fluctuations of exchange rates, the impact of the infectious disease and other risks, measures need to be taken in an agile manner.

02

Performance Forecast for FY2023

	Domestic	Overseas
*1	9 months Apr. - Dec. 2021/2022	12 months Apr. - Dec. 2021/2022
*2	12 months Jan. 2022/2023 - Dec. 2022/2023	12 months Jan. - Dec. 2022/2023
*3	12 months Apr. 2021 - Mar. 2022	12 months Jan. - Dec. 2021

The same applies hereinafter to all tables

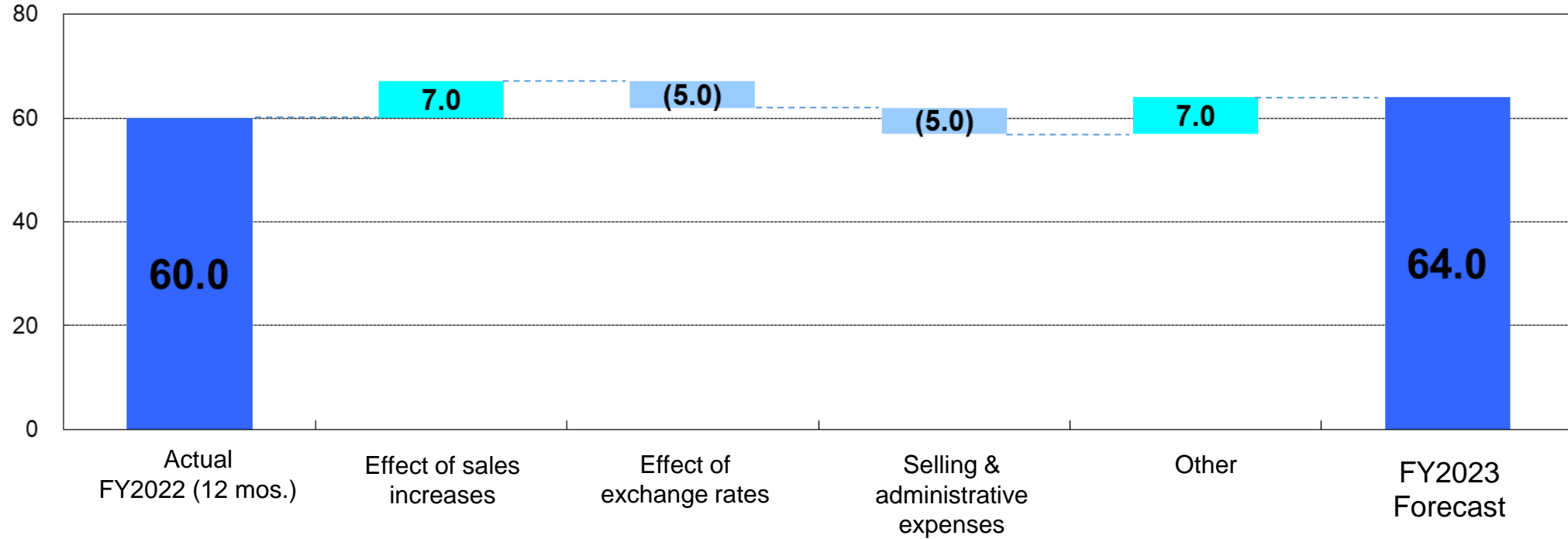
Unit: JPY billion	Actual FY2021*1 (2021.4-2021.12)	Actual FY2022*1 (2022.4-2022.12)	(Reference) Actual FY2022*2 (2022.1-2022.12)	Forecast FY2023*2 (2023.1-2023.12)
Orders	895.2	984.7	1,164.8	1,080.0
Net sales	779.8	854.1	1,018.3	1,050.0
Operating profit	50.6	44.8	60.0	64.0
Operating profit ratio	6.5%	5.2%	5.9%	6.1%
Ordinary profit	49.3	43.3	58.8	60.0
Ordinary profit ratio	6.3%	5.1%	5.8%	5.7%
Extraordinary loss	(0.4)	(25.5)	(27.6)	(2.0)
Current profit	32.4	5.8	16.3	38.0
Current profit ratio	4.2%	0.7%	1.6%	3.6%
Dividend per share	*3 JPY115	JPY90	-	JPY120
Dividend payout ratio	*3 32.0%	190.8%	-	38.7%
ROIC (after Tax)	*3 7.3%	*4 6.2%	-	6.1%
[Ref.] ROE	*3 8.5%	*4 3.0%	-	6.5%
Currency exchange rate (US dollars)	*3 ¥112	¥133	-	¥125

*4 Annual bases

02

Analysis of Changes in Operating Profit for FY2022/2023

Unit: JPY billion



<Effect of sales increases by segment>

Unit: JPY billion

Mechatronics	1.0
Industrial Machinery	4.0
Logistics & Construction	1.0
Energy & Lifelines	1.0

<Others>

Difference between the effect of price increases of raw materials and procured products and the effect of improvement by price transfer: increase of JPY3.0 billion, etc.

02

Performance Forecast by Segment for FY2023

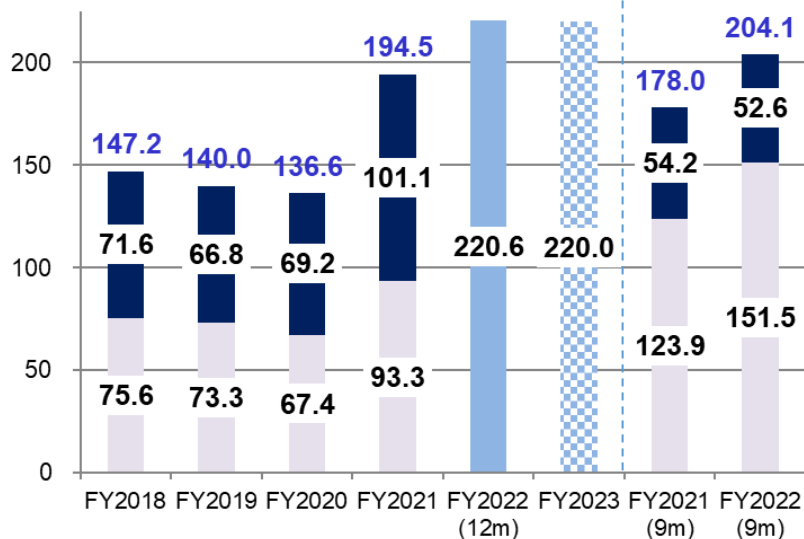
		Orders			Net sales			Operating profit					
		Actual FY2022*1 (22.4-22.12)	(Reference) Actual FY2022*2 (22.1-22.12)	Forecast FY2023*2 (23.1-23.12)	Actual FY2022*1 (22.4-22.12)	(Reference) Actual FY2022*2 (22.1-22.12)	Forecast FY2023*2 (23.1-23.12)	Actual FY2022*1 (22.4-22.12) /Operating profit ratio (%)		(Ref.) Actual FY2022*2 (22.1-22.12) /Operating profit ratio (%)		Forecast FY2023*2 (23.1-23.12) /Operating profit ratio (%)	
Unit: JPY billion													
Mechatronics		204.1	220.6	220.0	181.4	197.9	215.0	9.5	5.2	9.2	4.6	9.5	4.4
	(Plastics machinery)	97.6	117.1	109.0	97.2	106.5	110.0						
	(Others)	169.0	221.0	197.0	127.7	157.8	183.0						
Industrial Machinery		266.7	328.1	306.0	224.9	264.3	293.0	21.3	9.5	26.5	10.0	29.5	10.1
	(Hydraulic excavators)	218.0	255.8	217.0	178.0	211.4	230.0						
	(Others)	136.2	160.2	146.0	122.3	145.8	137.0						
Logistics & Construction		354.1	416.0	363.0	300.3	357.2	367.0	13.0	4.3	16.6	4.6	16.5	4.5
Energy & Lifelines		155.2	194.2	182.0	143.3	193.4	172.0	(0.5)	(0.3)	5.6	2.9	8.0	4.6
Others		4.6	6.0	9.0	4.1	5.6	3.0	1.5	-	2.1	-	0.5	-
Total		984.7	1,164.8	1,080.0	854.1	1,018.3	1,050.0	44.8	5.2	60.0	5.9	64.0	6.1

FY2022^{*1}: Orders, sales and operating profit all increased due to a strong demand for small-to-medium sized gear reducers, precision gears for robot articulations and inverters in Japan, Europe and the US. Operating profit increased due to growth in sales.

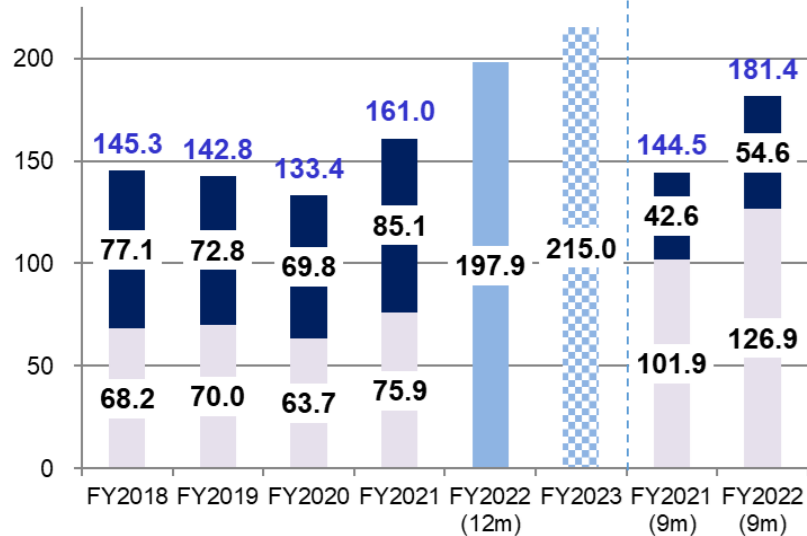
FY2023^{*2}: Markets are expected to be strong in general and orders will remain at the same level as the previous year. Sales will increase due to a backlog of orders. Operating profit will remain at the same level as the previous fiscal year.

	Actual FY2021*1 (21.4-21.12)	FY2022*1 (22.4-22.12)				(Reference) Actual FY2022*2 (22.1-22.12)	FY2023*2 (23.1-23.12)	
		Forecast November 2022	Actual	Year-on- year change	Results of comparison with forecast November 2022		Forecast	Year-on- year change
Unit: JPY billion								
Orders	178.0	203.0	204.1	26.1	1.1	220.6	220.0	(0.5)
Net sales	144.5	186.0	181.4	36.9	(4.6)	197.9	215.0	17.1
Operating profit	6.7	7.0	9.5	2.8	2.5	9.2	9.5	0.3
Operating profit ratio (%)	4.6	3.8	5.2	0.6	1.4	4.6	4.4	(0.2)
Backlog of orders	80.6		107.7	27.1				

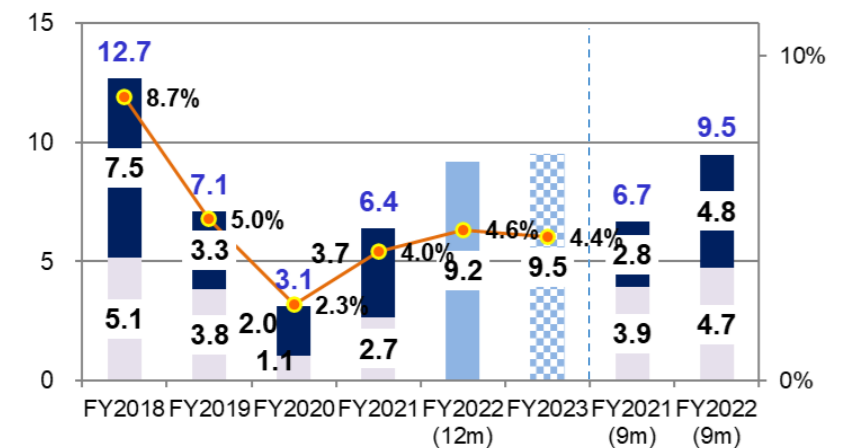
Orders



Net sales



Operating profit (left scale) Profit ratio (right scale)



<Reference>

Gear reducer business : Sales contribution ratio by model (approximate numbers)

	Gear motor (middle size)	Gear box (large size)	For use in precision equipment (MCD)	Service	Electric control	Total
FY2022 *1	40%	20%	10%	10%	20%	100%
FY2021	40%	20%	10%	10%	20%	100%

02

Industrial Machinery

<Plastics machinery>

FY2022^{*1}: Orders decreased due to the cooling of demand from China and Europe, which had been strong in the previous year. However, sales increased due to a backlog of orders. Meanwhile, operating profit decreased due partly to higher prices of raw materials and procured products.

FY2023^{*2}: Markets in Japan and other Asian regions are expected to be strong and orders will remain at the same level as the previous year. Sales will increase due to a backlog of orders. Operating profit will be maintained at the same level as in the previous year, although there are factors such as a surge in materials expenses and a rise in fixed costs.

<Others>

FY2022^{*1}: Growth in demand for semiconductor-related products and an increase in orders for medical equipment led to increases in orders, sales and operating profit.

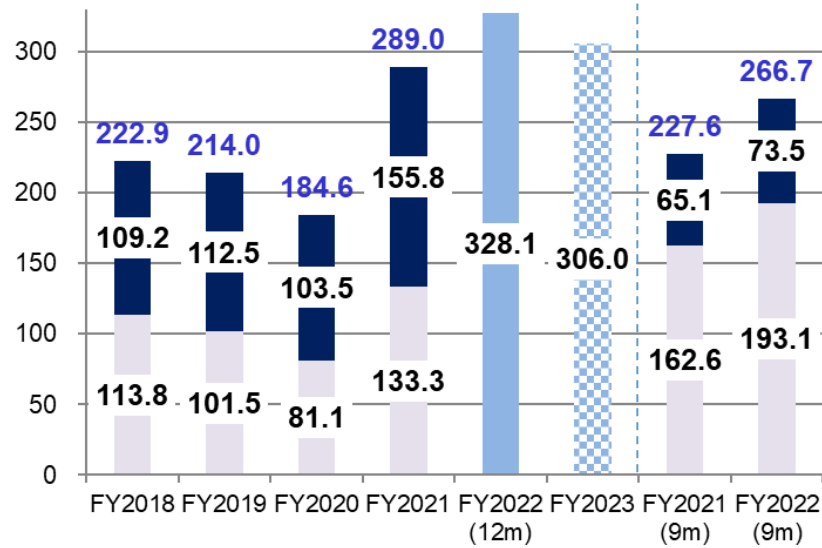
FY2023^{*2}: For semiconductor-related products, orders will decrease in reaction to their increase in the previous year which was caused by advance orders placed by customers. Sales and operating profit will increase due to a backlog of orders.

	Actual FY2021*1 (21.4-21.12)	FY2022*1 (22.4-22.12)				(Reference) Actual FY2022*2 (22.1-22.12)	FY2023*2 (23.1-23.12)	
		Forecast November 2022	Actual	Year-on-year change	Results of comparison with forecast November 2022		Forecast	Year-on-year change
Unit: JPY billion								
Plastics machinery	104.3	96.0	97.6	(6.6)	1.6	107.1	109.0	1.9
Others	123.4	172.0	169.0	45.6	(3.0)	221.0	197.0	(24.0)
Orders	227.6	268.0	266.7	39.0	(1.3)	328.1	306.0	(22.1)
Plastics machinery	96.4	97.0	97.2	0.8	0.2	106.5	110.0	3.5
Others	94.8	129.0	127.7	32.9	(1.3)	157.8	183.0	25.2
Net sales	191.3	226.0	224.9	33.7	(1.1)	264.3	293.0	28.7
Operating profit	14.2	16.0	21.3	7.1	5.3	26.5	29.5	3.0
Operating profit ratio (%)	7.4	7.1	9.5	2.1	2.4	10.0	10.1	0.1
Backlog of orders	122.0		190.5	68.4				

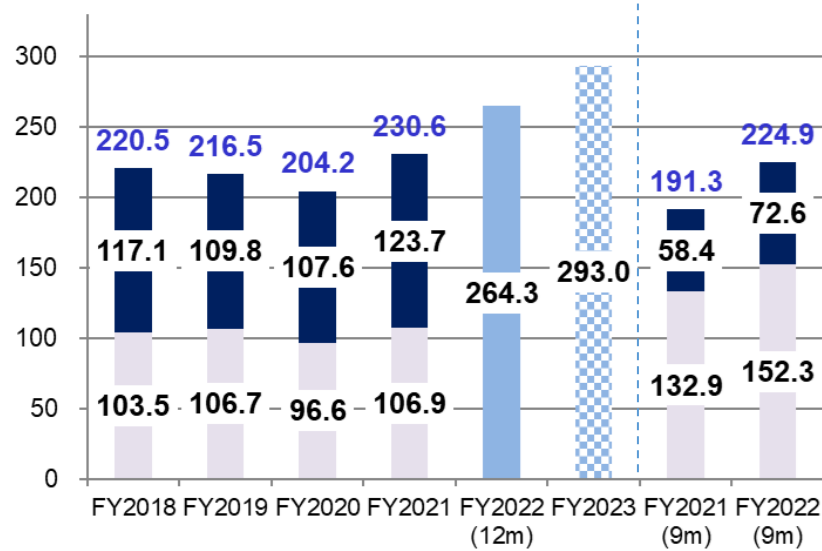
02

Industrial Machinery

Orders

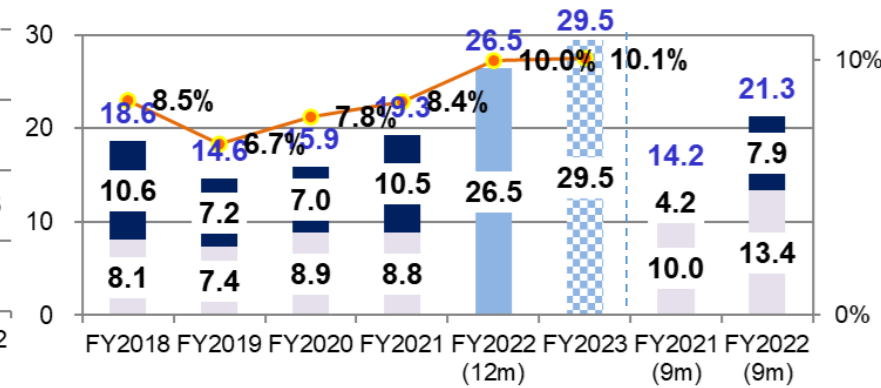


Net sales

Operating profit (left scale)
Profit ratio (right scale)

Unit: JPY billion

3-4Q
1-2Q
Full year



<Reference>

- Sales mix of injection molding machines by segment (approximate numbers)

	Electric and electronic product-related	Automobile	Medical care, foods, containers, miscellaneous goods	Others	Total
FY2022*1	20%	15%	50%	15%	100%
FY2021	25%	15%	45%	15%	100%

- Business performance for semiconductor production equipment (ion implanters) (approximate numbers)

Unit: JPY billion	Actual FY2021*1	FY2022		Forecast FY2023
		Actual*1 (22.4-22.12)	Actual*2 (22.1-22.12)	
Orders	380	430	660	510
Sales	240	380	500	510

02

Logistics & Construction

<Hydraulic excavators>

FY2022*1: Orders and sales increased due to strong demand from Japan and North America, although demand from the Chinese market significantly decreased because of the economic downturn and lockdowns in the country.

Operating profit decreased due partly to a decline in sales in the Chinese market and the provision of allowance for notes and accounts receivable.

FY2023*2: Orders decreased because there was no recovery in the Chinese market, although markets in Japan and North America were strong. Operating profit will increase due to a rise in sales, despite the stronger yen and a delay in price transfer.

<Others>

FY2022*1: The mobile crane business saw increases in orders, sales and operating profit partly because demand was strong in North America.

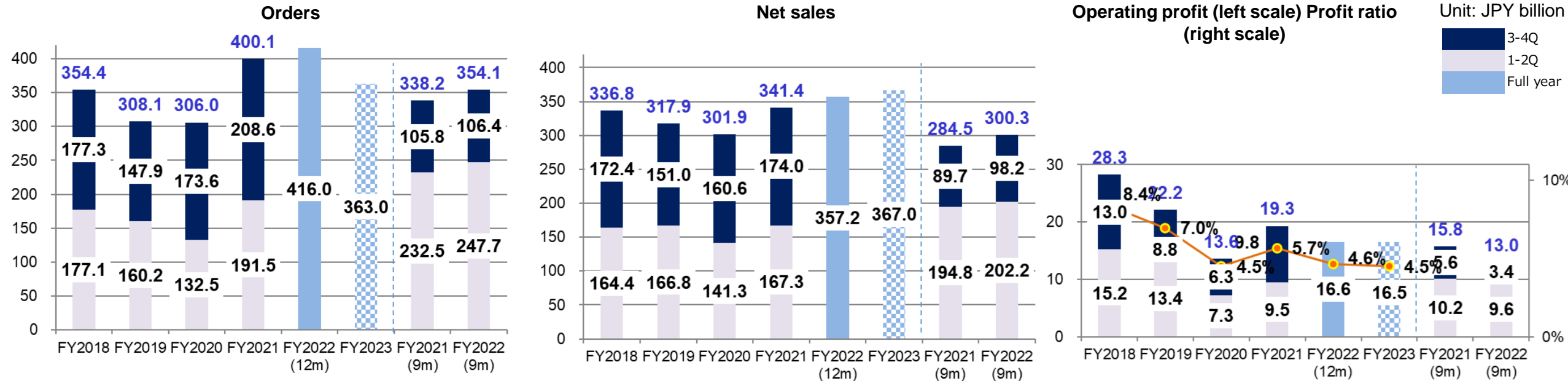
The industrial crane business saw increases in orders, sales and operating profit due partly to strong demand for products related to ports and electricity.

FY2023*2: Orders decreased partly because of reaction to the increase in the previous year. Orders will decrease partly because of a reaction to their increase in the previous fiscal year. Accordingly, sales will decrease and operating profit will also decrease due to a change in the model configuration, a surge in materials expenses and the effects of exchange rates.

exchange rates.		Actual FY2021*1 (21.4-21.12)	FY2022*1 (22.4-22.12)				(Reference) Actual FY2022*2 (22.1-22.12)	FY2023*2 (23.1-23.12)	
			Forecast November 2022	Actual	Year-on- year change	Results of comparison with forecast November 2022		Forecast	Year-on- year change
Unit: JPY billion									
	Hydraulic excavators	216.0	228.0	218.0	2.0	(10.0)	255.8	217.0	(38.7)
	Others	122.2	117.0	136.2	13.9	19.2	160.2	146.0	(14.3)
Orders		338.2	345.0	354.1	15.9	9.1	416.0	363.0	(53.0)
	Hydraulic excavators	177.3	193.0	178.0	0.7	(15.0)	211.4	230.0	18.7
	Others	107.2	116.0	122.3	15.1	6.3	145.8	137.0	(8.9)
Net sales		284.5	309.0	300.3	15.8	(8.7)	357.2	367.0	9.8
Operating profit		15.8	15.0	13.0	(2.8)	(2.0)	16.6	16.5	(0.1)
Operating profit ratio (%)		5.5	4.9	4.3	(1.2)	(0.5)	4.6	4.5	(0.1)
Backlog of orders		180.6		247.6	67.0				

02

Logistics & Construction



<Reference>

- Hydraulic excavators: demand by region/changes in sales (approximate numbers)

*Only foreign capital

Unit: 10,000 units (upper row)/ JPY billion (lower row)		North America	Europe	Asia (Excluding China)	China*	Japan	Others	Total
FY2023	Demand	4.1	3.8	2.6	1.8	2.8	-	
FY2022	Demand*2	4.2	4.3	2.6	2.2	2.6	-	
	Net sales*1	53.3	13.9	30.4	13.4	54.3	12.7	178.0
FY2021	Demand*2	4.0	4.8	2.4	4.9	2.7	-	
	Net sales*1	41.6	12.3	24.2	31.8	56.1	11.1	177.3

- Industrial cranes: order mix by segment (approximate numbers)

	Electricity	Steel	Shipbuilding	Ports	Others	Total
FY2022*1	20%	30%	30%	10%	10%	100%
FY2021	40%	25%	15%	10%	10%	100%

- Mobile crane business: (Domestic) business performance (approximate numbers)

Unit: JPY billion	Actual FY2021*1	FY2022		Forecast FY2023*
		Actual*1* (22.4-22.12)	Actual*2 (22.1-22.12)	
Orders	30.0	30.0	36.0	39.0
Sales	21.0	24.0	34.0	41.0

02

Energy & Lifelines

FY2022^{*1}: Orders and sales in the energy plant business decreased partly because fewer orders were received for large-scale projects for biomass-fueled power generation plants than last year, and profit decreased due to declining profit margins of large-scale projects in Europe.

For other businesses, orders, sales and operating profit all increased.

FY2023^{*2}: Orders in the energy plant business will increase because more orders will be received for large-scale projects for biomass-fueled power generation plants than in the previous year.

Meanwhile, sales will decrease due to a reduced backlog of orders but operating profit will increase.

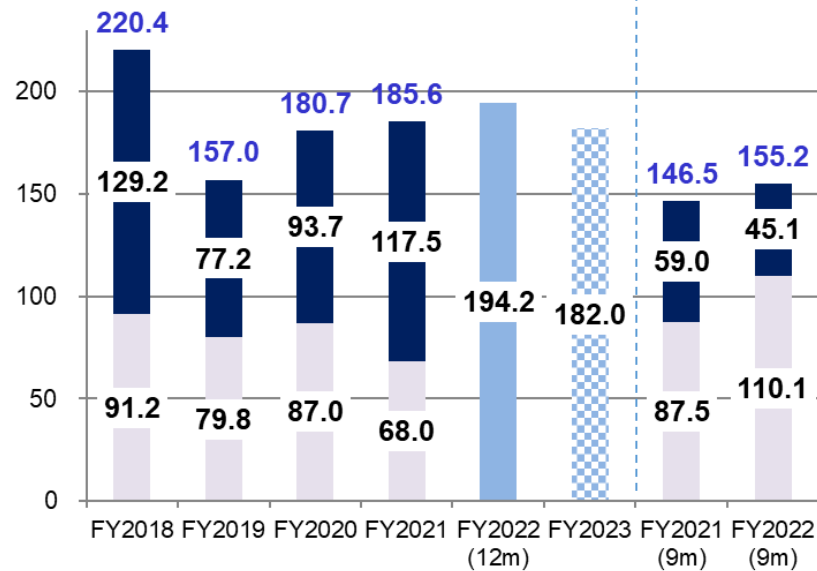
For other businesses, orders will decrease because of declining large-scale projects. Profit will improve though sales will decrease.

	Actual FY2021*1 (21.4-21.12)	FY2022*1 (22.4-22.12)				(Reference) Actual FY2022*2 (22.1-22.12)	FY2023*2 (23.1-23.12)	
		Forecast November 2022	Actual	Year-on- year change	Results of comparison with forecast November 2022		Forecast	Year-on- year change
Unit: JPY billion								
Orders	146.5	148.0	155.2	8.7	7.2	194.2	182.0	(12.3)
Net sales	155.0	143.0	143.3	(11.7)	0.3	193.4	172.0	(21.3)
Operating profit	12.4	1.0	(0.5)	(12.9)	(1.5)	5.6	8.0	2.4
Operating profit ratio (%)	8.0	0.7	(0.3)	(8.3)	(1.0)	2.9	4.6	1.7
Backlog of orders	267.2		258.2	(9.0)				

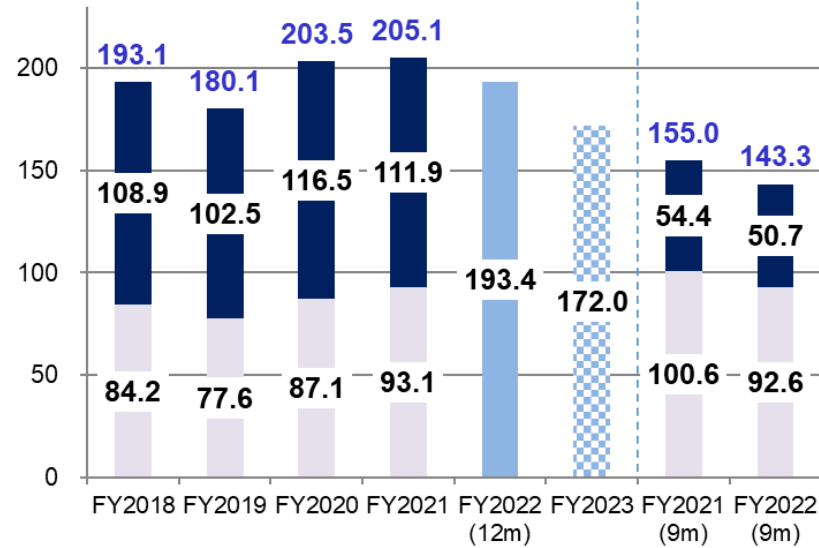
02

Energy & Lifelines

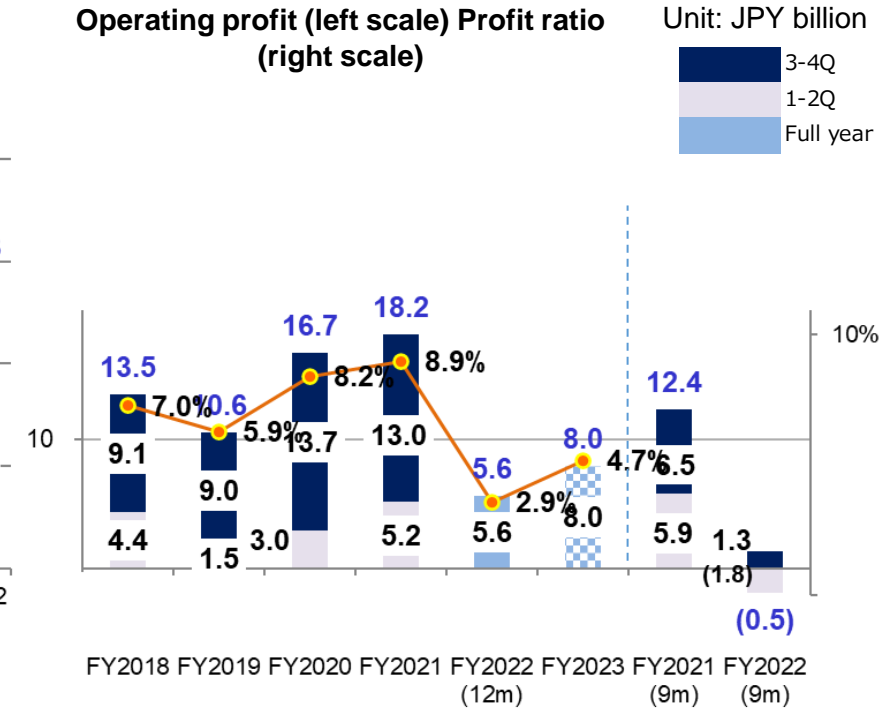
Orders



Net sales



Operating profit (left scale) Profit ratio (right scale)



<Reference>

- Energy plant business: main projects for which orders were received

Customer	Construction site	Planned timing of operation start	Boiler type*
Tosoh Corporation	Shunan City, Yamaguchi Prefecture	2026	74MW Class CFB*1
Jämtkraft AB	Sweden	2025	25MW Class BFB*2

*1 CFB: Circulating Fluidized Bed

*2 BFB: Bubbling Fluidized Bed

03

Progress of “Medium-Term Management Plan 2023”

03

“Medium-Term Management Plan 2023”: Changes in the Business Environment

Factoring-in of external environments

Impact on business

Business issue

Response

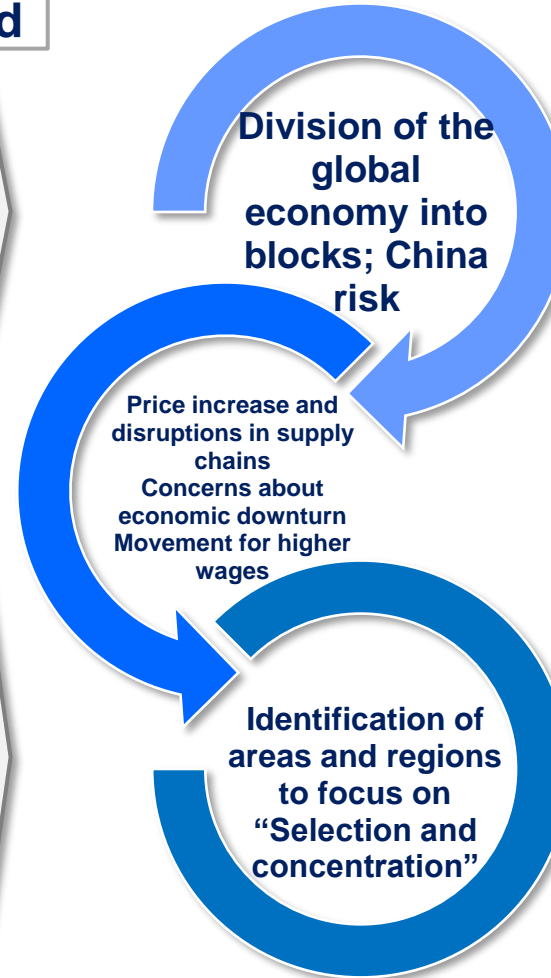
Factored in when MTMP 23 was formulated

- Rapid progress of ESG action
- China becomes more influential in terms of economy and security
- Increase in value of information
- Progress of DX
- Prolonged Covid-19 pandemic
- Expansion and materialization of exogenous risks



Topics for FY2022

- COP27 (promotion of carbon pricing)
- Uncertainty in recovery of the Chinese economy (Effects of shift in zero coronavirus policy and Taiwan contingency risk)
- Prolongation of Russia's aggression against Ukraine
- Spread of “With-Corona” approach in society
- Rapid fluctuations in financial markets (Fluctuations in exchange rates and changes in monetary policy)
- Serious labor shortage



Increase in production costs and securing of parts

Revise prices to ensure profits
Implement S/C measures

Increase in capital costs

Expand services to make BS more efficient

Issues of sustainable growth

- Competitive advantage
- Monetization of social value
- Review of portfolio

Roll out new products by promoting product development in the “Environment/Energy” and “DX/Automation” fields

Create synergy between new segments “Selection and concentration”

03

“Medium-Term Management Plan 2023”: Implementation Status of the Basic Policy

Basic policy	Specific developments
1. Develop a robust entity	<ul style="list-style-type: none"> ■ Actively made capital investments in growth areas and conducted research & development activities ■ Expanded the after-sales service business ■ Carried out supply chain measures by implementing the BCP
2. Make a reform to improve corporate value	<ul style="list-style-type: none"> ■ Achieved orders and sales worth more than 1 trillion yen (on a 12-month basis) ■ Expansion of semiconductor-related products and electric control-type models ...(1)
3. Shift to a company with a comfortable work environment	<ul style="list-style-type: none"> ■ Promoted gender diversity ■ Stably conducted business amid the Covid-19 pandemic by promoting a remote work system ■ Formulation of a human rights policy
4. Contribute to SDGs through products and services	<ul style="list-style-type: none"> ■ Promoted development activities and launched new products in the “Environment/Energy” and “Automation/Digitalization” fields ...(2)
5. Reduce environmental burdens through our businesses	<ul style="list-style-type: none"> ■ Endorsed TCFD ■ Set the 2030 CO2 emission reduction target ■ Set to achieve carbon neutrality by 2050

Official establishment of segments

After reviewing the reporting segments at the start of the current Medium-Term Management Plan, we officially established new segments in January 2023.

A segment is not only regarded as a framework but is also managed as a large business entity to accelerate the exploration of new businesses and the pursuit of synergy.

Holding of long-term strategy meeting

The direction and growth strategies pursued by each segment are regularly discussed at a long-term strategy meeting consisting of directors and segment heads and the following initiatives have been implemented.

<Examples of initiatives>

- Investment with a focus on semiconductor segments, which are expected to grow (establishment of a new plant for ion implanters)
- Collaboration with a European company we acquired in the electric control business

Establishment of New Business Exploration Department

In parallel with efforts for development of new businesses in each segment, New Business Exploration Department has been established as an organization in the head office to flexibly work on the exploration of business in new areas and the development of inter-segment businesses.

03

“Medium-Term Management Plan 2023”: 4-(2) Key Development Areas

Key areas	Development targets	Actual FY2022
Environment	Develop environmental conservation technologies necessary for sustainable industries (Waste water/waste treatment technologies)	<ul style="list-style-type: none"> ■ New anaerobic treatment technology for which the speed at which high-concentration fats and oils are broken down was significantly improved, and desulfurization and power generation technologies based on principles for fuel batteries were developed. ■ To respond to environmental issues caused by plastics, we examined the polymerization process where chemical recycling is performed to reprocess plastic waste into high-quality products.
Energy	Develop futuristic technologies towards a decarbonized society (Technologies to use carbon dioxide and waste heat; plant failure diagnosis/operation-support technologies)	<ul style="list-style-type: none"> ■ In addition to CO2 fixation technologies using incinerated ash or algae, development of fuel synthesis technologies was started. Development of waste heat utilization technologies through high temperature thermal energy storage was promoted. ■ Utilization of gasification technology was promoted, construction of an energy storage system demonstration plant was decided and commercialization of CO2 recovery and utilization technologies was examined
Automation	Introduce intelligent/advanced moving objects and robot products; promote development towards production technology innovation	<ul style="list-style-type: none"> ■ Development of technologies for operation support, remote control, automation and electrification of construction machinery was promoted. Testing for application to actual machines was performed. ■ The scope of automation of construction and material handling machines was expanded using sensing and information processing technologies.
Digitalization	Improve intelligent technology and information infrastructure technology and implement various intelligent functions in products and services	<ul style="list-style-type: none"> ■ A prototype peripheral monitoring system for construction machinery using sensor fusion technologies was produced. Testing for application to actual machines continued to be performed. ■ Regarding failure diagnosis technologies for construction machinery, trial operation was completed and the next phase started to be considered. ■ Development of condition setting support and automation technologies for industrial machinery was promoted.

03 “Medium-Term Management Plan 2023”: 4-(2) Energy Storage System

Start of the first commercial demonstration operation for LAES in Japan

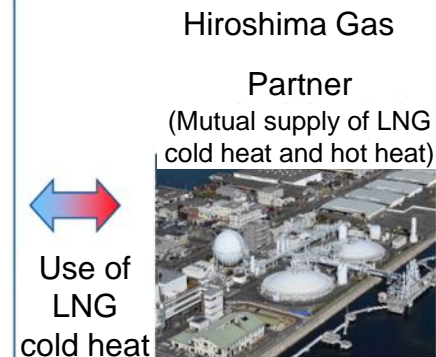
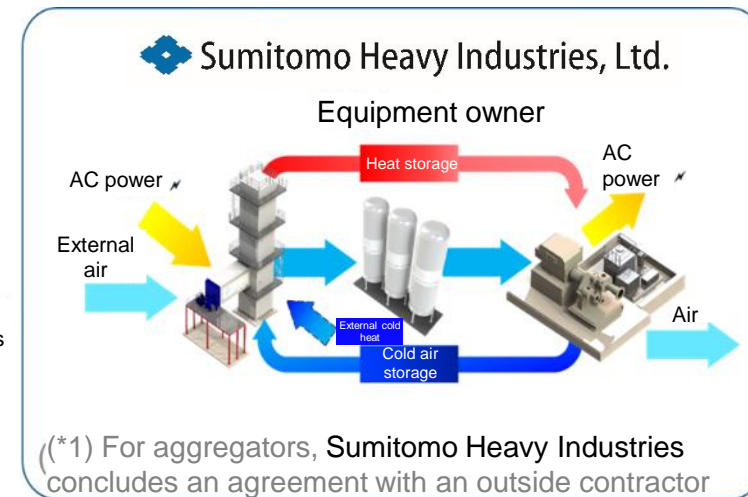
- In collaboration with Hiroshima Gas Co., Ltd., we constructed a commercial demonstration plan for Liquid Air Energy Storage (hereinafter “LAES” ^{*1, 2)} and started demonstration operation (completion of construction of facilities scheduled for March 2025).
- We will pursue the electric storage market, for which growing demand is expected in the future, and provide energy storage systems that contribute to effective utilization of resources and reduction in environmental burdens, thereby contributing to the stable supply of electricity and utilities and the realization of a decarbonized society.

1. Purpose of commercial demonstration

- (1) Compliance with laws, regulations and standards concerning designs and construction
- (2) Response to system management and electricity supply-demand markets in Japan and streamlining
- (3) Verification of efficiency improvement and energy-saving effects of mutual use of cold heat that has not been used, such as LNG cold heat

Capacity market
Supply-demand
balancing market
Wholesale
electricity market

Market
transactions
(*1)



2. Outline of equipment (LAES system: CRYO Battery)

- (1) Capacity: 4.99 MW x 4-hour storage (charging: 4MW)
- (2) Planned construction site: Hatsukaichi City, Hiroshima Prefecture

*1 Technology led by UK-based Highview Enterprises Limited, in which we invested to acquire energy storage technology in February 2020

*2 The LAES system consists of 3 processes: 1) Charging: electricity at off-peak times and extra electricity are used to activate air liquefaction equipment, thereby generating liquid air; 2) Energy storage: liquid air is stored in a tank which is insulated at low pressure; and 3) Discharge: generated high-pressure gas drives turbines and power generators and produces electricity.

03

“Medium-Term Management Plan 2023”: Financial Targets

■ Financial targets

Unit: JPY billion	Actual FY2021	Actual FY2022 (9 months)	Actual FY2022 (12 months)	Target FY2023 (As of May 2021)	Target FY2023 (As of May 2022)	Forecast FY2023 (As of May 2023)
Orders	1,075.3	984.7	1,164.8	1,000.0	1,070.0	1,080.0
Net sales	944.0	854.1	1,018.3	970.0	1,050.0	1,050.0
Operating profit	65.7	44.8	60.0	70.0	76.0	64.0
Operating profit ratio	7.0%	5.2%	5.9%	7.2%	7.2%	6.1%
ROIC	7.3%	6.2%	-	7.5%	7.5%	6.1%
Currency exchange rate (US dollars)	¥112	¥133	-	¥100	¥120	¥125
[Ref.] ROE	8.5%	3.0%	-	8.0%	8.0%	6.5%

■ Orders:

The plan is expected to be exceeded because of a solid environment for orders

■ Net sales:

The plan is expected to be exceeded, with the forecast for orders reflected in net sales

■ Operating profit:

The plan was revised downward due to higher than assumed costs

■ ROIC:

The target value was revised to 6.1%, reflecting the revision of operating profit

■ Investment plan

Unit: JPY billion	Capital investment	Research & development cost	M&A/New business
Actual FY2021	32.2	21.8	0
Actual FY2022 (9 months)	36.5	17.4	7.3
Forecast FY2023*	56.3	26.8	-
3-year cumulative total (May 2022 → Feb. 2023)	117.0→125.0	68.0→66.0	40.0

*Based on budget

■ Capital investment:

Continue active investment with a focus on core businesses and informatization investments.

■ Research & development cost:

Enhance product appeal towards growth

■ M&A/New business:

Take any opportunities to identify growth investment projects

03

“Medium-Term Management Plan 2023”: Target Values by Segment

		Orders		Net sales		Operating profit				
		Target FY2023 (As of May 2022)	Forecast FY2023 (As of February 2023)	Target FY2023 (As of May 2022)	Forecast FY2023 (As of February 2023)	Target FY2023 (As of May 2022) /Operating profit ratio (%)		Forecast FY2023 (As of February 2023) /Operating profit ratio (%)		
Unit: JPY billion										
Mechatronics		196.0	220.0	198.0	215.0	12.0	6.1	9.5	4.4	Expansion of the electric control field mainly in Europe and collaboration within the Group are underway
	(Plastics machinery)	110.0	109.0	110.0	110.0					As a result of completion of construction of a new plant for semiconductor production equipment, a production increase system has been established, leading to business expansion. Development of the next generation nuclear medicine equipment has been completed and an order for the first model has been received.
	(Others)	177.0	197.0	173.0	183.0					
Industrial Machinery		287.0	306.0	283.0	293.0	30.5	10.8	29.5	10.1	
	(Hydraulic excavators)	242.0	217.0	244.0	230.0					Synergy is being forged with regard to development of electrified and automated excavators and cranes. In terms of automatic warehouses and automatic forklifts, collaborations across business units have been built
	(Others)	129.0	146.0	135.0	137.0					
Logistics & Construction		371.0	363.0	379.0	367.0	23.0	6.1	16.5	4.5	
Energy & Lifelines		211.0	182.0	184.0	172.0	9.0	4.9	8.0	4.6	While reviewing the model portfolio from the decarbonization perspective, we have offered solutions in new areas, such as energy storage systems.
Others		5.0	9.0	6.0	3.0	1.5	-	0.5	-	
Total		1,070.0	1,080.0	1,050.0	1,050.0	76.0	7.2	64.0	6.1	

04

Promoting Sustainability

04

Promoting Sustainability

	Actual FY2022	Issue
Overall	<ul style="list-style-type: none"> - Selected as a component of the ESG investment index “FTSE Blossom Japan Sector Relative Index” (increased non-financial information disclosure) - Contract agreement for Positive Impact Finance - Obtained a Silver Medal* from EcoVadis (A Bronze Medal in the previous year) 	<ul style="list-style-type: none"> - Promote CSV to improve social value - Strengthen measures to respond to material issues of sustainability - Improve the quantity and quality of disclosed information
Environment (E)	<ul style="list-style-type: none"> - Set the 2030 CO2 emission reduction target and the 2050 carbon neutrality target - Started procurement of renewable energy - Our group company won the Energy Conservation Grand Prize for its CO2 emission reduction 	<ul style="list-style-type: none"> - Evaluate risks and opportunities and formulate policies - Followup on the progress of a measure to achieve the CO2 emission reduction target and carbon neutrality
Society (S)	<ul style="list-style-type: none"> - Formulated a human rights policy and implemented a survey on work environments of technical intern trainees - Strengthen LGBT measures (develop an environment for same-sex partnership and transgender people) - Accelerated work style reformation (such as side jobs) 	<ul style="list-style-type: none"> - Strengthen cooperation with suppliers - Address human rights issues in the supply chain - Improve well-being of employees and contractors
Governance (G)	<ul style="list-style-type: none"> - Nominate a female director candidate - Started the operation of the 4-segment framework by giving substance to it - Adopted a stock-based remuneration system for officers 	<ul style="list-style-type: none"> - Further improve governance by outside directors - Expand gender diversity

*EcoVadis: One of the world's largest providers of corporate sustainability ratings.

It assesses the sustainability of approximately 100,000 supplier companies in 160 countries worldwide in four areas: environment, labor and human rights, ethics, and sustainable procurement.

The Silver Medal is awarded to companies that meet the criteria for achieving a score for the top 25% of assessed companies. Our group's score was in the top 10% of the general machinery manufacturing industry.

04

<E (Environment): Response to Climate Change>

■ Reduction in Scopes 1 and 2

- Started procurement of renewable energy
- Made settings for internal carbon pricing and started to manage the related system
- Accelerated CO2 emission reduction in production activities
(Our group company won the Energy Conservation Grand Prize 2022)

■ Reduction in Scope 3

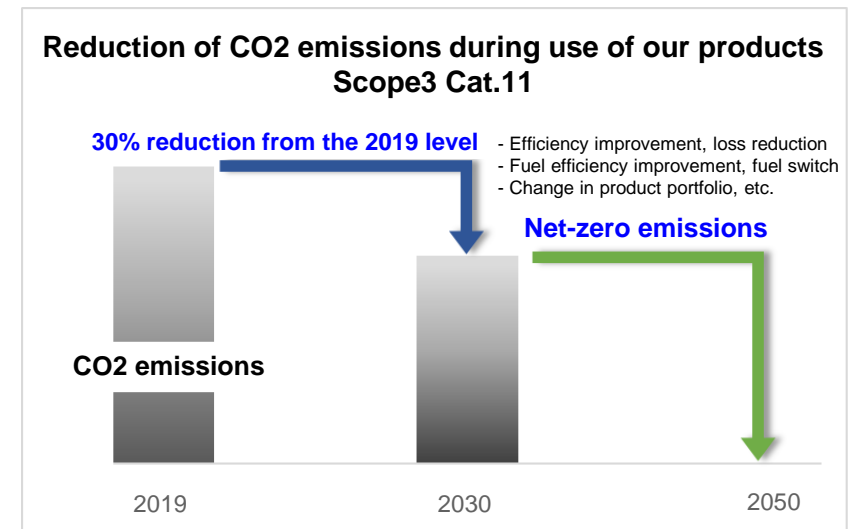
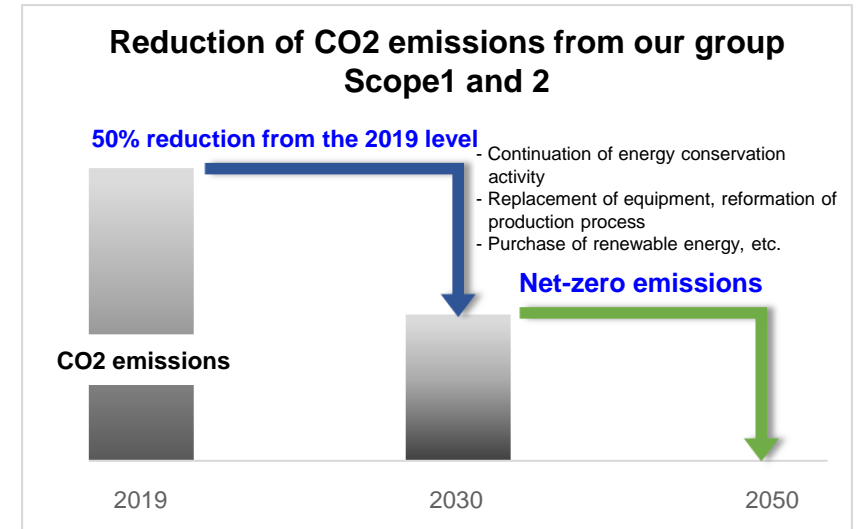
- Offered new products towards reduction of CO2 emission during use of products
(e.g., liquid air energy storage systems)

■ Overall

- In the CDP*¹ 2022 assessment, our rating was improved from B- in the previous year to B.
- Supported GX League*²

*1 An ESG assessment organization that assesses strategies for addressing climate change, initiatives for reductions of green house gas (GHG) emissions, etc. that are disclosed by companies and cities around the world.

*2 GX is the abbreviation of Green Transformation. An initiative to take on the challenge of GX with an eye to the realization of carbon neutrality in 2050 and social reformation and to facilitate an environment where companies that make such efforts based on the basic concept of GX League promoted by the Ministry of Economy, Trade and Industry, and academic and governmental circles cooperate with each other.



■ Formulation of a human rights policy

- Purpose: In response to the increasing international awareness of human rights, declare the responsibility of not only employees but also the entire supply chain for human rights
- The Board of Directors adopted a resolution on February 13
- Started human rights due diligence* as a trial practice last year and formulated a policy to implement actions steadily

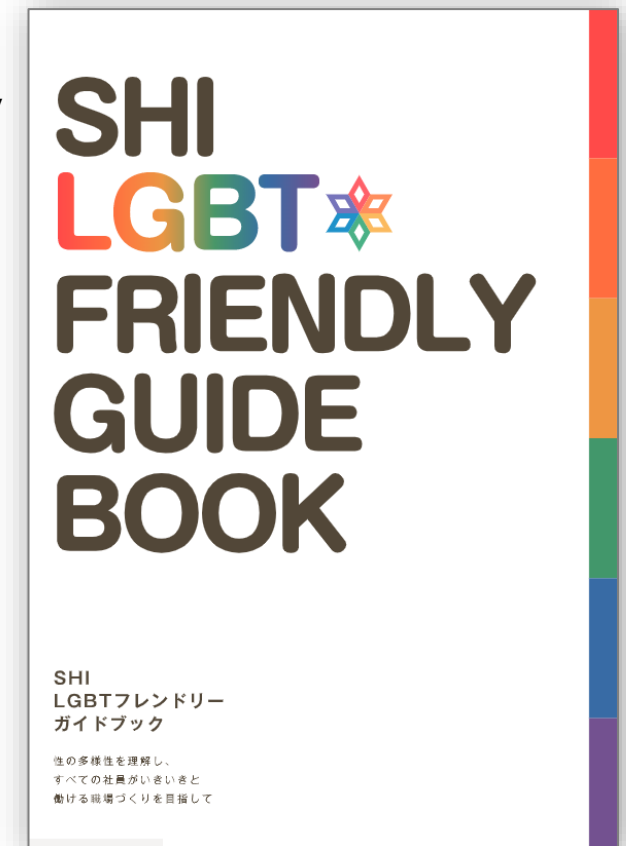
*Human rights due diligence is a way to identify, prevent, mitigate and remedy adverse impacts of corporate activities on human rights of stakeholders and disclose related information.

■ LGBT measures

- Held study workshops for officers
- Issued the LGBT Friendly Guidebook (right figure) and thereby promoted an understanding among employees
- Call to become LGBT allies (supporters)
- Started to implement an internal system based on same-sex partnership notifications

■ Acceleration of work style reformation

- Lifted a ban on side jobs
(to respond to employees' efforts, such as skill improvement and voluntary career advancement, through activities other than their main job)



Toward further improved governance

Issue 1: Composition and ideal state of the Board of Directors

→ One female director is planned to be appointed at a general meeting of shareholders in March 2023.

Continue to move forward with enhancing the diversity of the Board of Directors and examining a governance system including whether a change in institutional design is required.

Issue 2: Allocating management resources; business portfolio strategy

→ Deepen and accelerate discussion about optimum structure of the business portfolio at the time of formulation of the next Medium-Term Management Plan, taking into account the ideal state of long-term management of our company and the strategy for such management.

Issue 3: Enhancing deliberations with an awareness of capital costs

→ Determine further specific details of a plan and strategy for achieving ROIC targets, based on optimum KPIs for each business division with regard to the Medium-Term Management Plan and long-term strategies, and thereby improve discussion by the Board of Directors.

Reference Materials

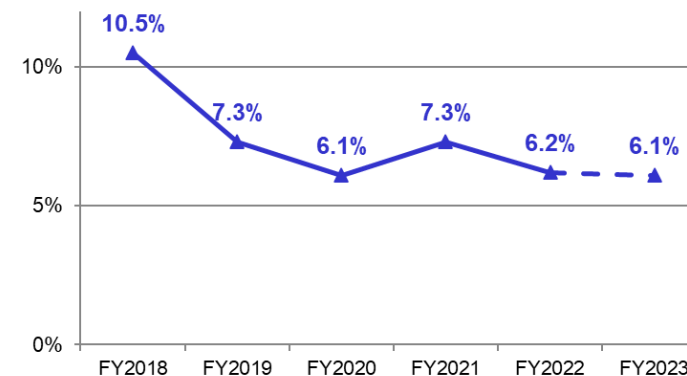
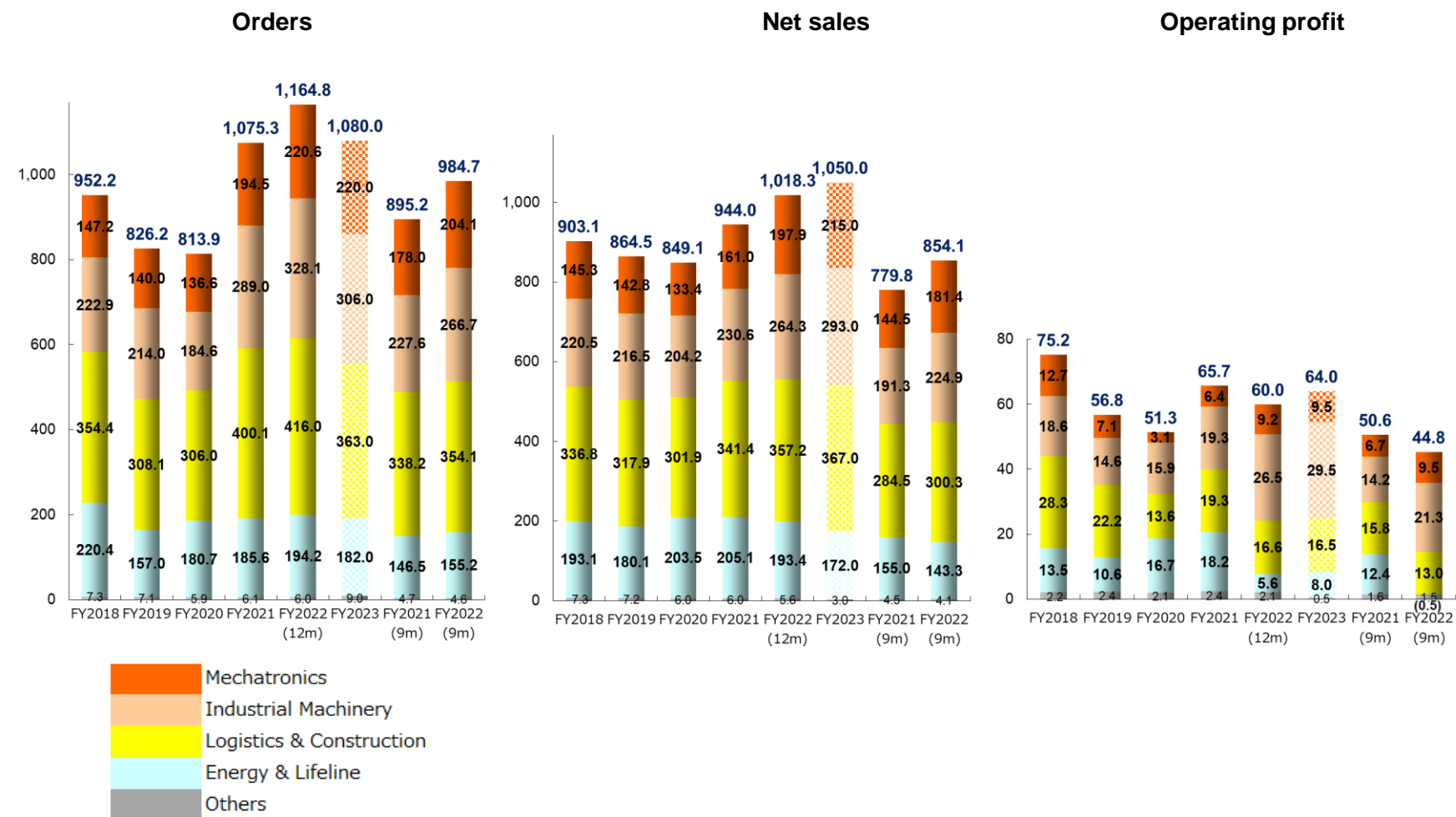
Ref.

Changes in Financial Values (Consolidated)

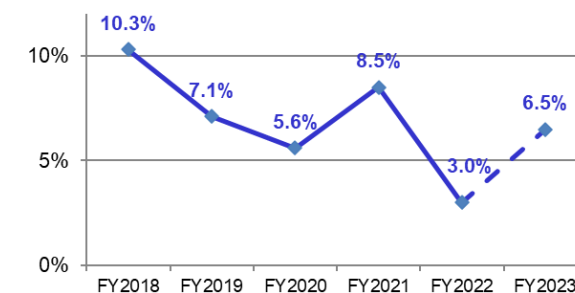
■ Changes in Orders/Sales/Operating Profit

Unit: JPY billion

■ Changes in ROIC



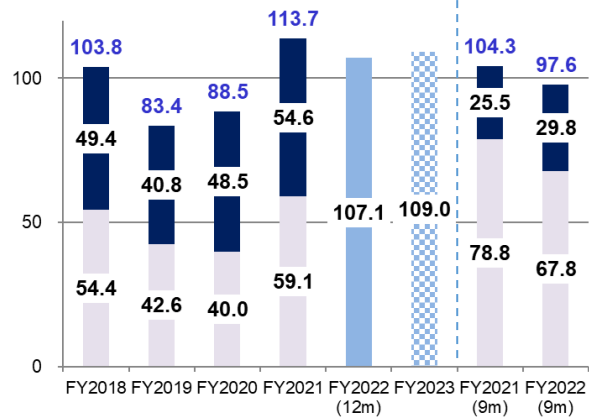
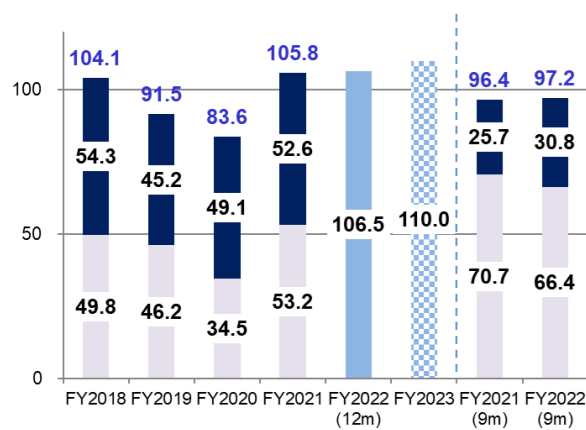
(Ref.) Changes in ROE



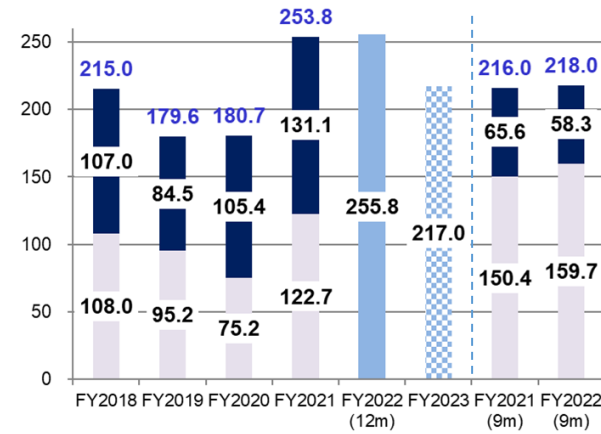
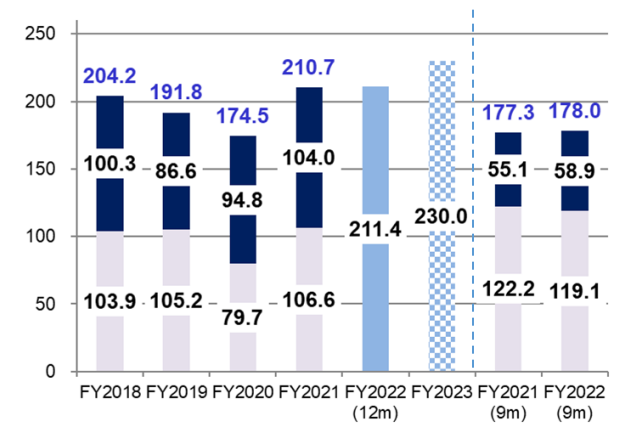
Segment Breakdown (Plastics Machinery and Hydraulic Excavators)

Sales of the Semiconductor-Related Product Business

Plastics machinery

Orders**Net sales**

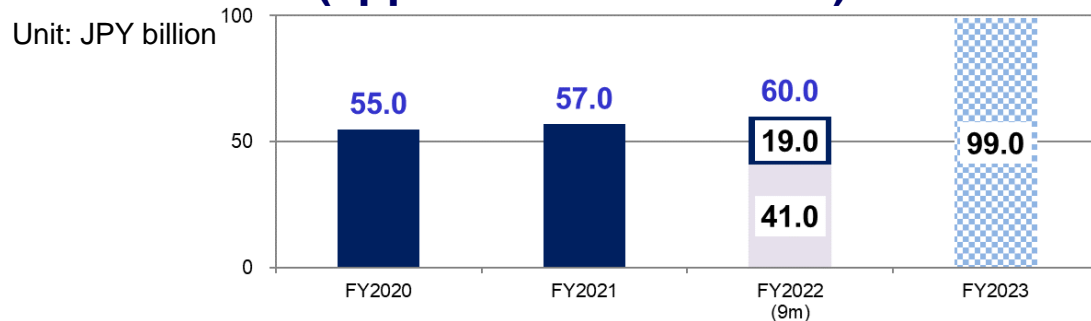
Hydraulic excavators

Orders**Net sales**

Unit: JPY billion

3-4Q
1-2Q
Full year

Total sales from semiconductor related businesses (approximate numbers)



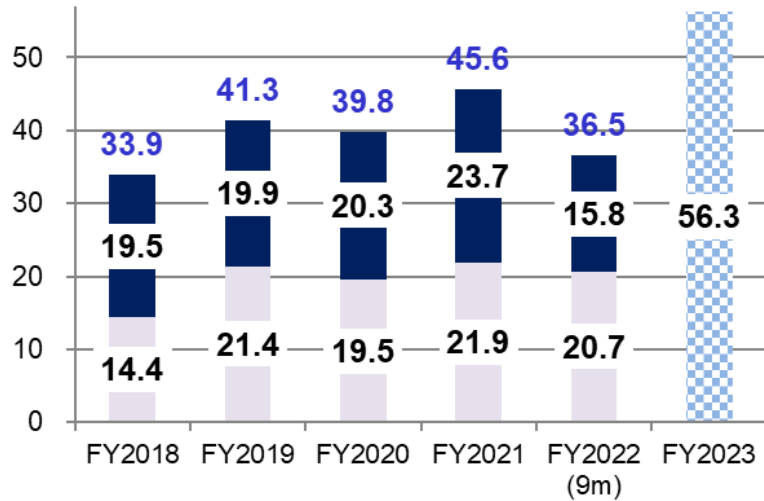
Products for semiconductor production that we possess and their key technologies

Product	Relevant segment	Relationship with key technologies (●: Close ○: Moderate)		
		Beam control	Ultracold	Vacuum
Laser annealing equipment	Mechatronics	●		
4KGM Cryocooler/Crypump	Industrial Machinery		●	●
Vacuum robot				●
Ion implanter		●		○
Superconducting magnet for MCZ			●	○
Ion irradiation business		●		○

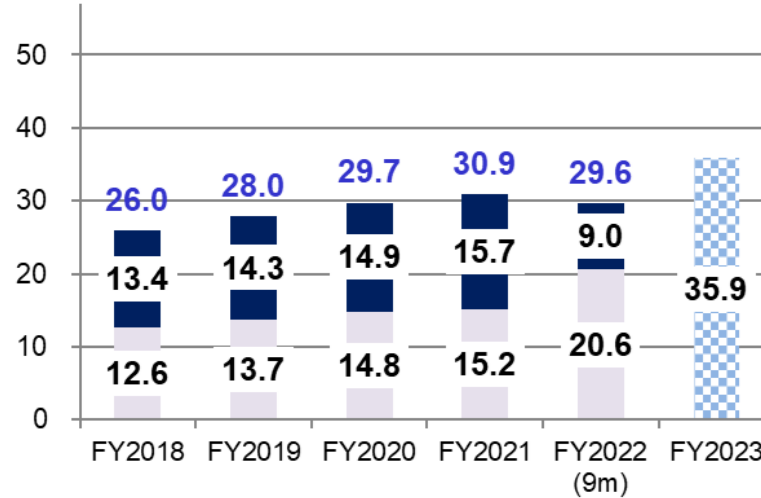
Ref. Capital Investment, Depreciation Cost, Research & Development Cost, Personnel, Forex Sensitivity

Capital investment*

*Actuals are based on cash flow.
Forecast is based on budget.



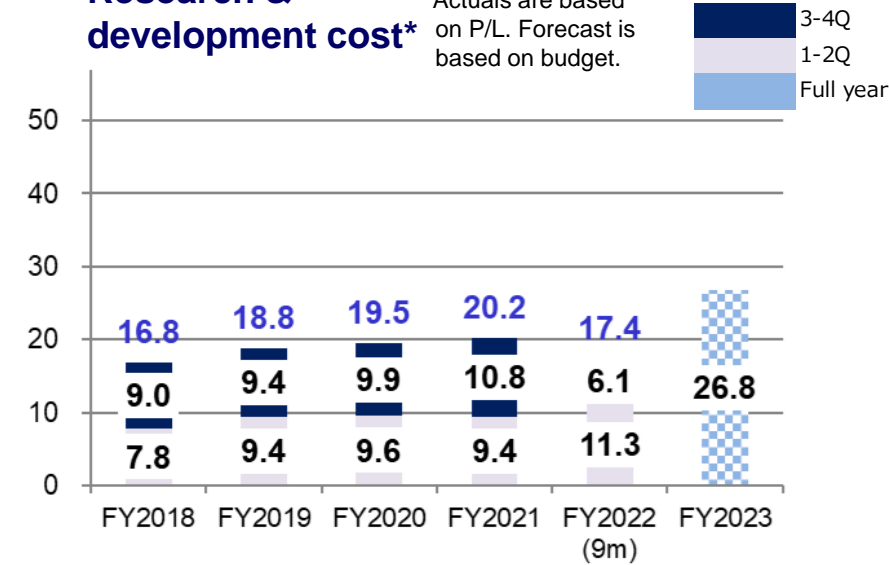
Depreciation & amortization



Research & development cost*

*Actuals are based on P/L. Forecast is based on budget.

Unit: JPY billion



Personnel (as of end of each fiscal year)

Unit: persons	FY2019	FY2020	FY2021	FY2022
Consolidated total	23,635	24,050	24,584	25,211

Forex sensitivity (FY2023 forecast)

Unit: JPY billion	Dollar	Euro	Total
Effect of a 1-yen change on operating profit*	0.61	0.25	0.87

*Assumed exchange rates for FY2023 are JPY125 per US dollar and JPY135 per euro

Ref. Sales by Regional Segment

<Exchange rate: JPY133 per US dollar> Unit: JPY billion		Actual FY2022*1 (2022.4-2022.12)																													
		North America		Europe		Asia (Excluding China)		China		Others		Overseas total		Japan		Total sales															
Mechatronics		43.3		43.5		17.9		17.7		13.5		136.0		45.4		181.4															
	(plastics machinery)	12.7		28.0		12.7		27.0		5.1		85.5		11.7		97.2															
Industrial Machinery		25.5		40.0		32.2		53.4		5.7		156.8		68.1		224.9															
	(hydraulic excavators)	53.3		13.9		30.4		13.4		12.7		123.7		54.3		178.0															
Logistics & Construction		116.4		15.7		34.3		13.6		14.3		194.3		106.0		300.3															
Energy & Lifelines		10.4		19.3		19.8		1.1		16.8		67.5		75.9		143.3															
Others		-		-		-		0		-		0		4.1		4.1															
Total / Sales ratio (%)		195.6		23		118.5		14		104.3		12		85.9		10		50.4		6		554.6		65		299.5		35		854.1	
<Exchange rate: JPY110 per US dollar> Unit: JPY billion		Actual FY2021*1 (2021.4-2021.12)																													
		North America		Europe		Asia (Excluding China)		China		Others		Overseas total		Japan		Total sales															
Mechatronics		27.6		35.0		14.2		15.6		9.7		102.1		42.4		144.5															
	(plastics machinery)	8.7		26.6		11.8		31.9		4.9		83.9		12.5		96.4															
Industrial Machinery		18.8		36.7		25.4		50.7		5.3		136.9		54.4		191.3															
	(hydraulic excavators)	41.6		12.3		24.2		31.8		11.1		121.1		56.1		177.3															
Logistics & Construction		96.0		13.2		27.7		32.0		11.8		180.6		103.9		284.5															
Energy & Lifelines		6.1		19.7		14.6		0.9		14.9		56.3		98.8		155.0															
Others		-		-		-		0		-		0		4.5		4.5															
Total / Sales ratio (%)		148.5		19		104.6		13		81.9		10		99.2		13		41.7		5		475.8		61		304.0		39		779.8	



All forward-looking statements regarding the company's future performance are based on information currently available to Sumitomo Heavy Industries and determined subjectively. Future performance is not guaranteed and all information related to future performance contained herein is subject to changes in business environments.