

Financial Summary for Q2 FY2023 and Projections for FY2023

2023/8/7

 Sumitomo Heavy Industries, Ltd.

President Shinji Shimomura

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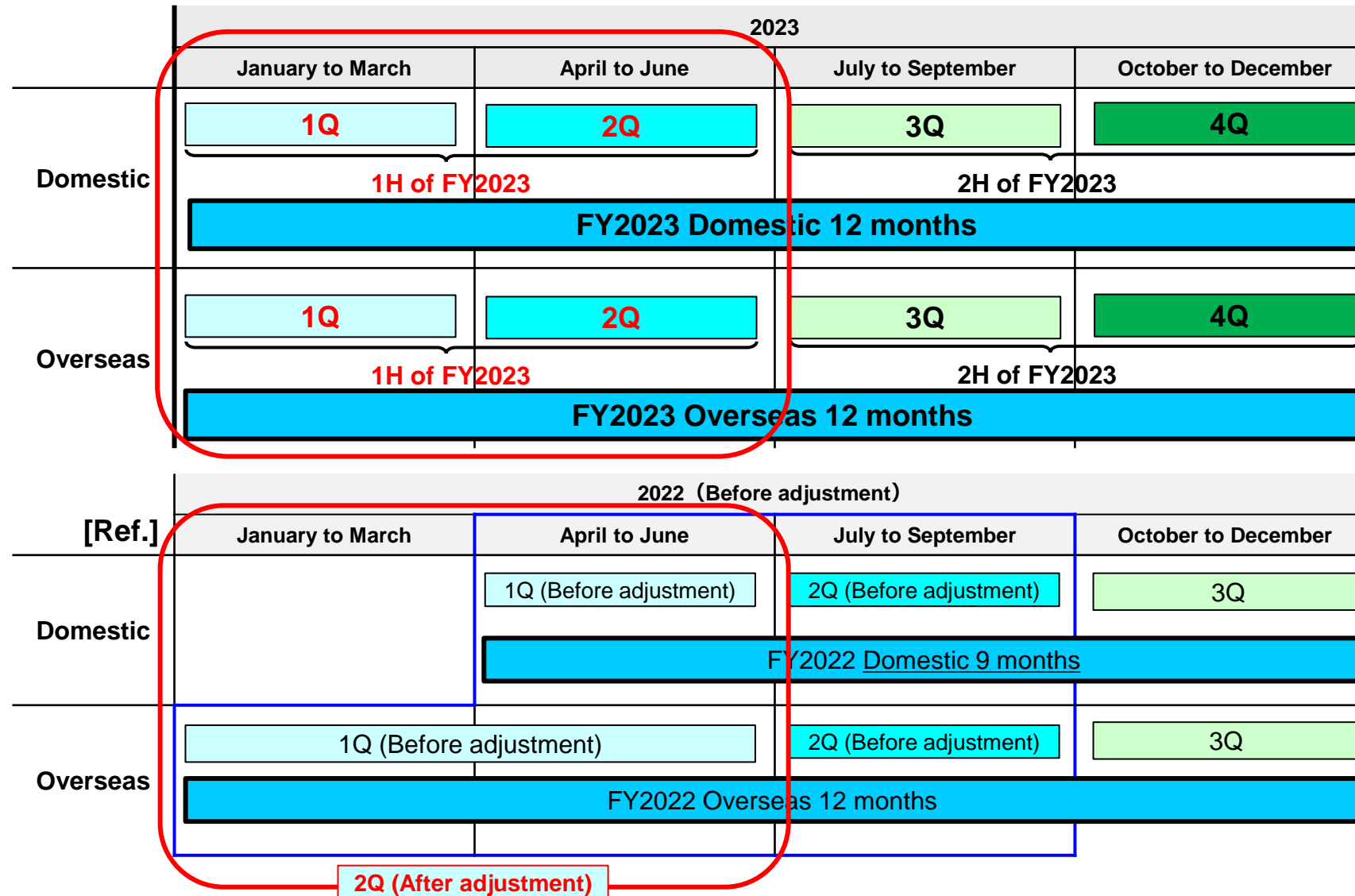
**Direction of the next Medium-Term
Management Plan**

01

Financial Summary for Q2 FY2023

01

Change in Fiscal Year End of FY 2022 (Financial Year End)



01

Financial Summary for FY2023-2Q

<p style="text-align: center;">Actual FY2023-2Q /Same period of previous fiscal year (after adjustment), (change)</p>	<p>Orders : JPY512.7billion / 581.0billion (68.3)billion</p> <hr/> <p>Net sales : JPY510.1billion / 478.4billion 31.7billion</p> <hr/> <p>Operating profit : JPY30.7billion / 29.9billion 0.7billion</p>
<p style="text-align: center;">Year-on-year comparison</p>	<ul style="list-style-type: none"> - Orders: The market conditions were strong in North America, while Japan was softening, and China was declining. Orders decreased due to a drop in demand for semiconductor-related products and a reduction in energy-related projects. - Net sales: For Energy & Lifeline, sales decreased due to a timing difference in the progress of some construction projects. However, for the other segments, sales increased due to a large backlog of orders and relaxation of production constraints. - Operating profit: Slightly increased due to an increase in sales of Mechatronics and hydraulic excavators and a favorable change in the exchange rate, although selling & administrative expenses increased and sales decreased in Energy & Lifeline.

01

Financial Summary for FY2023-2Q

Unit: JPY billion	FY2022			FY2023			Change (1H FY2023 - 1H FY 2022)
	(After adjustment) Actual 1Q (Jan-Mar)	(After adjustment) Actual 2Q (Apr-Jun)	Actual 1H	Actual 1Q (Jan-Mar)	Actual 2Q (Apr-Jun)	Actual 1H	
Orders	281.6	299.4	581.0	260.0	252.7	512.7	(68.3)
Net sales	247.3	231.1	478.4	248.2	261.8	510.1	31.7
Operating profit	17.0	13.0	29.9	16.2	14.5	30.7	0.7
Operating profit ratio	6.9%	5.6%	6.3%	6.5%	5.5%	6.0%	-
Ordinary profit	17.9	14.3	32.2	16.4	16.5	32.9	0.7
Ordinary profit ratio	7.2%	6.2%	6.7%	6.6%	6.3%	6.4%	-
Extraordinary loss	(2.1)	0.5	(1.6)	(0.1)	(0.2)	(0.3)	1.3
Current profit	10.9	9.8	20.8	10.8	11.7	22.5	1.7
Current profit ratio	4.4%	4.3%	4.4%	4.4%	4.5%	4.4%	-
Dividend per share			JPY45			JPY60	
Currency exchange rate (US dollars)			¥ 132			¥ 136	-

01

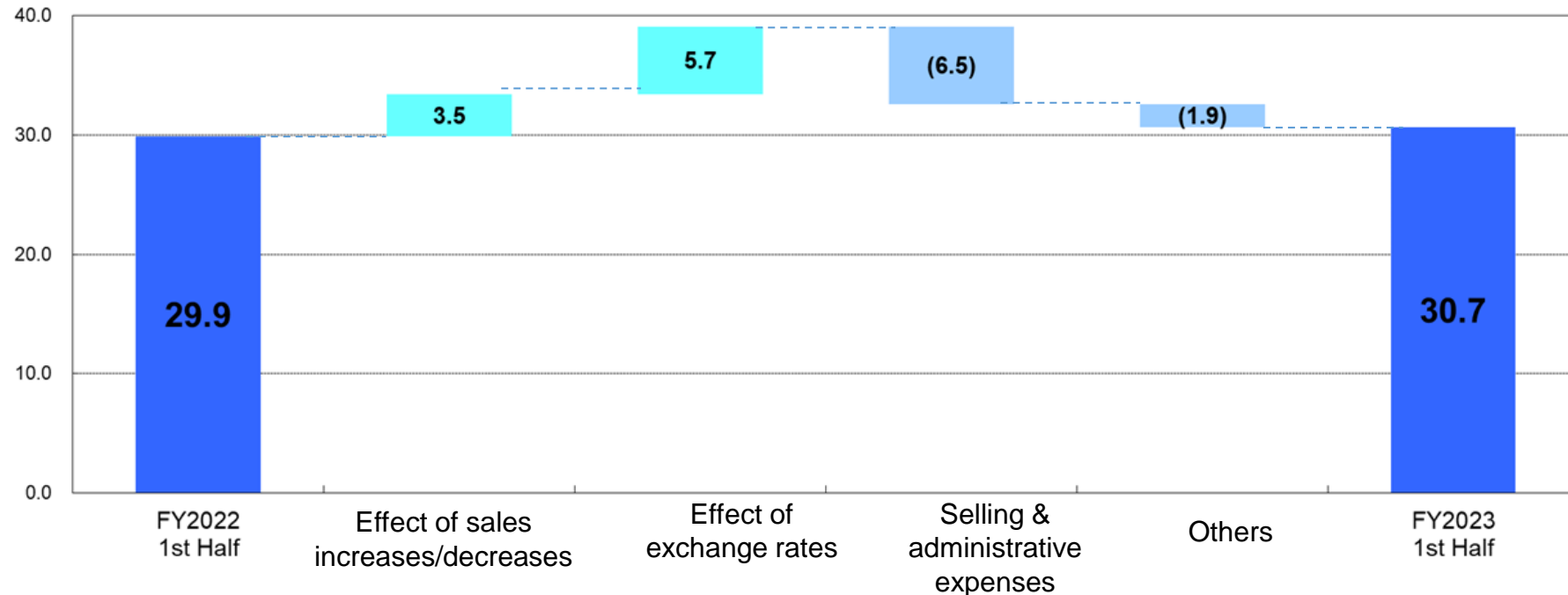
Performance by Segment for FY2023-2Q

	Orders			Net sales			Operating profit					
	1H FY2022 (After adjustment) Actual	1H FY2023 Actual	Change	1H FY2022 (After adjustment) Actual	1H FY2023 Actual	Change	1H FY2022 (After adjustment) Actual /Operating profit ratio (%)		1H FY2023 Actual /Operating profit ratio (%)		Change	
Unit: JPY billion												
Mechatronics	110.2	105.7	(4.5)	91.6	106.9	15.4	2.3	2.5	5.8	5.5	3.5	
(Plastics machinery)	52.0	43.2	(8.8)	47.6	50.9	3.3						
(Others)	122.1	97.3	(24.9)	75.8	83.0	7.2						
Industrial Machinery	174.1	140.5	(33.6)	123.4	133.9	10.4	11.3	9.2	11.2	8.4	(0.1)	
(Hydraulic excavators)	118.9	113.0	(5.9)	99.1	112.5	13.4						
(Others)	74.7	84.1	9.5	68.4	72.4	3.9						
Logistics & Construction	193.6	197.2	3.5	167.6	184.9	17.3	9.5	5.7	12.3	6.7	2.8	
Energy & Lifeline	100.1	66.4	(33.8)	92.9	81.3	(11.5)	5.3	5.8	0.4	0.5	(5.0)	
Others	2.9	2.9	0.1	2.9	3.0	0.1	1.4	-	0.9	-	(0.5)	
Total	581.0	512.7	(68.3)	478.4	510.1	31.7	29.9	6.3	30.7	6.0	0.7	

01

Analysis of Changes in Operating Profit for 2023-2Q

Unit: JPY billion



<Effect of changes in sales by segment>

Unit: JPY billion

Mechatronics	2.5
Industrial Machinery	1.0
Logistics & Construction	2.7
Energy & Lifeline	(2.7)

<Selling & administrative expenses>

- Costs related to personnel, research and development and the resumption of economic activities all increased.

<Others>

- Difference between the effect of price increases of raw materials and procured products and the effect of improvement through cost pass-through: increase of JPY4.0 billion
- Decrease in sales of energy plants, declining profit margins for individual projects in Europe: decrease of JPY2.0 billion
- Deterioration in business performance of other departments: decrease of JPY3.5 billion, etc.

01 Consolidated Balance Sheet

- **Inventory assets:** Increased due to longer lead times caused by an increase in order backlog and a delay in procurement of parts.
- **Property, plant and equipment:** Increased due to continued capital investment.

- **Net assets:** Retained earnings increased by JPY17.1 billion. Foreign currency translation adjustments increased by JPY25.4 billion due to the weaker yen.

Unit: JPY billion	December 2022	June 2023	Change
Current Assets	711.4	742.3	31.0
Cash and deposits	97.5	90.8	(6.7)
Notes and accounts receivable	300.3	296.7	(3.6)
Inventories	275.5	322.3	46.8
Others	38.1	32.6	(5.5)
Non-current Assets	437.5	461.1	23.6
Property, plant and equipment	320.1	334.8	14.7
Intangible assets	56.6	59.7	3.1
Investments and other assets	60.8	66.7	5.9
Total	1,148.9	1,203.5	54.6

Unit: JPY billion	December 2022	June 2023	Change
Liabilities	571.9	583.5	11.5
Notes and accounts payable - trade	186.3	185.0	(1.3)
Interest-bearing debts	160.8	162.9	2.2
Others	224.9	235.5	10.6
Net Assets	576.9	620.0	43.1
Shareholders' equity	468.5	485.6	17.1
Accumulated other comprehensive income	100.8	126.2	25.4
Non-controlling interests	7.7	8.2	0.6
Total liabilities and net assets	1,148.9	1,203.5	54.6
Net interest-bearing debts ratio	5.5%	6.0%	0.5%
Shareholders' equity ratio	49.5%	50.8%	1.3%

01

Consolidated Cash Flows Statement

Unit: JPY billion

Item	1H FY2023
Operating Activities	20.9
Profit before income taxes	32.6
Depreciation & amortization	17.5
Working capital	(30.7)
Other (such as taxes)	1.5
Investing Activities	(21.4)
(Free Cash Flows)	(0.5)
Financing Activities	(7.9)
Net increase (decrease) in cash and cash equivalents	(7.0)
Cash and cash equivalents at the end of the period	86.7

■ **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**

	FY2018	FY2019	FY2020	FY2021	FY2022	1H FY2023
Free cash flow (JPY billion)	0.2	(21.5)	20.4	12.0	(15.9)	(0.5)
Debt repayment term (years)*1	1.3	3.4	1.9	1.8	7.5	
Interest coverage ratio (times)*2	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

<p>Forecast FY2023 /Previous forecast (as of February 2023), (change)</p>	<table> <tr> <td>Orders</td> <td>: JPY1,055.0 billion</td> <td>/1,080.0 billion</td> <td>(25.0) billion</td> </tr> <tr> <td>Net sales</td> <td>: JPY1,075.0 billion</td> <td>/1,050.0 billion</td> <td>25.0 billion</td> </tr> <tr> <td>Operating profit</td> <td>: JPY64.0 billion</td> <td>/64.0 billion</td> <td>-</td> </tr> </table>	Orders	: JPY1,055.0 billion	/1,080.0 billion	(25.0) billion	Net sales	: JPY1,075.0 billion	/1,050.0 billion	25.0 billion	Operating profit	: JPY64.0 billion	/64.0 billion	-
Orders	: JPY1,055.0 billion	/1,080.0 billion	(25.0) billion										
Net sales	: JPY1,075.0 billion	/1,050.0 billion	25.0 billion										
Operating profit	: JPY64.0 billion	/64.0 billion	-										
<p>Change from previous forecast (as of February 2023)</p>	<ul style="list-style-type: none"> - Orders: The North American market will be strong, but the Chinese market will experience a slowdown. Decreased mainly in Industrial Machinery due in part to a delay in the recovery of semiconductor-related markets. - Net sales: For Logistics & Construction, progress will be made in resolving production constraints, and the order backlog will lead to sales increases. - Operating profit: The previous forecast is left unchanged as there is a remaining impact of increased prices of procured products on some models. 												
<p>Topics and market condition recognition</p>	<ul style="list-style-type: none"> ■ Capital investment generally showed weakness mainly in the manufacturing industry. ■ We took price pass-on measures to respond to higher prices of procured products, thereby securing a certain level of profitability improvement ■ Supply chain restrictions have been relaxed but will have an impact on some models. ■ There are risks arising from geopolitical factors, excessive exchange rate fluctuations, etc. 												

02

Performance Forecast for FY2023

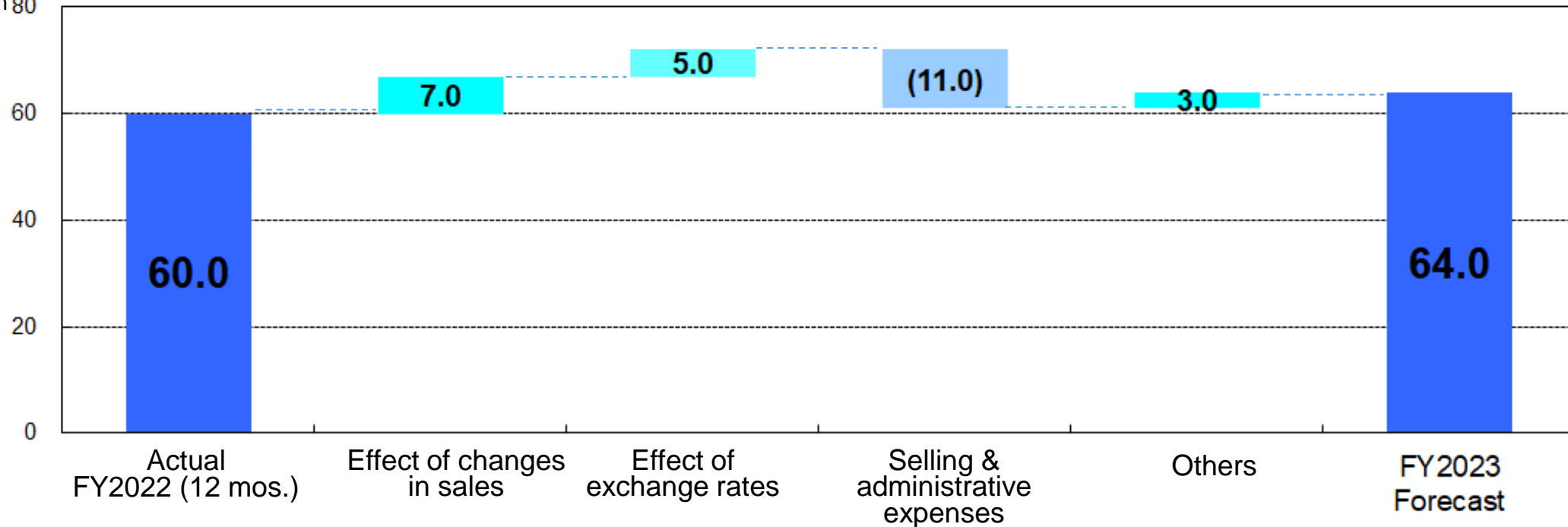
Unit: JPY billion	1H FY2022 Actual (2022.1-2022.6)	1H FY2023 Actual (2023.1-2023.6)	Actual FY2022 (2022.1-2022.12)	(Reference) Forecast FY2023 (As of February 2023) (2023.1-2023.12)	Forecast FY2023 (As of August 2023) (2023.1-2023.12)
Orders	581.0	512.7	1,164.8	1,080.0	1,055.0
Net sales	478.4	510.1	1,018.3	1,050.0	1,075.0
Operating profit	29.9	30.7	60.0	64.0	64.0
Operating profit ratio	6.3%	6.0%	5.9%	6.1%	6.0%
Ordinary profit	32.2	32.9	58.8	60.0	60.0
Ordinary profit ratio	6.7%	6.4%	5.8%	5.7%	5.7%
Extraordinary loss	(1.6)	(0.3)	(27.6)	(2.0)	(2.0)
Current profit	20.8	22.5	16.3	38.0	38.0
Current profit ratio	4.4%	4.4%	1.6%	3.6%	3.6%
Dividend per share	JPY45	JPY60	*1 JPY90	JPY120	JPY120
Dividend payout ratio			*1 190.8%	38.7%	38.7%
ROIC (after Tax)			6.2%	6.1%	6.0%
[Ref.] ROE			3.0%	6.5%	6.5%
Currency exchange rate (US dollars)	¥132	¥136	¥133	¥125	¥130

*1 Results for 9 months

02

Analysis of Changes in Operating Profit for FY2022/2023

Unit: JPY billion 80



<Effect of sales increases by segment>

Unit: JPY billion

Mechatronics	3.0
Industrial Machinery	2.0
Logistics & Construction	4.0
Energy & Lifeline	(2.0)

<Selling & administrative expenses>

With the resumption of economic activities, costs related to personnel, research and development all increased.

<Others>

Difference between the effect of price increases of raw materials and procured products and the effect of improvement by price transfer: increase of JPY5.0 billion, etc.

02

Performance Forecast by Segment for FY2023

	Orders			Net sales			Operating profit					
	Actual 1H FY2023	(Reference) Forecast FY2023 (As of February 2023)	Forecast FY2023 (As of August 2023)	Actual 1H FY2023	(Reference) Forecast FY2023 (As of February 2023)	Forecast FY2023 (As of August 2023)	Actual 1H FY2023 /Operating profit ratio (%)		(Ref.) Forecast FY2023 (As of February 2023) /Operating profit ratio (%)		Forecast FY2023 (As of August 2023) /Operating profit ratio (%)	
Unit: JPY billion												
Mechatronics	105.7	220.0	218.0	106.9	215.0	219.0	5.8	5.5	9.5	4.4	10.5	4.8
(Plastics machinery)	43.2	109.0	96.0	50.9	110.0	100.0						
(Others)	97.3	197.0	184.0	83.0	183.0	181.0						
Industrial Machinery	140.5	306.0	280.0	133.9	293.0	281.0	11.2	8.4	29.5	10.1	25.5	9.1
(Hydraulic excavators)	113.0	217.0	226.0	112.5	230.0	249.0						
(Others)	84.1	146.0	152.0	72.4	137.0	144.0						
Logistics & Construction	197.2	363.0	378.0	184.9	367.0	393.0	12.3	6.7	16.5	4.5	20.5	5.2
Energy & Lifeline	66.4	182.0	169.0	81.3	172.0	178.0	0.4	0.5	8.0	4.6	6.5	3.6
Others	2.9	9.0	10.0	3.0	3.0	4.0	0.9	-	0.5	-	1.0	-
Total	512.7	1,080.0	1,055.0	510.1	1,050.0	1,075.0	30.7	6.0	64.0	6.1	64.0	6.0

02

Mechatronics

1H FY2023: Orders decreased because demand for gear reducers and motors was sluggish due to inventory adjustment by customers in the US and Europe and a downturn in the Chinese market.

Sales and operating profit increased because of a backlog of orders.

FY2023 : Orders will remain almost unchanged from the previous fiscal year but vary depending on the regions and models.

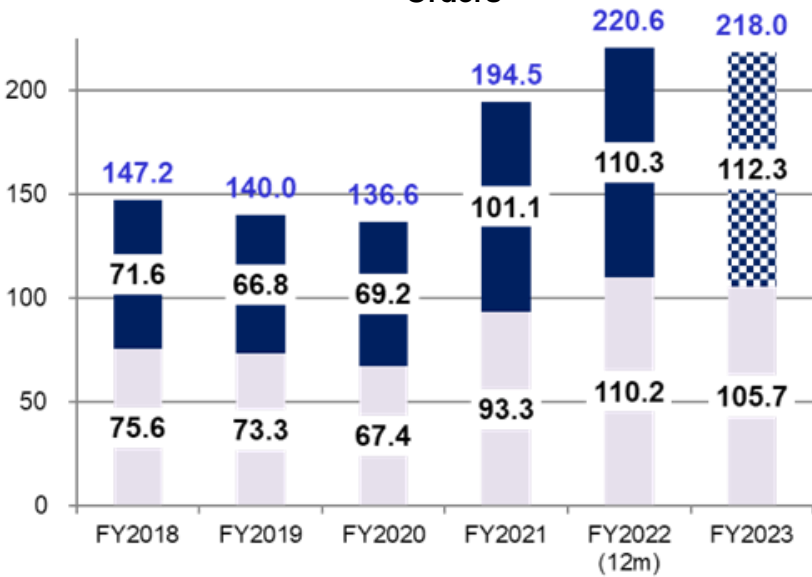
Sales and operating profit are expected to increase due to a backlog of orders.

Unit: JPY billion	FY2022		FY2023				Change (1H FY2023 - 1H FY 2022)
	Actual 1H (22.1-22.6)	Actual (22.1-22.12)	Actual 1H (23.1-23.6)	(Ref.) Forecast FY2023 (As of February 2023) (23.1-23.12)	Forecast August 2023 (23.1-23.12)	Estimated change	
Orders	110.2	220.6	105.7	220.0	218.0	(2.0)	(4.5)
Net sales	91.6	197.9	106.9	215.0	219.0	4.0	15.4
Operating profit	2.3	9.2	5.8	9.5	10.5	1.0	3.5
Operating profit ratio (%)	2.5	4.6	5.5	4.4	4.8	-	-
Backlog of orders		113.5	112.3				

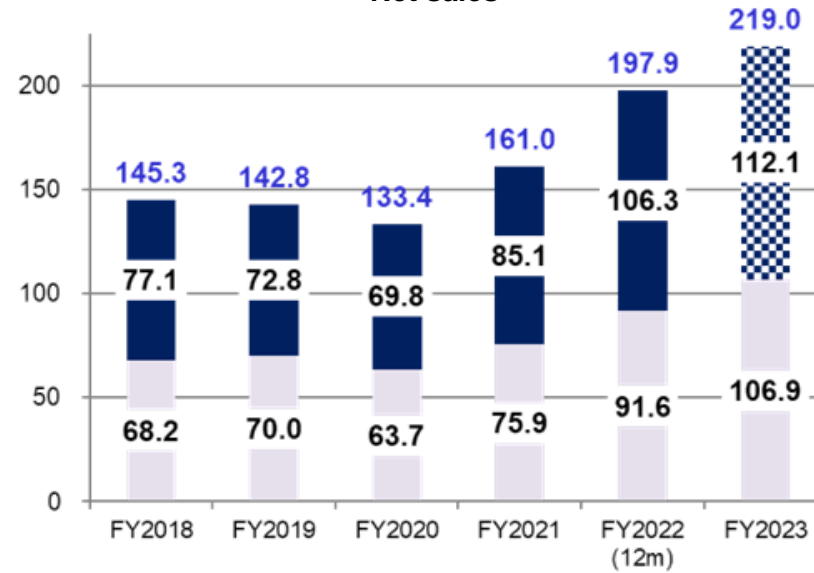
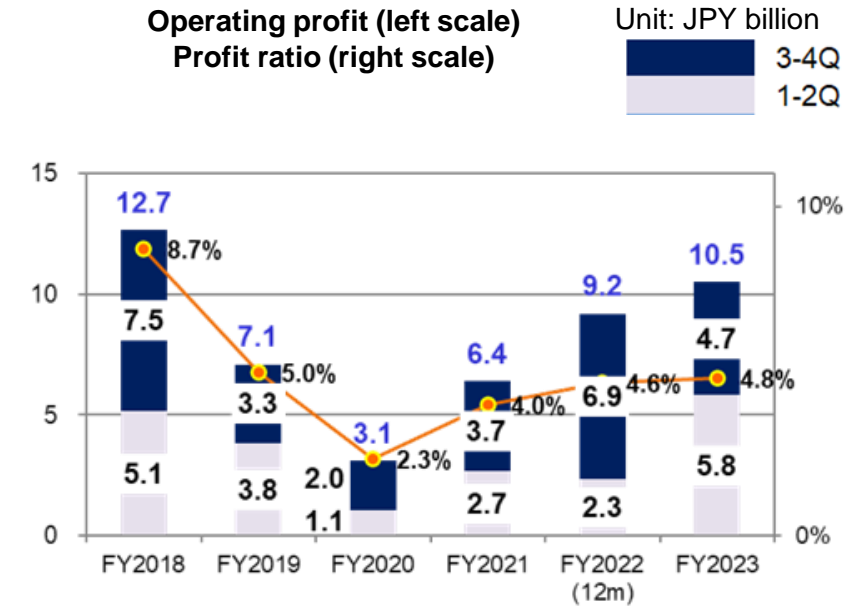
02

Mechatronics

Orders



Net sales

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

<Reference>

Gear reducers 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
1H FY2023	40%	20%	10%	10%	20%	100%
FY2022	40%	20%	10%	10%	20%	100%
FY2021	40%	20%	10%	10%	20%	100%

02 Industrial Machinery

<Plastics machinery>

1H FY2023 : Orders decreased due to sluggish demand for electric and electronic products in China and investment cooling in Japan and Europe.

Sales increased because of a backlog of orders but operating profit decreased due to a continuous increase in prices of materials.

FY2023 : It is anticipated that the market conditions will gradually improve from the second half but orders, sales and operating profit will all decrease.

<Others>

1H FY2023 : Orders decreased due in part to inventory adjustment and investment postponement by customers resulting from softening of the semiconductor market.

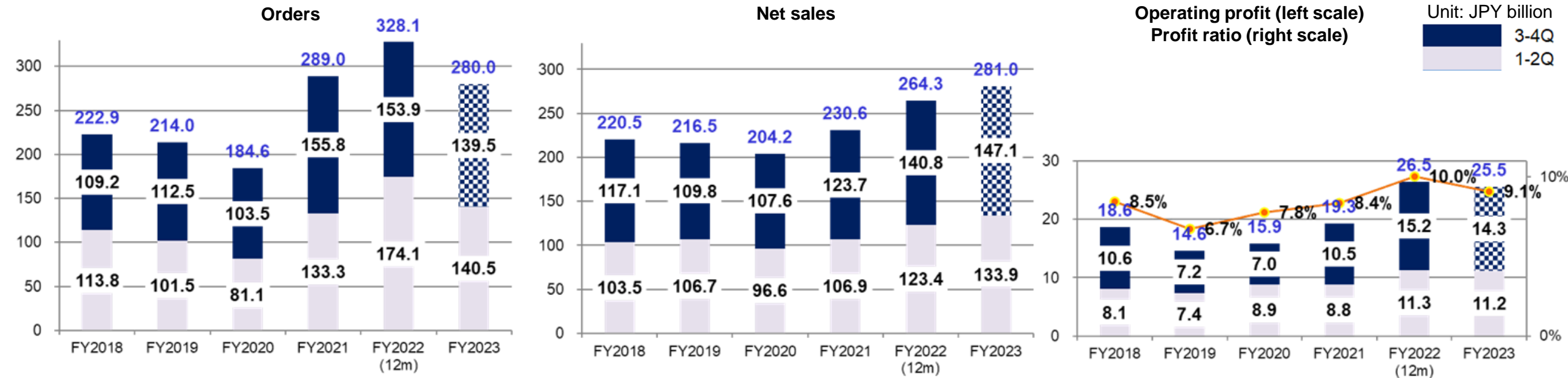
However, both sales and operating profit increased partly because there was a huge backlog of orders.

FY2023 : Orders are expected to decrease as customers continue to adjust their inventory related to semiconductors. Sales and operating profit will increase due to a backlog of orders.

	FY2022		FY2023			Change (1H FY2023 - 1H FY 2022)	
	Actual 1H (22.1-22.6)	Actual (22.1-22.12)	Actual 1H (23.1-23.6)	(Ref.) Forecast FY2023 (As of February 2023) (23.1-23.12)	Forecast August 2023 (23.1-23.12)		Estimated change
Unit: JPY billion							
Plastics machinery	52.0	107.1	43.2	109.0	96.0	(13.0)	(8.8)
Others	122.1	221.0	97.3	197.0	184.0	(13.0)	(24.9)
Orders	174.1	328.1	140.5	306.0	280.0	(26.0)	(33.6)
Plastics machinery	47.6	106.5	50.9	110.0	100.0	(10.0)	3.3
Others	75.8	157.8	83.0	183.0	181.0	(2.0)	7.2
Net sales	123.4	264.3	133.9	293.0	281.0	(12.0)	10.4
Operating profit	11.3	26.5	11.2	29.5	25.5	(4.0)	(0.1)
Operating profit ratio (%)	9.2	10.0	8.4	10.1	9.1	-	-
Backlog of orders		194.6	201.3				

02

Industrial Machinery



<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
1H FY2023	20%	20%	50%	10%	100%
FY2022	20%	15%	50%	15%	100%
FY2021	25%	15%	45%	15%	100%

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

	Actual FY2021	FY2022		FY2023	
		Actual 1H (22.1-22.6)	Actual (22.1-22.12)	Actual 1H	Forecast
Unit: JPY billion					
Orders	38.0	41.0	66.0	35.0	51.0
Sales	24.0	25.0	50.0	21.0	50.0

02 Logistics & Construction

<Hydraulic excavators>

1H FY2023: Orders decrease due to a reactionary drop from advanced orders in North America, but sales and operating profit increased because there was a backlog of orders.

FY2023 : Orders will decrease due to a reactionary drop from advance orders. As a result of restrictions on procured products being relaxed, sales will increase. Operating profit will slightly increase despite the impact of a rise in prices of materials.

<Others>

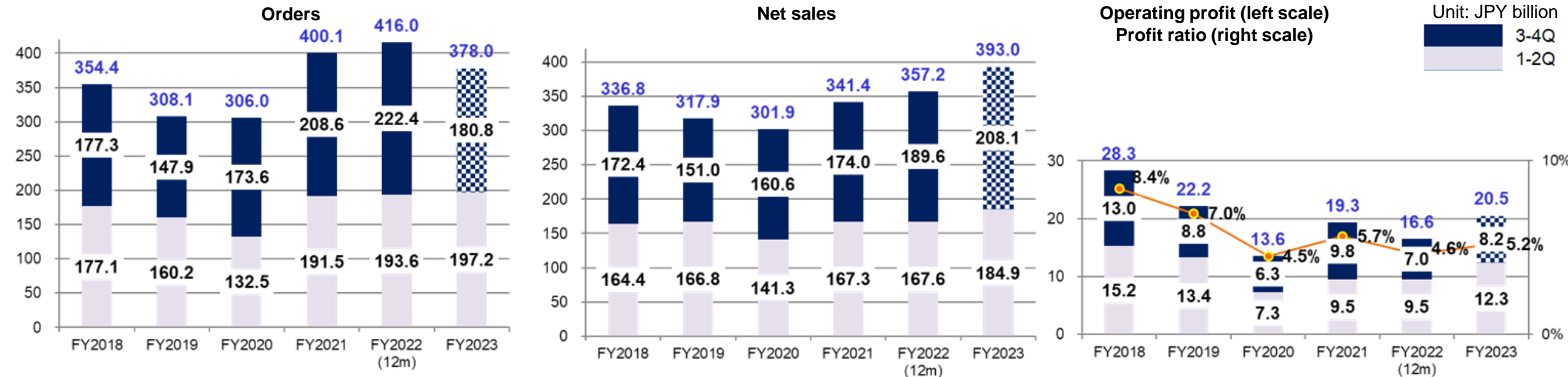
1H FY2023: The mobile crane business increased in orders and sales because demand was strong in North America. However, operating profit decreased due to a rise in prices of materials. Meanwhile, for the industrial crane business, orders decreased due to a reduction in service projects but the existence of the order backlog led to a growth in sales. Operating profit decreased due to a difference in the model configuration.

FY2023 : The mobile crane business will grow in North America. However, orders, sales and operating profit will all decrease because the industrial crane business will decline.

	FY2022		FY2023			Change (1H FY2023 - 1H FY 2022)	
	Actual 1H (22.1-22.6)	Actual (22.1-22.12)	Actual 1H (23.1-23.6)	(Ref.) Forecast FY2023 (As of February 2023) (23.1-23.12)	Forecast August 2023 (23.1-23.12)		Estimated change
Unit: JPY billion							
Hydraulic excavators	118.9	255.8	113.0	217.0	226.0	9.0	(5.9)
Others	74.7	160.2	84.1	146.0	152.0	6.0	9.5
Orders	193.6	416.0	197.2	363.0	378.0	15.0	3.5
Hydraulic excavators	99.1	211.4	112.5	230.0	249.0	19.0	13.4
Others	68.4	145.8	72.4	137.0	144.0	7.0	3.9
Net sales	167.6	357.2	184.9	367.0	393.0	26.0	17.3
Operating profit	9.5	16.6	12.3	16.5	20.5	4.0	2.8
Operating profit ratio (%)	5.7	4.6	6.7	4.5	5.2	-	-
Backlog of orders		254.8	267.1				

02

Logistics & Construction



<Reference>

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

Unit: 10,000 units (upper row)/ JPY billion (lower row)		*Only foreign capital						Total	
		North America	Europe	Asia (Excluding China)	China*	Japan	Others		
FY2023	Demand forecast	4.1	4.0	2.5	1.0	2.7	-		
	Net sales	1H	35.6	11.9	13.3	3.4	39.6	8.8	112.5
FY2022	Demand	4.2	4.2	2.6	2.2	2.6	-		
	Net sales	1H	26.2	7.2	14.8	7.2	35.9	7.8	99.1
		Full year	53.3	13.9	30.4	13.4	54.3	12.7	178.0
FY2021	Demand	4.0	3.8	2.4	4.9	2.7	-		
	Net sales	Full year	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
1H FY2023	0%	35%	15%	20%	30%	100%
FY2022	20%	30%	30%	10%	10%	100%
FY2021	40%	25%	15%	10%	10%	100%

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

Unit: JPY billion	FY2021 Actual	FY2022		FY2023	
		Actual 1H (22.1-22.6)	Actual (22.1-22.12)	Actual 1H	Forecast
Orders	30.0	18.0	36.0	22.0	40.0
Sales	21.0	19.0	34.0	20.0	42.0

02

Energy & Lifeline

1H FY2023: For the energy plant business, orders, sales and operating profit all decreased due to a reduction in large-scale projects for biomass-fueled power generation plants in Japan.

For other businesses, orders, sales and operating profit decreased partly because the general waste treatment business was transferred in the previous fiscal year.

FY2023 :Orders in the energy plant business will increase because of an uptick in demand for large-scale projects for biomass-fueled power generation plants outside of Japan. Sales will decrease due to a timing difference in the progress of projects in Japan but operating profit will increase as the trend of declining project profitability in Europe is halted. For other businesses, orders will decrease because of a reduction in the number of newly built vessels. Sales will also decrease due to a reduction in orders but operating profit will improve.

Unit: JPY billion	FY2022		FY2023			Change (1H FY2023 - 1H FY 2022)	
	Actual 1H (22.1-22.6)	Actual (22.1-22.12)	Actual 1H (23.1-23.6)	(Ref.) Forecast FY2023 (As of February 2023) (23.1-23.12)	Forecast August 2023 (23.1-23.12)		Estimated change
Orders	100.1	194.2	66.4	182.0	169.0	(13.0)	(33.8)
Net sales	92.9	193.4	81.3	172.0	178.0	6.0	(11.5)
Operating profit	5.3	5.6	0.4	8.0	6.5	(1.5)	(5.0)
Operating profit ratio (%)	5.8	2.9	0.5	4.6	3.6	-	-
Backlog of orders		262.5	247.5				

02

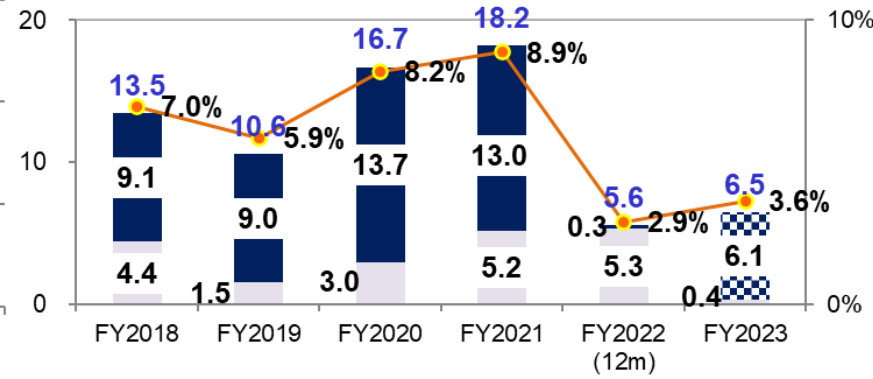
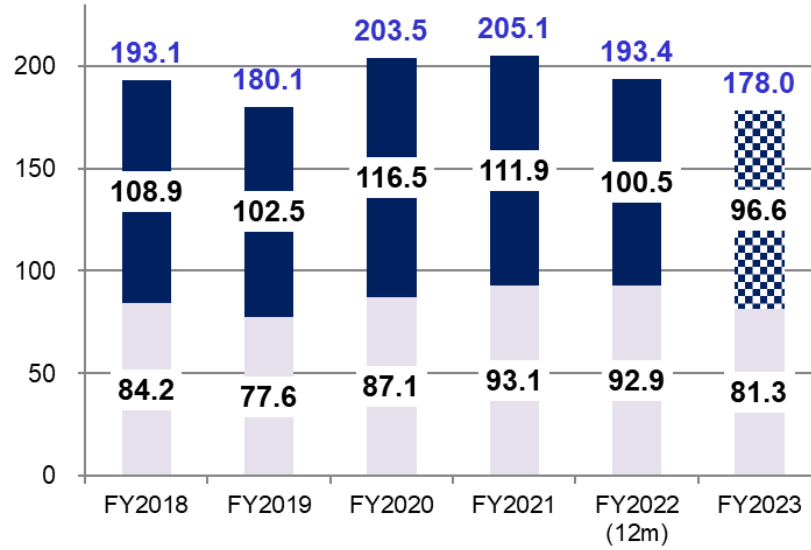
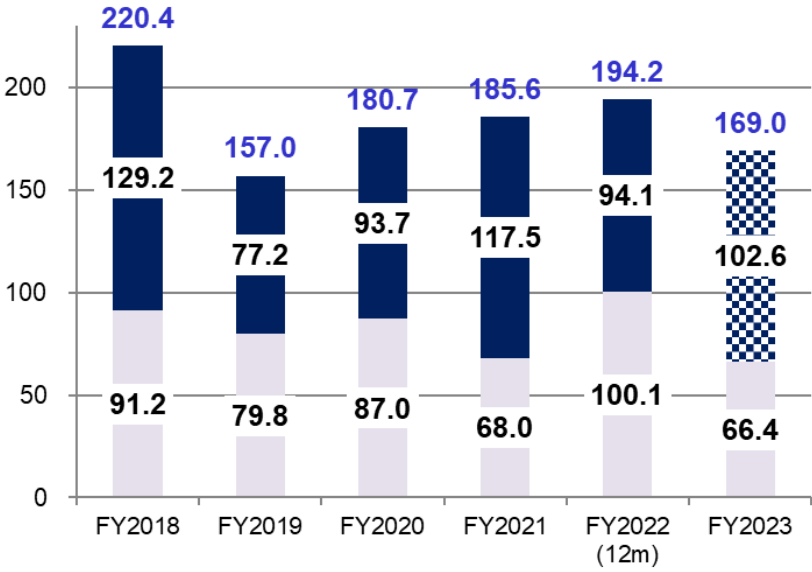
Energy & Lifeline

Orders

Net sales

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

Unit: JPY billion
 3-4Q
 1-2Q



03

Topics

03

Topics [1] <Automotive Body Frame Production System: STAF>

1. Features of Steel Tube Air Forming (STAF)

- This system performs forming through “electrical heating → high-pressure air injection → forming → quenching” processes with a steel pipe being set in a mold of a press machine.
- The frame incorporating a high-strength and high-rigidity flange (brim-shaped part) enables weight reduction by approximately 30%.

2. Delivery status

- September 2017: Appraisal equipment was completed
- December 2019: Joint development of door beam parts with Honda was started
- May 2022: The system was delivered to Topia Co., Ltd., a prototype car manufacturer (The delivery is the world’s first case)
- Delivered to a North America-based EV manufacturer via Topia and mounted on an actual car

3. Award-winning history

- April 2023
The 52nd Japan Industrial Technology Awards which was sponsored by the Nikkan Kogyo Shinbun newspaper - Review Committee’s Special Award -
We received the award for development of innovative large-scale industrial equipment and structure and cutting-edge technologies and outstanding results
- May 2023
The 73rd JSAE Awards which was sponsored by Society of Automotive Engineers of Japan, Inc. - 14th Technology Development Award -
We received the award for significant contributions and achievements in the field of automotive technologies



STAF unit in the Suzuka Works of Topia



Parts to which the STAF system can be applied



JSAE Awards presentation ceremony

03 Topics [2] <Acceleration of Development in the Nuclear Medicine field>

1. Overview

- Investment has been made in Alpha Fusion Inc., which works to develop radiopharmaceuticals for targeted Alpha therapy in nuclear medicine and proceeds towards the practical use of Astatine-211.
- SHI has been participating in a project led by Osaka University to develop mass production facilities for Astatine-211 and will make contribution to the development of nuclear medicine treatment through accelerator technology and radioisotope (RI) labeling and synthesis technology.

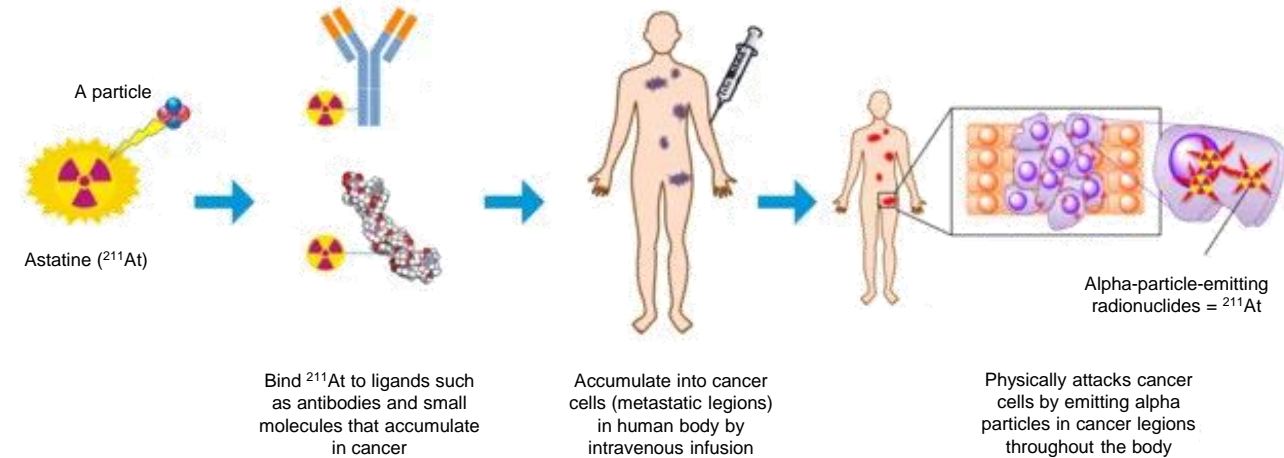
2. Targeted alpha therapy in nuclear medicine

This is a medical treatment method to attack cancer cells throughout the body by combining substances emitting alpha particles and substances that accumulate in cancer cells and injecting the combined substances into the body.

3. Astatine-211

- Element emitting alpha particles. There are no stable isotopes in the natural environment, so the nature of the element has not been fully elucidated so far.
- Use of a particle accelerator (cyclotron) made by SHI enables the stable production of this element.
- This element has a short half-life and among anticipated advantages is the ability to create chemical bonds with agents that bind to the targeted area of a disease.

Schematic image of targeted alpha therapy in nuclear medicine



Alpha Fusion Inc. (Osaka)

- Start-up company that has been established based on the results produced in the Program on Open Innovation Platform with Enterprises, Research Institute and Academia implemented by Osaka University and Japan Science and Technology Agency (JST) and is conducting a social implementation of Astatine-211-based medicine discovery
- Major shareholders:-Sumitomo Heavy Industries, Osaka University Venture Capital, JGC Japan Corporation, Japan Science and Technology Agency, D3 LLC, Toshiba Energy Systems & Solutions Corporation)

04

Sustainability

04

Sustainability

	Results for the first half of FY2023	Issue
Overall	<ul style="list-style-type: none"> - Started discussion on the purpose of the Group - Selected as a constituent of the ESG investment index “FTSE Blossom Japan” adopted by GPIF, for the first time 	<ul style="list-style-type: none"> - Continue unfettered discussion internally - Accelerate sustainability initiatives and information disclosure
Environment (E)	<ul style="list-style-type: none"> - Started construction of a commercial demonstration plant for the energy storage system “LAES” - Announced plans to construct a new technology research center, a research and development base for elemental technologies and new products - Won awards for the production system STAF that contributes to reducing the weights of automobiles - Introduced internal carbon pricing (ICP) 	<ul style="list-style-type: none"> - Risk and opportunity assessment and planning of countermeasures - 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"> - Conducted full-scale human rights due diligence <ul style="list-style-type: none"> [1] Completed the survey of foreign technical intern trainees at sites of the Company [2] Conducted a trial survey of the work environment of overseas supply chain company - Risk assessment of our supply chain in Japan - Supported the declaration of all male employees taking parental leave* 	<ul style="list-style-type: none"> - Strengthen cooperation with suppliers - Spread the awareness of respect for human rights of on-site contracted and dispatched workers - Gender diversity
Governance (G)	<ul style="list-style-type: none"> - Appointed a female director - Formulated a BCP basic policy 	<ul style="list-style-type: none"> - Further increase the female director ratio - Improve the transparency of the Board of Directors

*Initiative promoted by Work Life Balance Co., Ltd.

04

<E (Environment) & S (Social): Construction of a New Technology Research Center>

1. Features of the New Technology Research Center

- Its concept is “space for innovation”
 - Promote research & development mainly in the fields of automation digitalization and environmental energy.
 - Establish a gallery for introducing technologies owned by our company and accelerate joint development of new technology with partner companies.
 - Set up a place where employees of our group companies around the world can interact with each other so that they can work energetically and enjoy a place of relaxation.
- Towards acquisition of ZEB-Ready certification
 - Install solar power generation equipment
 - Improve energy-saving performance of air-conditioning and lighting equipment
- Strengthening the operational functions of the manufacturing sites
 - Enhance the information communications function
 - Demonstrate the functions of a safety and disaster preparedness center for local communities

2. Overview

[1] Location:	Yokosuka City, Kanagawa
[2] Investment:	Approx. 10.0 billion yen
[3] Building area:	4,100 m ² , Total floor area: 19,600 m ²
[4] Completion date:	January 2025
[5] Capacity:	Approx. 700 people



1. Survey on work environments of foreign technical intern trainees

Item	Details
Sites	5 sites in Japan : Chiba Works, Nagoya Works (3 business units), Ehime Works Saijo Plant
Nationality, No. of people	Vietnam, Philippines, Indonesia, Approx. 200 people
Period	July 2022 to May 2023
Implemented by	Jointly implemented by PJ of the head office and ASSC* *The Global Alliance for Sustainable Supply Chain(NGO)
Description	<ul style="list-style-type: none"> - Document survey (employment contracts, health and safety, work hours, etc.) - On-site survey (occupational health and safety, consideration of their native language) - Visit to residences (confirmation of safety of residential environments) - Interview with intern trainees (27 people) and the administrative organization
Findings	None identified as a human rights issue with immediate concern for human rights violations or health and safety impacts Potential human rights issues Regarding findings that may constitute a human rights issue in the future, measures to amend contracts will be taken in cooperation with business units so that the contracts are in line with international standards
Response	Hold follow-up meetings and check the progress of improvement

2. Overseas: Survey on work environments of the Group's manufacturing site and our essential suppliers

- No major concerns

Toward further enhancement of governance

Issue 1: Strengthening the supervisory function of the Board of Directors

→ To strengthen the supervisory function of the Board of Directors, issues such as the possibilities of authority delegation to personnel in charge of business execution will be further examined.

Issue 2: Accelerating discussion on long-term strategies and business portfolio structure

→ Deepen and accelerate discussion about the ideal state of our long-term management, the strategy for such management and optimum structure of the business portfolio of the Company as a whole and each segment at the time of formulation of the next Medium-Term Management Plan.

Issue 3: Enhancing deliberations with an awareness of capital costs

→ In relation to the Medium-Term Management Plan and long-term strategies, formulate a concrete plan and strategy for achieving the target ROIC based on optimum KPIs* of each segment and business unit and enhance the deliberations during the formulation of the next Medium-Term Management Plan.

*Key Performance Indicators

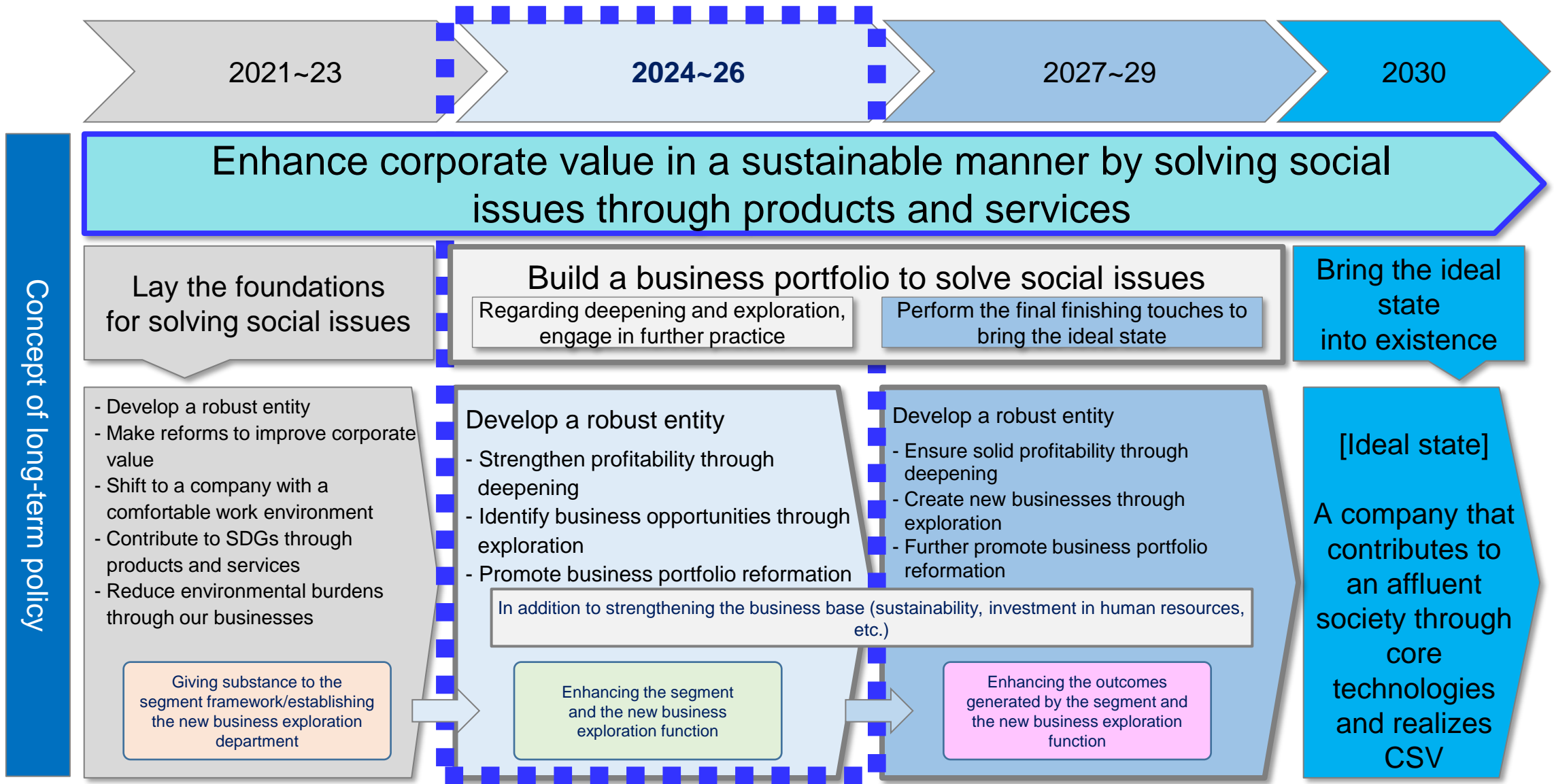
Issue 4: Deepening discussion on strengthening of investment in human resources and intellectual properties, and appropriate allocation

→ Deepen discussion on policies and approaches to prioritized investment during the formulation of the next Medium-Term Management Plan with regard to strengthening of investment in human resources and intellectual properties and appropriate allocation.

05

Direction of the next Medium-Term Management Plan

05 The Next Medium-Term Management Plan; Positioning of the Fiscal Year 2030



Financial targets

Financial targets for FY2030

Operating profit: JPY130.0 billion

ROIC: 10% or more

While **strengthening the revenue bases** for the existing businesses, achieve growth in the following **key investment areas** based on core technologies in the four segments, thereby aiming to **create new value and improve corporate value**

[Key investment areas]

- Robotics/automation fields
- Semiconductor field
- Advanced medical equipment field
- Environment/energy fields

Non-financial targets

Material issues of sustainability

E Reduce environmental Burden

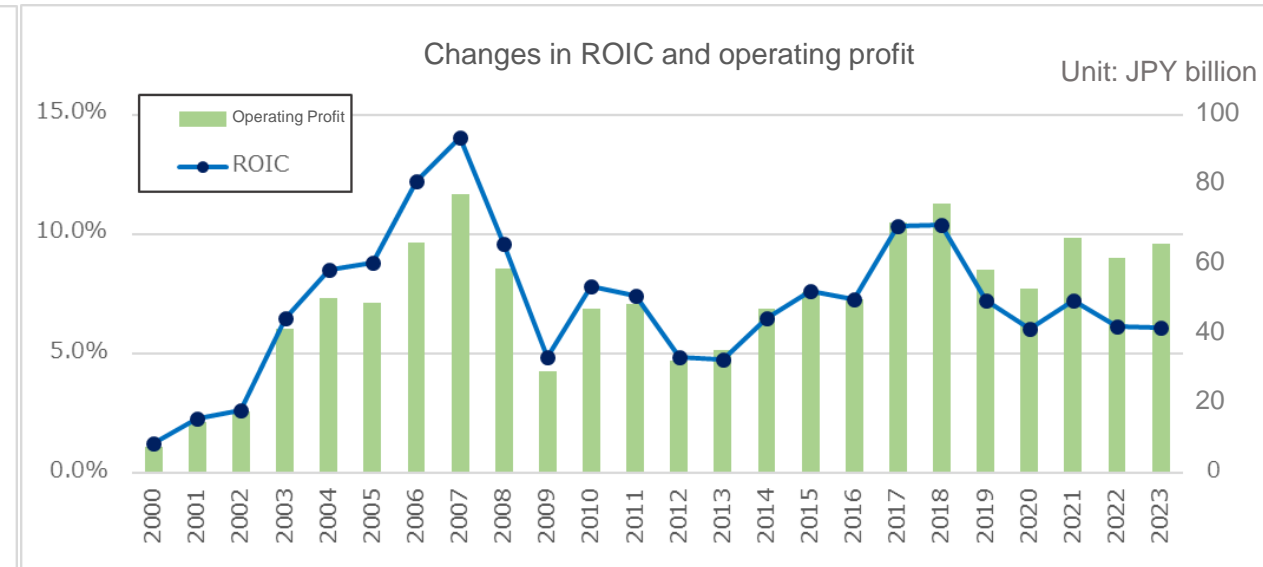
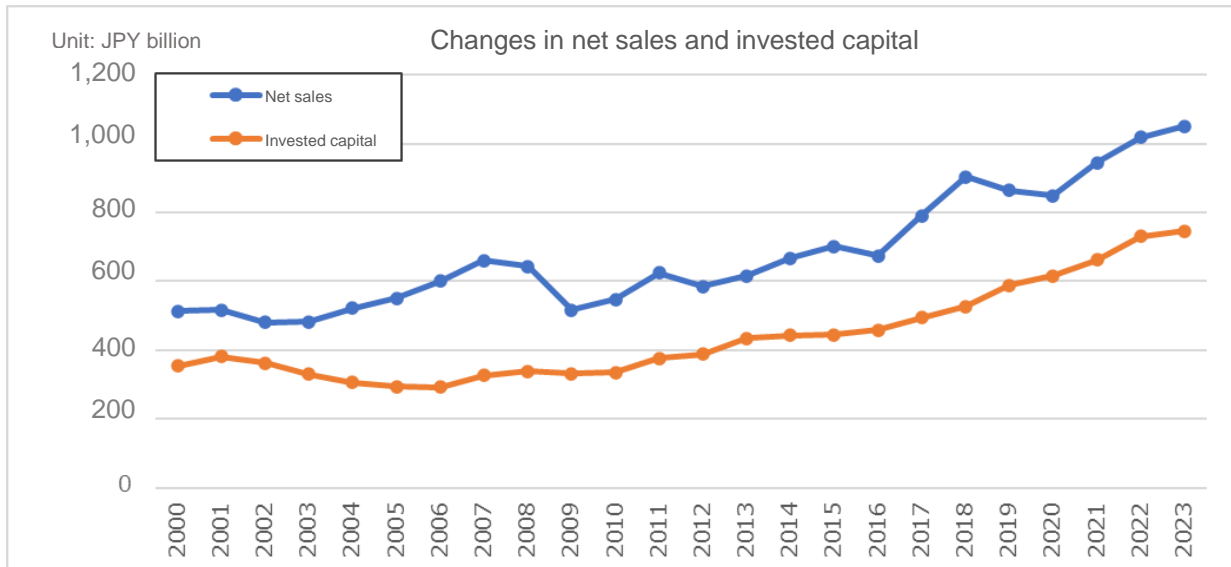
S Create better ways to live and work
Prioritize employee safety, health, and Development
Emphasize coexistence and co-prosperity with local communities

G Strengthen governance
Ensure high product quality
Enhance information disclosure

Financial and non-financial targets have been set with an eye to improving shareholder value and corporate value

05 Our ROIC Management

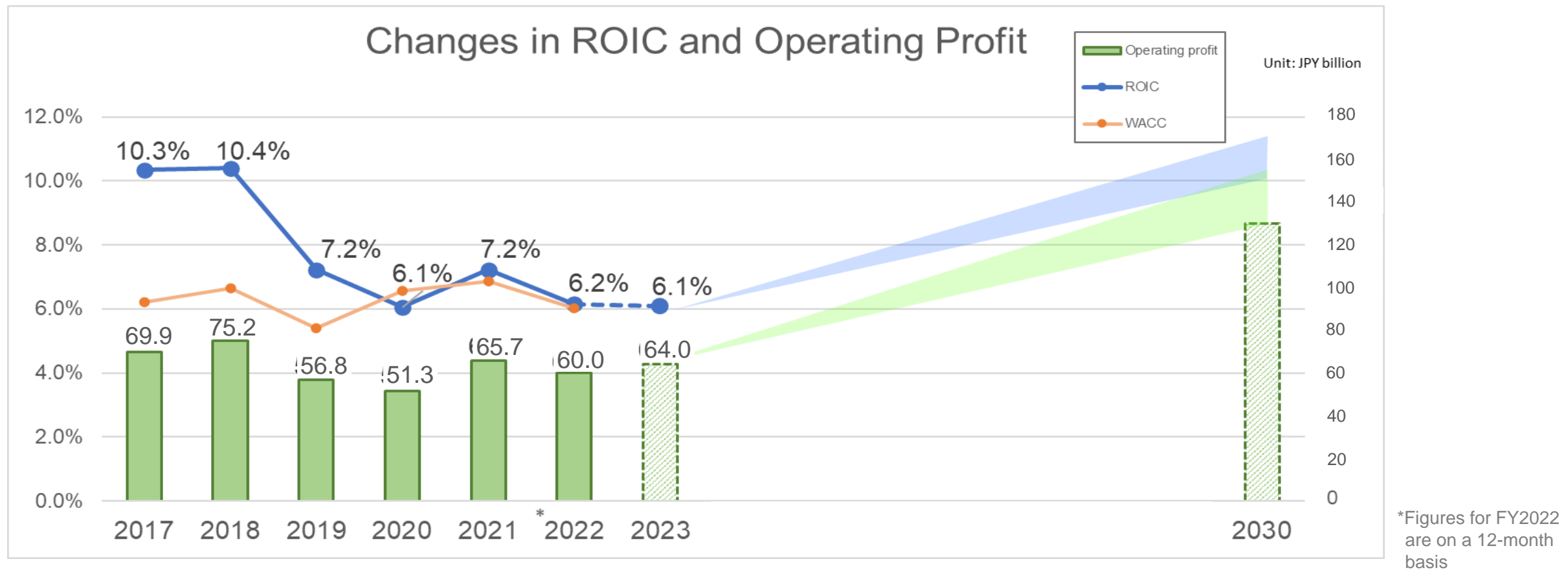
- In the Medium-Term Management Plan C21 for FY1999 to FY2001, the rate of return on invested capital (ROIC) was introduced as a management indicator to promote management with a greater focus on the balance sheet.
“Achieving profitability that continuously surpasses capital costs and reforming the business structure” (ROIC > WACC) was set as the management goal.
- In September 2000, as a business restructuring measure, we moved forward with business restructuring in the segments of shipbuilding, industrial machinery and construction machinery to achieve the ROIC target and proceeded with portfolio reshuffling, for example by actively investing in gear reducers, plastics machinery and environmental businesses we regarded as sources of growth.
- Since then, in two Medium-Term Management Plans starting from FY2008, we promoted the restructuring of each business unit with an eye to ROIC according to the external environment.
In Medium-Term Management Plans starting from FY2014, we have made progress in increasing the topline with a focus on growth.
- No matter what business environment we are in, there is no change to the fact that the foundation for our portfolio management is to improve corporate value by achieving profitability that continuously surpasses capital costs.



05

ROIC and Operating Profit Targets

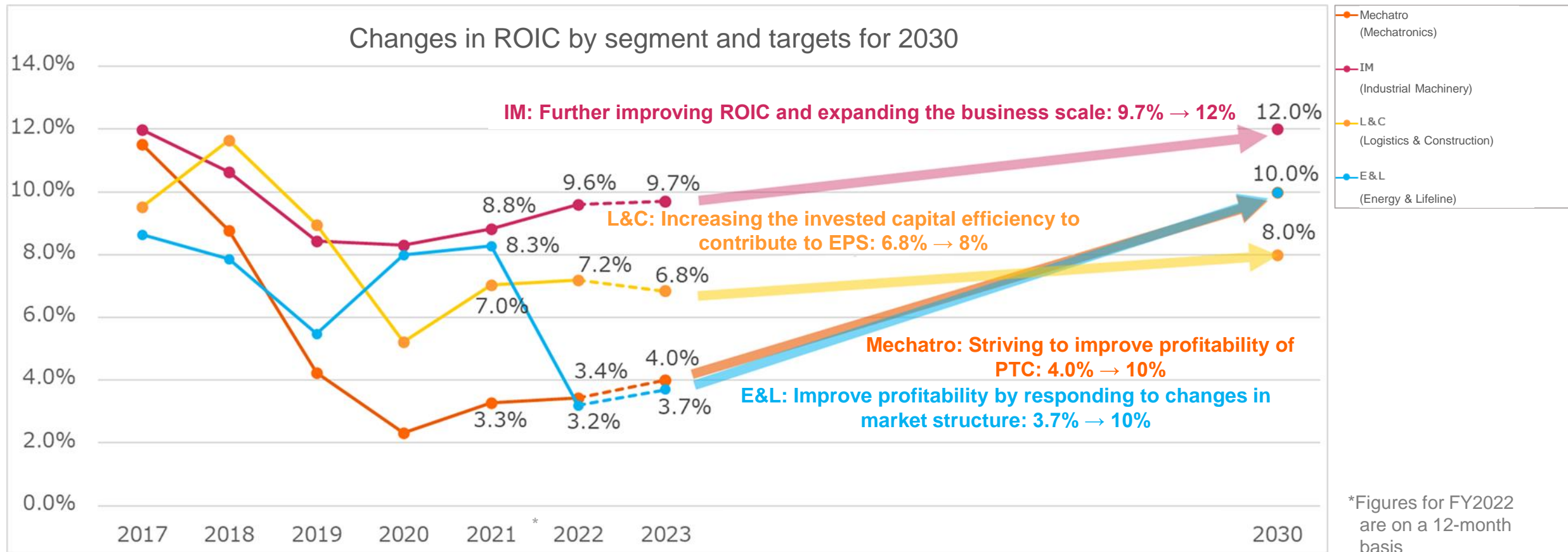
- In and after the Medium-Term Management Plan 2016, we achieved topline growth by making active investments (equipment, M&A and R&D). However, we recognize that growth in profitability has not been sufficient taking into consideration the speed of increase in invested capital and that as of now, ROIC does not sufficiently surpass WACC.
- In the long-term vision for FY2030, we will aim to achieve 10% or more of ROIC and JPY130.0 billion of operating profit.



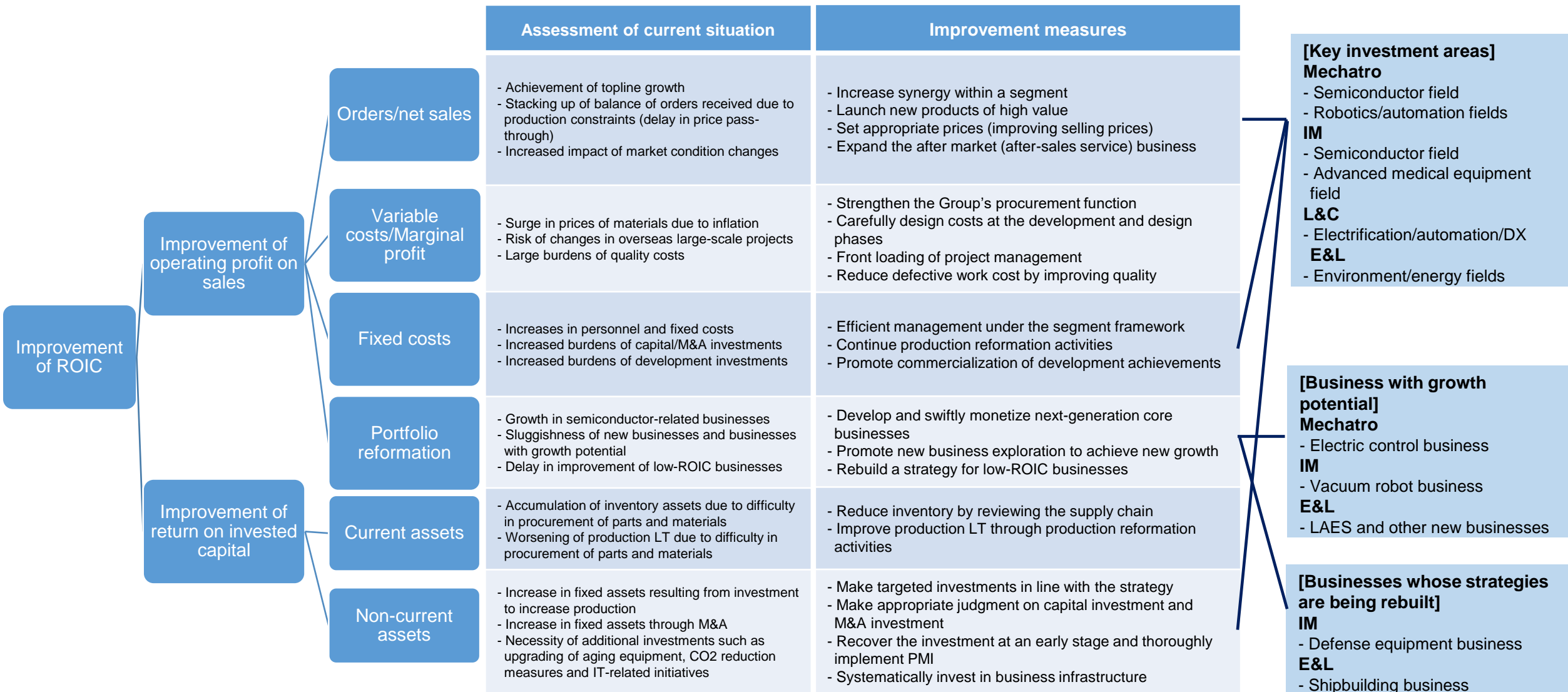
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ROIC by Segment

- Our goal is to ensure that by FY2030 the company-wide ROIC surpasses the WACC level desired by the market with a sufficient spread being secured and ROIC surpasses WACC in every segment. In doing so, we will strive to improve corporate value.
- In the next Medium-Term Management Plan which we are formulating now, an ROIC target is set for each segment, a key issue is to achieve such target, management resources are allocated according to the condition of each business, significant investments are made in strategic business areas, and structural reformation is implemented in business areas for which business strategies need to be revised. Through these activities, we will improve ROIC.



Assessment of Current Situation and Improvement Measures to Increase the ROIC



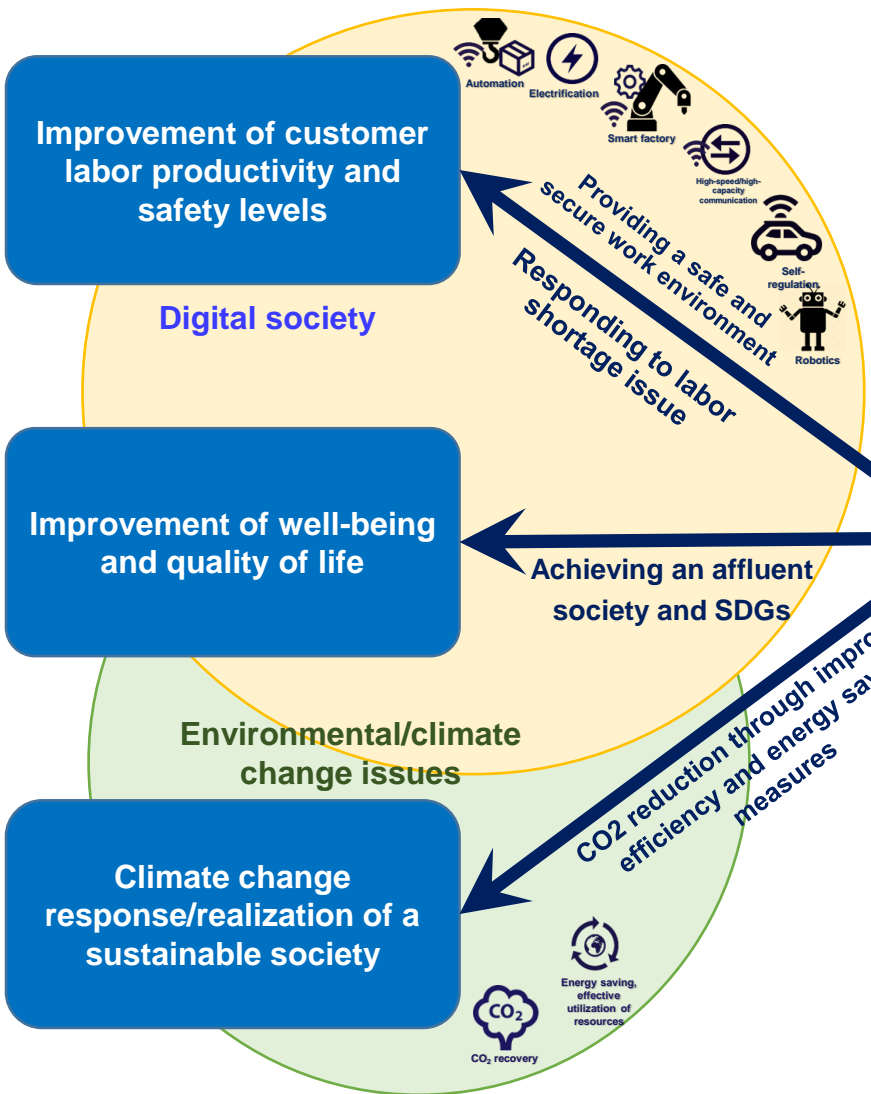
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Business Portfolio: Roles and Direction by Segment

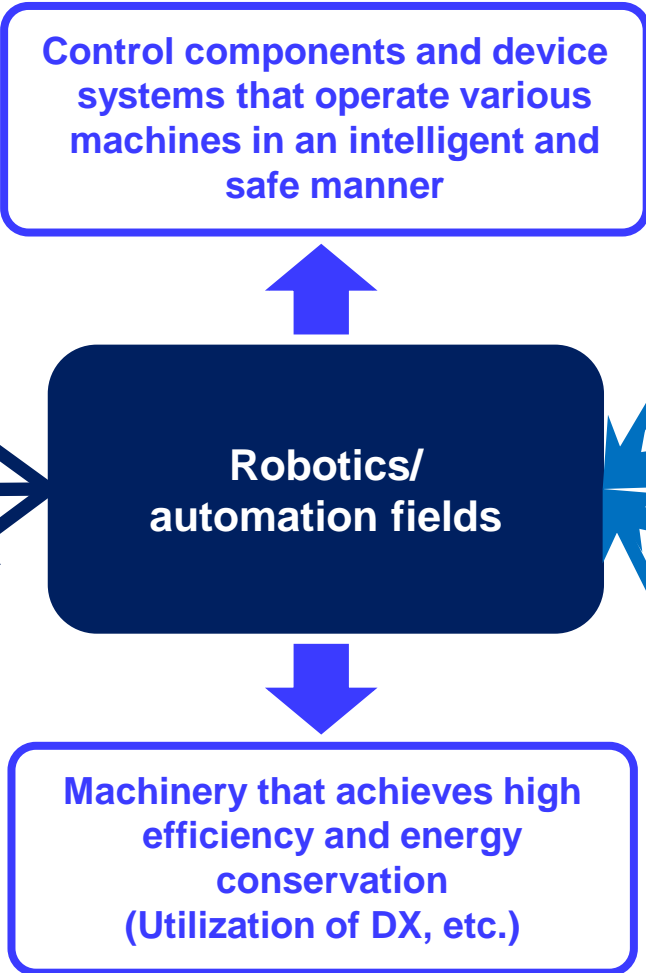
Segment	Role/Positioning	Operating profit target for 2030	ROIC target For 2030	Direction to pursue	Key investment area
Mechatronics	Segment that drives growth with high profitability	JPY35.0 to 40.0 billion	10%	<ul style="list-style-type: none"> - Active investment in the electric equipment control business in Europe - Growth in the semiconductor business (including M&A) - Boosting the rollout of electrically powered modules for robotics 	<ul style="list-style-type: none"> - Robotics/automation fields - Semiconductor field
Industrial Machinery		JPY40.0 to 50.0 billion	12%	<ul style="list-style-type: none"> - Highly-profitable business entity that uses advanced technologies to respond to the global growth market and features an evolving portfolio 	<ul style="list-style-type: none"> - Semiconductor field - Advanced medical equipment field
Logistics & Construction	Core segment that secures stable revenue	JPY35.0 to 50.0 billion	8%	<ul style="list-style-type: none"> - Simultaneous realization of social value and corporate value through automation of logistics and construction machinery and minimization of labor and personnel - Product launch in a new market and development of new products through coordination between businesses - Development of products using new technologies, such as electrification and new components 	<ul style="list-style-type: none"> - Robotics/automation fields
Energy & Lifeline	Segment developed for future growth	JPY15.0 to 20.0 billion	10%	<ul style="list-style-type: none"> - Creating a new business in the fields of decarbonized energy and resource recycling - Combining competence and synergy within a segment 	<ul style="list-style-type: none"> - Environment/energy fields

05 Key Investment Areas and the Company's Direction (Robotics and Automation Fields)

Social issues



Key investment area



Core products

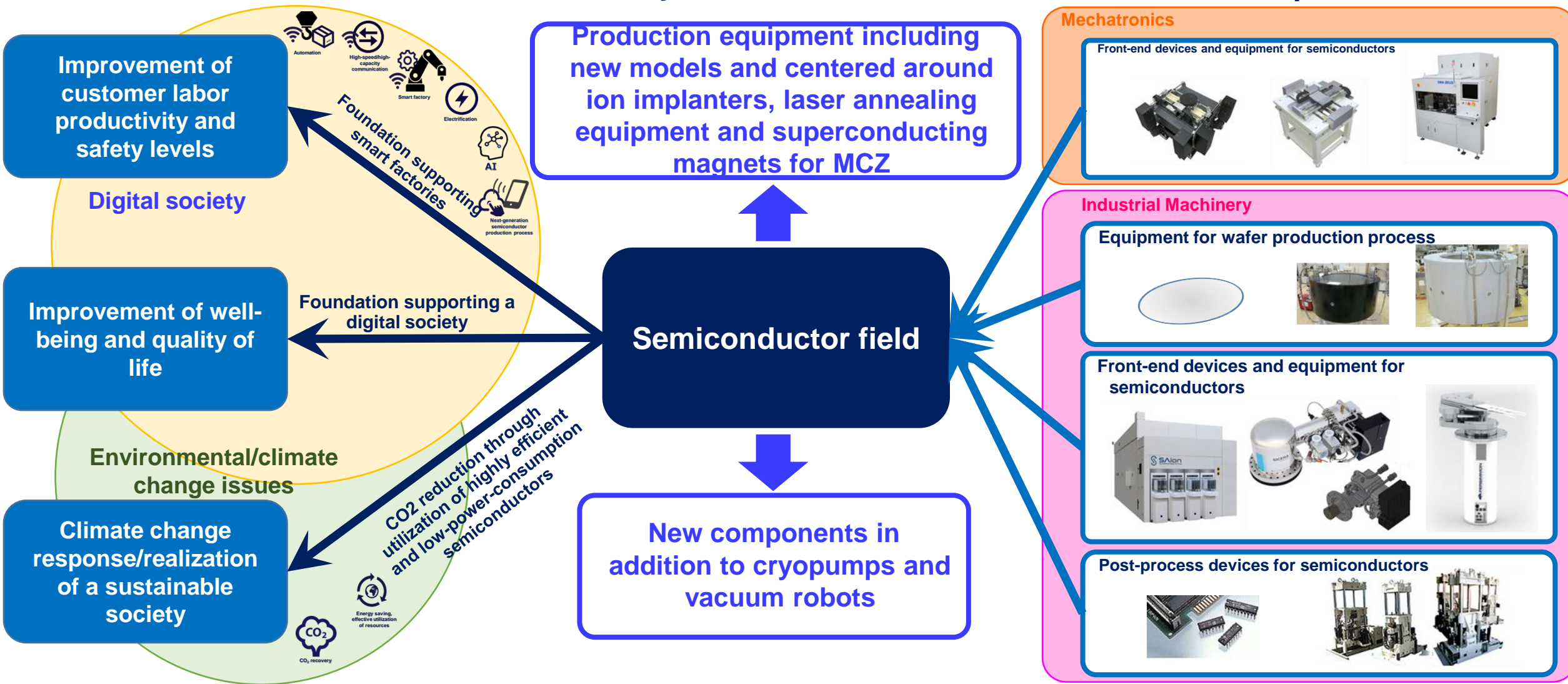


05 Key Investment Areas and the Company's Direction (Semiconductor Field)

Social issues

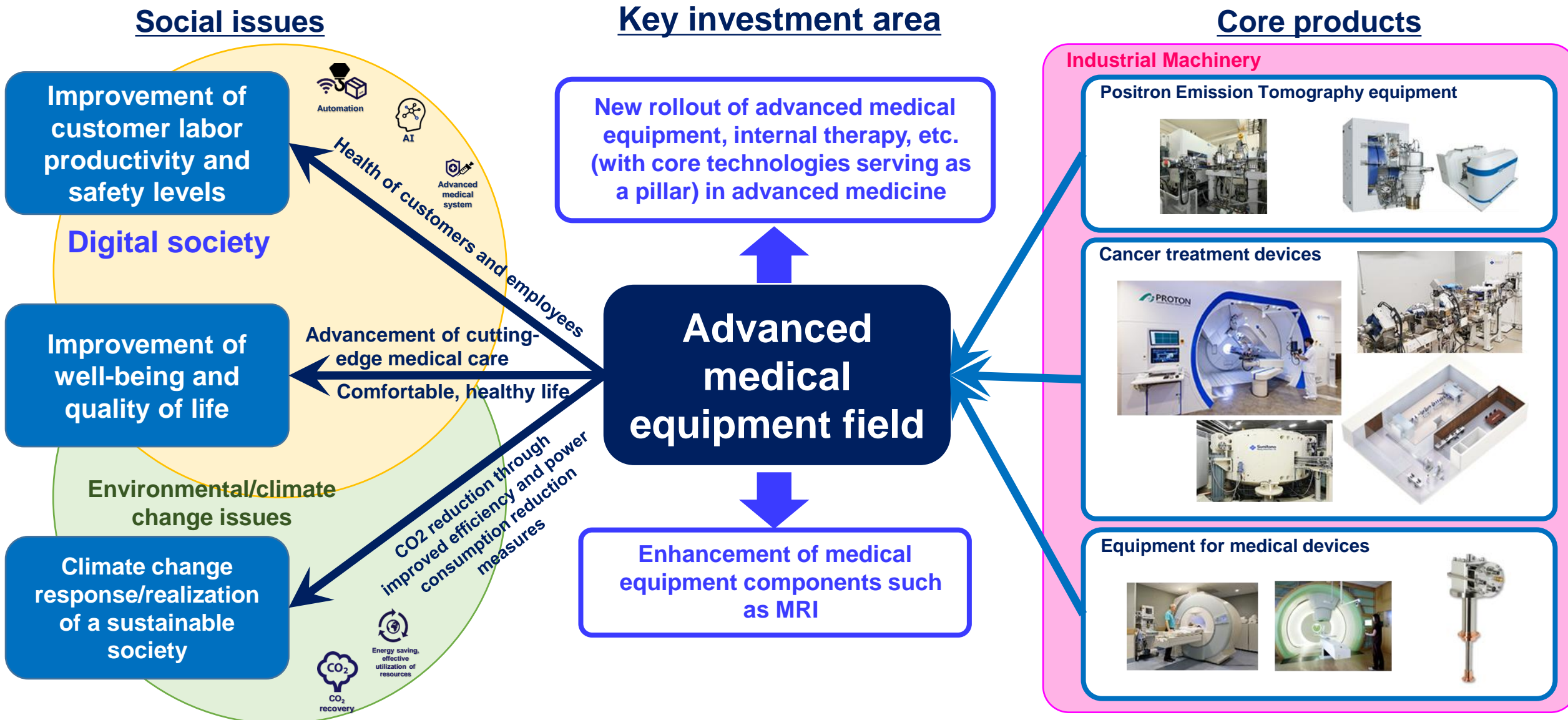
Key investment area

Core products



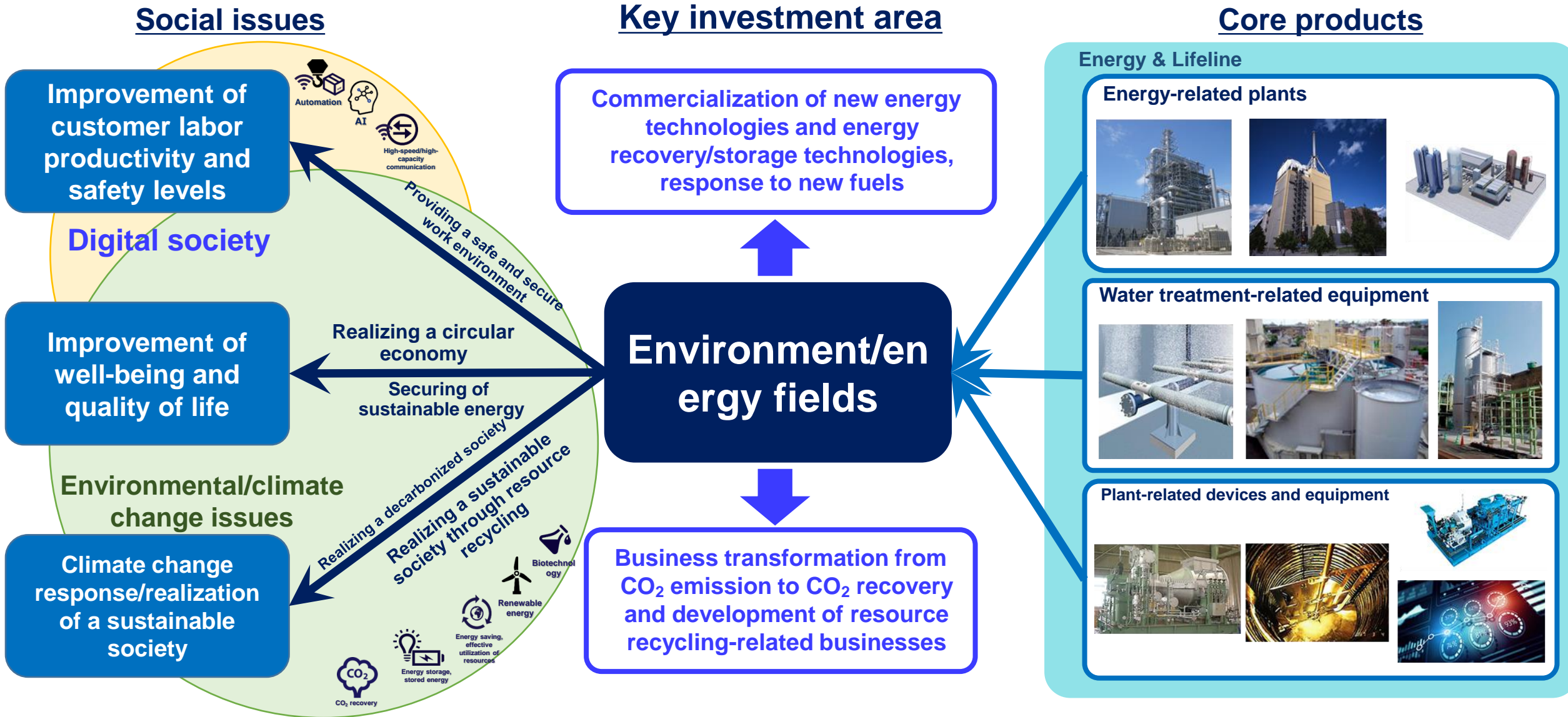
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Key Investment Areas and the Company's Direction (Advanced Medical Equipment Field)



05

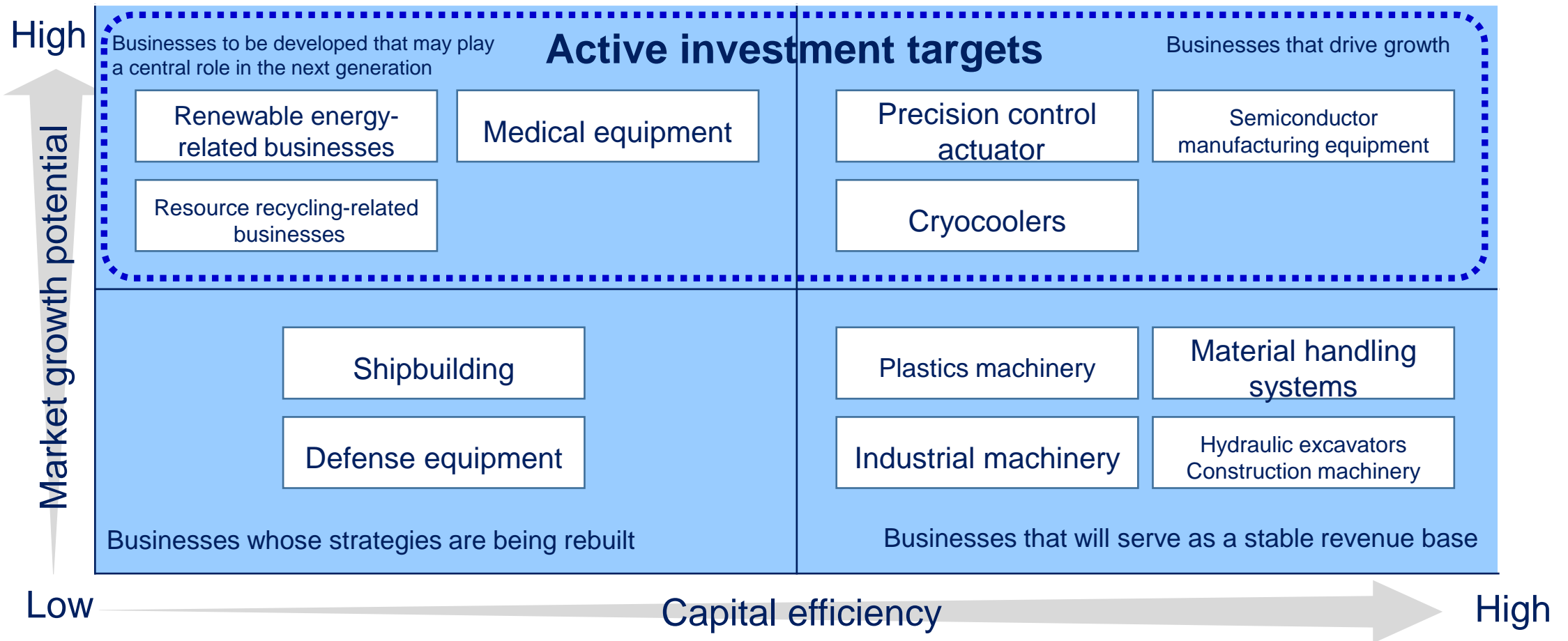
Key Investment Areas and the Company's Direction (Environment/Energy Fields)



05

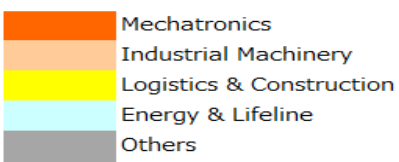
Business Portfolio: Reformation Promotion (Positioning of Businesses)

- Drive the growth of the Company as a whole by utilizing core technologies, such as Mechatronics and advanced precision equipment.
- From the long-term perspective, continue investment in areas related to renewable energy, resource recycling and medical equipment for which future growth is expected.
- Generate cash in a stable manner with construction machinery, industrial machinery, etc., and carry out company-wide cash allocation.



Reference Materials

Ref. Changes in Financial Values (Consolidated)

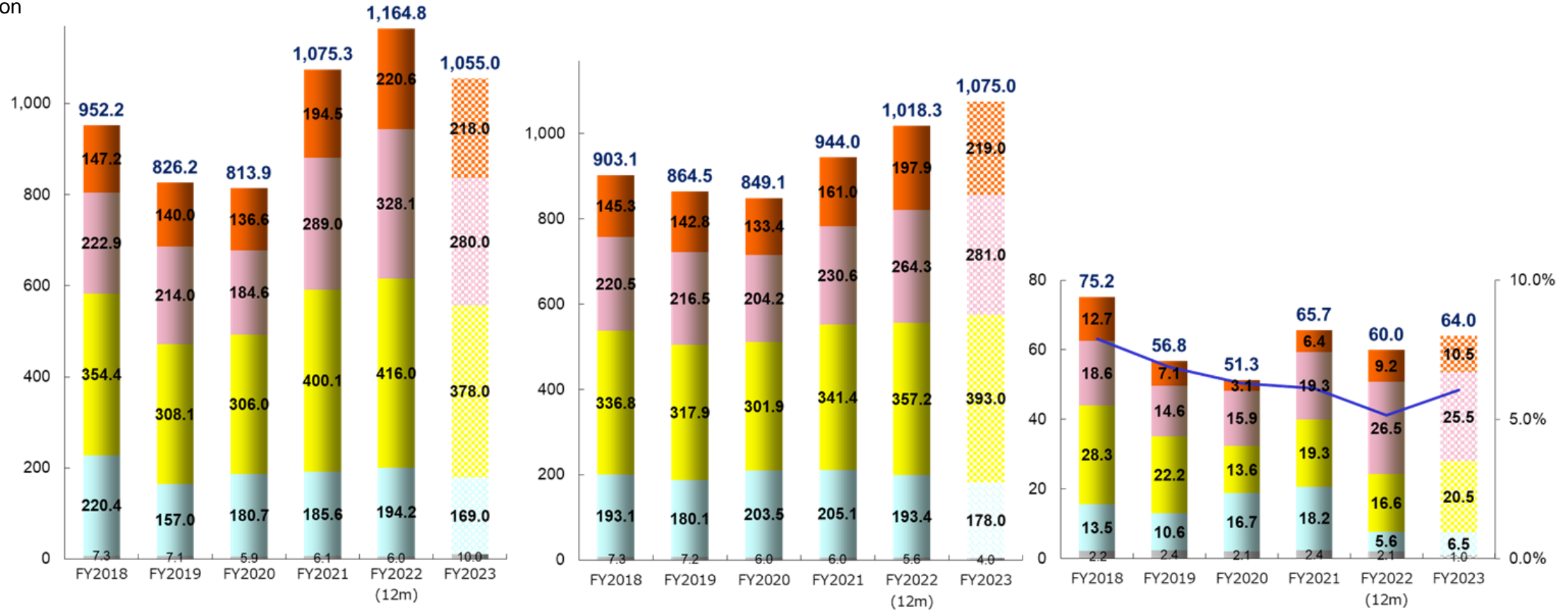


Orders

Net sales

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

Unit: JPY billion



Ref.

Segment Breakdown (Plastics Machinery and Hydraulic Excavators)

Sales of the Semiconductor-Related Product Business

Plastics machinery

Orders

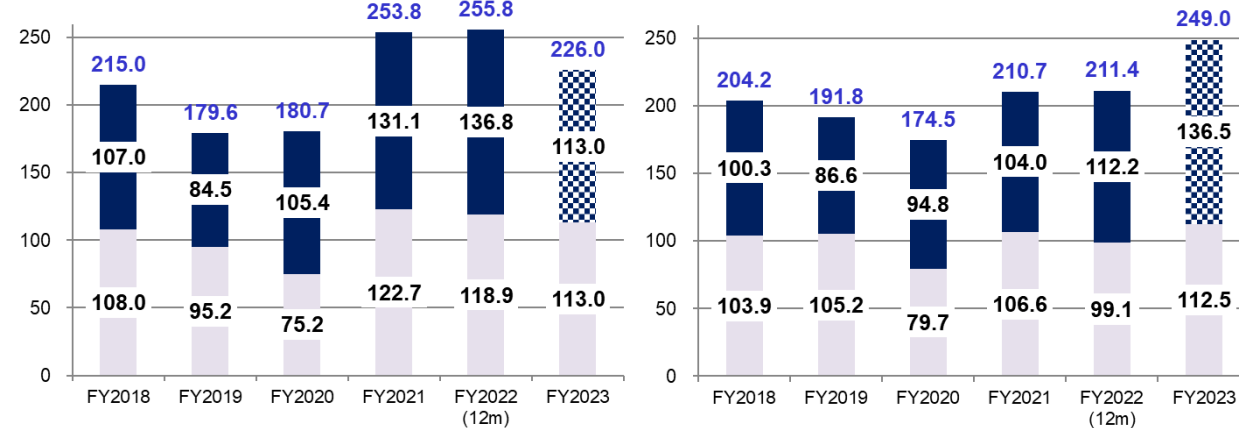
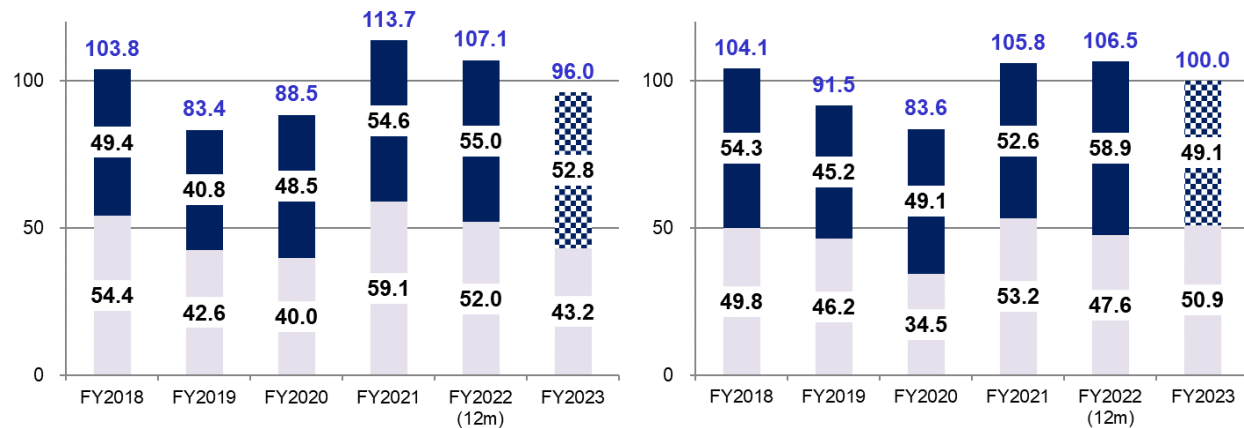
Net sales

Hydraulic excavators

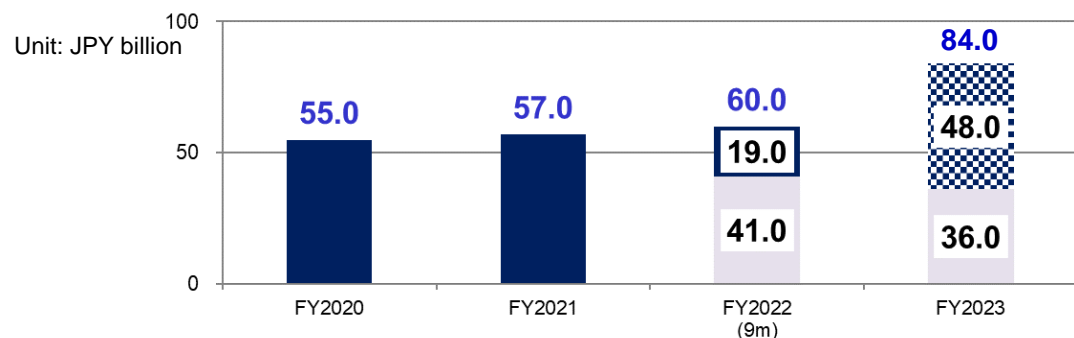
Orders

Net sales

Unit: JPY billion



Total sales from semiconductor related businesses (approximate numbers)



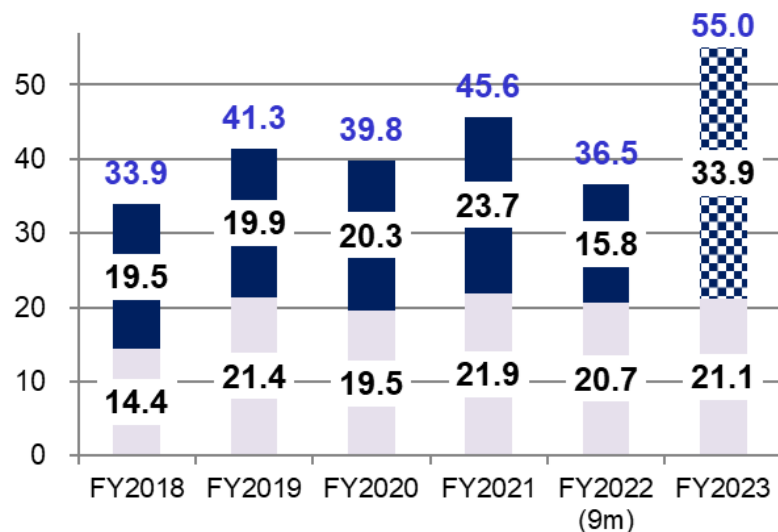
Products for semiconductor production that we possess and their key technologies

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

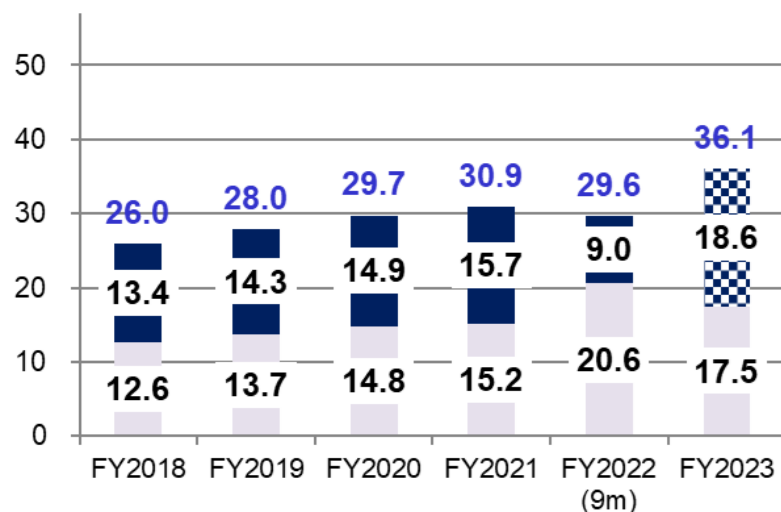
Ref. Capital Investment, Depreciation Cost, Research & Development Cost, Personnel, Forex Sensitivity

Capital investment*

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

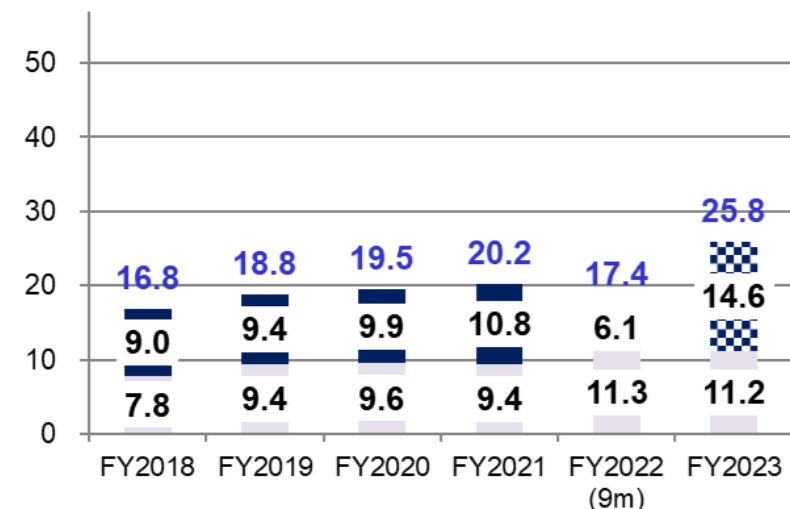


Depreciation & amortization



Research & development cost*

Unit: JPY billion
*Actuals are based on P/L. Forecast is based on budget.



Personnel (as of end of each fiscal year)

Unit: persons	FY2020	FY2021	FY2022	FY2023 (end June)
Consolidated total	24,050	24,584	25,541	25,400

Forex sensitivity (FY2023 forecast)

Unit: JPY billion	Dollar	Euro	Total
Effect of a 1-yen change on operating profit*	0.33	0.22	0.55

*Assumed exchange rates for FY2023 are JPY130 per US dollar and JPY140 per euro

Ref. Sales by Regional Segment

<Exchange rate: JPY136 per US dollar> Unit: JPY billion	Actual 1H FY2023 (2023.1-2023.6)														
	North America		Europe		Asia (Excluding China)		China		Others		Overseas total		Japan		Total sales
Mechatronics	21.3		27.4		9.5		8.0		8.0		74.2		32.7		106.9
(plastics machinery)	5.8		14.6		6.7		12.6		3.5		43.1		7.7		50.9
Industrial Machinery	12.7		21.5		19.2		29.4		3.8		86.6		47.3		133.9
(hydraulic excavators)	35.6		11.9		13.3		3.4		8.8		72.9		39.6		112.5
Logistics & Construction	67.4		12.3		16.6		3.4		9.5		109.3		75.6		184.9
Energy & Lifeline	8.4		12.3		8.5		0.5		5.3		34.9		46.4		81.3
Others	-		-		-		0.0		-		0.0		3.0		3.0
Total / Sales ratio (%)	109.8	22	73.5	14	53.8	11	41.3	8	26.6	5	305.0	60	205.0	40	510.1
<Exchange rate: JPY132 per US dollar> Unit: JPY billion	(After adjustment) Actual 1H FY2022 (2022.1-2022.6)														
	North America		Europe		Asia (Excluding China)		China		Others		Overseas total		Japan		Total sales
Mechatronics	19.8		21.0		8.2		7.6		5.8		62.4		29.2		91.6
(plastics machinery)	5.6		13.5		8.5		10.9		2.0		40.5		7.1		47.6
Industrial Machinery	11.6		18.7		18.0		24.7		2.5		75.4		48.0		123.4
(hydraulic excavators)	26.2		7.2		14.8		7.2		7.8		63.3		35.9		99.1
Logistics & Construction	54.8		8.3		17.9		7.3		8.7		97.1		70.5		167.6
Energy & Lifeline	7.1		8.1		8.7		1.1		10.4		35.3		57.5		92.9
Others	-		-		-		0.0		-		0.0		2.9		2.9
Total / Sales ratio (%)	93.3	20	56.1	12	52.8	11	40.6	8	27.3	6	270.2	56	208.2	44	478.4



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.