

**The 125th Interim Business and Financial Report**  
**April 1, 2020 to September 30, 2020**

## **To Our Shareholders**

I would like to express our sincere gratitude for your continued support and patronage. I am pleased to present our business and financial report for the first half of the 125th fiscal year (from April 1 to September 30, 2020) as follows.

## **Business Principles**

### **Corporate Mission Statement**

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

### **Our Values**

Customer First:

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

Embrace Changes:

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

Commitment to Technology and Innovation:

We are passionate about contributing to society by further developing our unique, in-house technologies.

Respect People:

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

## **Business Performance during the Half-Year Period under Review**

During the six-month period ended September 2020, the COVID-19 pandemic had an impact on the Japanese economy, leading to the declaration of a state of emergency and subsequent stagnation in economic activity, while overseas economic activity decreased with the imposition of lockdowns in response to the pandemic, and as a result, demand for machinery entered a period of decline globally. Furthermore, with intensifying trade friction between the United States and China, ongoing geopolitical risks, and fluctuations and weakness in crude oil prices, the outlook for the future was increasingly uncertain.

Given this economic environment, the SHI Group has been responding to the COVID-19 pandemic by ensuring the safety of our employees and cooperating to the fullest extent possible to meet the needs of society, while also working to implement short-term business continuity plans (BCPs) to maintain production when infections occur, sustain our business during a period of declining orders, and maintain plant operations.

As a result of these efforts, operating profit declined 22% year-on-year, to ¥21.2 billion, while ordinary profit was 26% lower, at ¥19.1 billion, and profit attributable to owners of parent decreased 34%, to ¥10.9 billion.

Based on these interim results, we have paid an interim dividend of ¥9 per share, a reduction of ¥47 year-on-year.

## **Management Policy for Fiscal 2020**

The SHI Group's management policy for fiscal 2020 is to carry out the following:

First, we will address COVID-19. During the first half, we encouraged telework and working from home, and implemented measures to avoid close contact and crowded conditions while ensuring proper ventilation at work sites, and also implemented short-term BCPs to maintain production together with other measures to minimize the effect on production. We will continue to give priority to ensuring the safety of our employees, cooperating to the fullest to meet the needs of society and maintaining the business foundation, as we ensure business continuity by putting in place a robust structure for preventing infections and strengthening BCPs.

Second, we will respond appropriately as economic activity recovers. This will involve strengthening our structure for

business continuity in anticipation of subsequent waves of COVID-19 infections and accurately addressing strong demand in areas including semiconductors, logistics, and automation, while also implementing bottom-line management that adjusts production to align with demand, and continuing to maintain financial discipline.

Third, we will take a long-term perspective. Long-term initiatives during the first half included the commencement of cooperation with another company for the recycling of used disposable diapers, the acquisition of shares of Leifeld Metal Spinning GmbH, a German machinery manufacturer that manufactures and sells spinning machines and flow forming machines, and the decision to build a new plant for the semiconductor manufacturing equipment business. In addition, we are formulating a new medium-term management plan (which we intend to announce in May 2021) that will address the resolution of social issues from the perspective of long-term megatrends and responding to changes in the social structure represented by a dispersed, remote society and the rebuilding of global supply chains, while also continuing to invest proactively in research and development, carry out strategic capital investment, and maintain and enhance human capital. In addition to our corporate social responsibility (CSR) that supports our employees' safety, health, and development, we will continue to pursue our CSR for the creation of value by achieving more rewarding lifestyles and work styles and reducing our environmental load, as we work toward the dual goals of resolving social issues and maintaining the continuous growth of the SHI Group.

The SHI Group will continue to contribute to society's development going forward by providing excellent products and services. I ask for the continued understanding and support of our shareholders.

Shinji Shimomura  
President and CEO

## **Feature 1**

### **Bringing a new approach to logistics!**

#### **Japan's first automated storage system—Magic Rack®**

Over the past few years, delivery and warehouse personnel shortages have become an increasingly severe problem for the logistics industry against a backdrop of a large increase in volume, requirements for higher levels of service, and diversification, as a result of the rapid growth of e-commerce. In response, SHI Group company Sumitomo Heavy Industries Material Handling Systems Co., Ltd. has built upon its extensive track record in providing many distribution systems to plants and distribution centers to develop Magic Rack®, Japan's first automated storage system, incorporating completely unprecedented concepts to achieve high storage efficiency and labor savings.



Note: Magic Rack® is a registered trademark in Japan of Sumitomo Heavy Industries Material Handling Systems Co., Ltd.

To see how Magic Rack® works, please visit the product website at <http://magicrack.jp/en/>



## Magic Rack®'s amazing features!

(1) Can store **twice** the volume of traditional pallet racks!

Traditional pallet rack



Capacity: 780 pallets\*

Magic Rack®



Capacity: 1,560 pallets\*

\* For 1,200m² space

With no need for forklift aisles, pallets can be placed up against each other, achieving the industry's highest level of storage efficiency!



(2) Can be **adapted** to all kinds of warehouses!



L-shaped layout



Triangular ceiling

Use whatever layout to make the most use of your existing warehouse!



(3) **Reduces** construction costs and electricity consumption!

Traditional pallet rack



Approx.  
20m\*

Magic Rack®



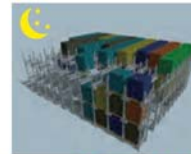
Approx.  
10m\*

\* For storing 3,000 pallets in 1,395m² area

Uses 10% less electricity than traditional stacker crane-type automated warehouses!  
Being able to store the same volume in half the height makes it possible to reduce construction costs!



(4) **Reduces workload** on forklift operators!



Assort during night



Next morning, just load!

With automated assorting and automated storage and retrieval, forklift operators' workload is reduced!



### Future outlook

With the contraction of the worker population accelerating, we are facing a time where shortages of workers can determine the fate of businesses. By proactively incorporating the latest technologies, we are promoting work-style reforms in various logistics workplace settings, and contributing greater value to customers.

**Interim Consolidated Financial Statements**

(Amounts less than 100 million yen have been rounded off.)

**Interim Consolidated Balance Sheet (Summary)**

(Billions of yen)

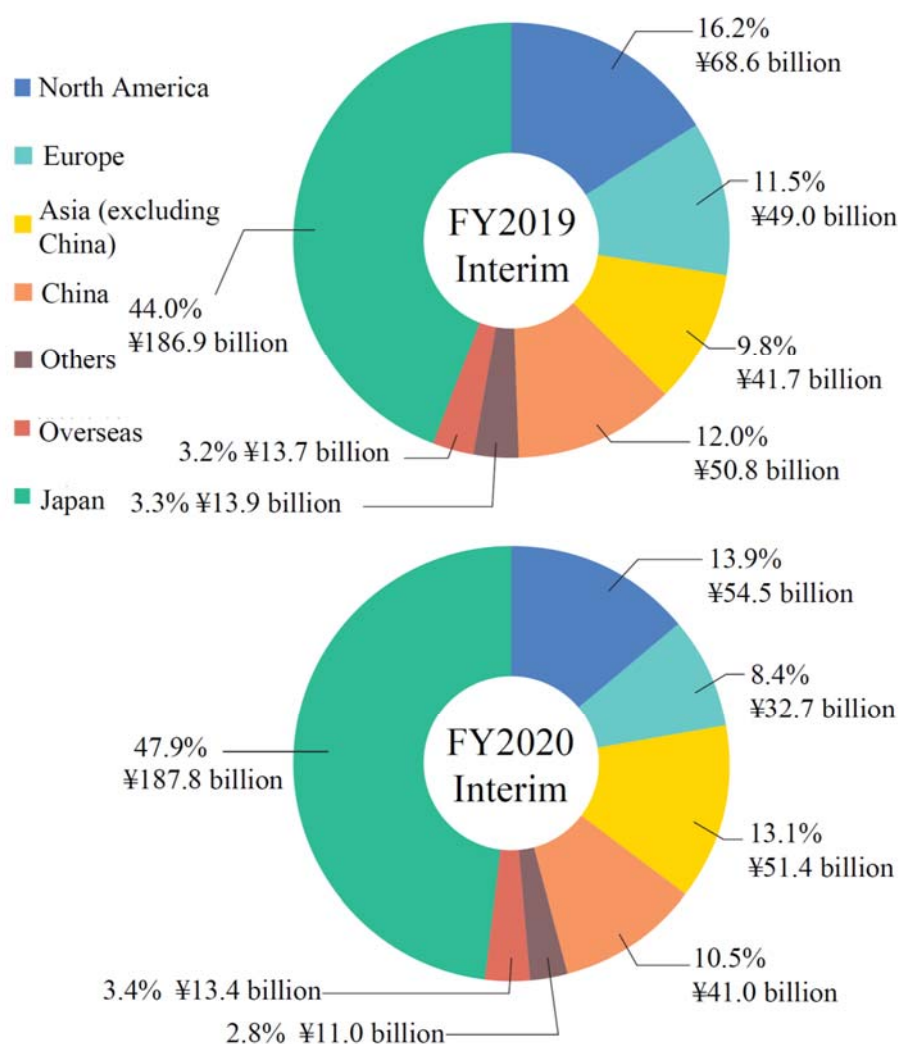
Account Items	End of FY2019 (As of March 31, 2020)	FY2020 End of interim period (As of September 30, 2020)
Current assets	592.8	588.8
Cash and deposits	87.1	93.6
Notes and accounts receivable	271.4	254.8
Inventories	201.0	209.7
Other	33.3	30.7
Fixed assets	403.3	410.4
Tangible fixed assets	268.1	273.2
Intangible fixed assets	74.1	75.8
Investments and other assets	61.2	61.5
Total	996.1	999.2
Liabilities	518.5	519.0
Notes and accounts payable	158.5	143.7
Interest-bearing liabilities	124.7	143.3
Other	235.3	232.0
Net assets	477.6	480.2
Stockholders' equity	423.1	431.1
Accumulated other comprehensive income	41.4	36.2
Non-controlling interest	13.2	13.0
Total	996.1	999.2
Net ratio of interest-bearing debts	3.8%	5.0%
Stockholders' equity ratio	46.6%	46.8%

**Interim Consolidated Statements of Income (Summary)**

(Billions of yen)

Account Items	FY2019 Interim period (April 1, 2019 to September 30, 2019)	FY2020 Interim period (April 1, 2020 to September 30, 2020)
Orders	418.6	370.8
Net sales	424.7	391.7
Operating profit	27.2	21.2
Operating profit ratio	6.4%	5.4%
Ordinary profit	25.8	19.1
Ordinary profit ratio	6.1%	4.9%
Extraordinary gains (losses)	—	—
Profit before income taxes	25.8	19.1
Profit attributable to owners of parent	16.4	10.9
Ratio of profit attributable to owners of parent	3.9%	2.8%

## Net Sales Ratio by Region



FY2019 Interim

Region	Net sales (Billions of yen)	Net sales ratio (%)
North America	68.6	16.2
Europe	49.0	11.5
Asia (excluding China)	41.7	9.8
China	50.8	12.0
Others	13.9	3.3
Overseas Ships	13.7	3.2
Japan	186.9	44.0

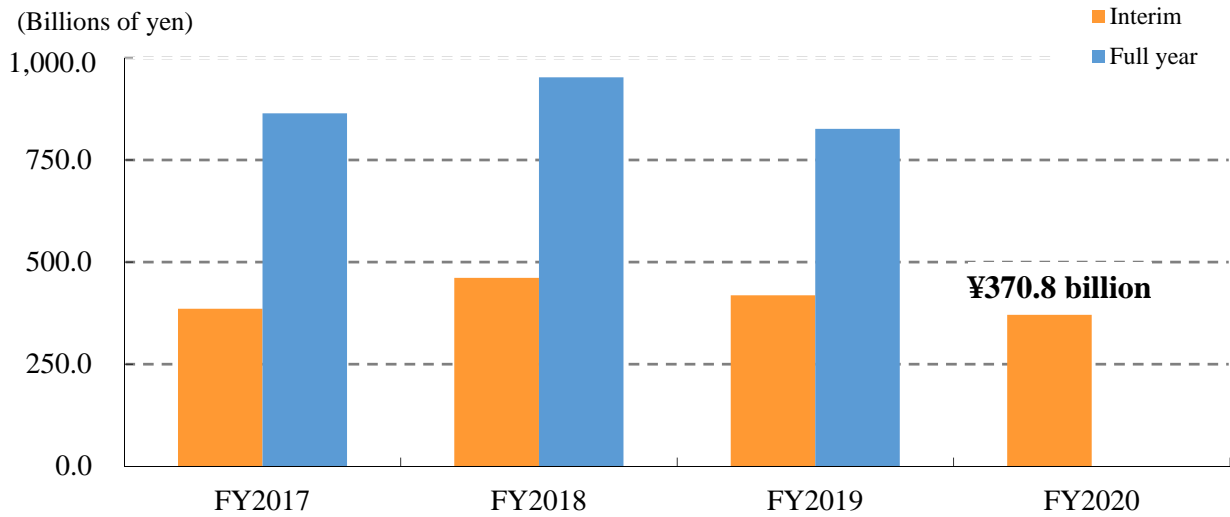
FY2020 Interim

Region	Net sales (Billions of yen)	Net sales ratio (%)
North America	54.5	13.9
Europe	32.7	8.4
Asia (excluding China)	51.4	13.1
China	41.0	10.5
Others	11.0	2.8
Overseas Ships	13.4	3.4
Japan	187.8	47.9

## Consolidated Financial Highlights

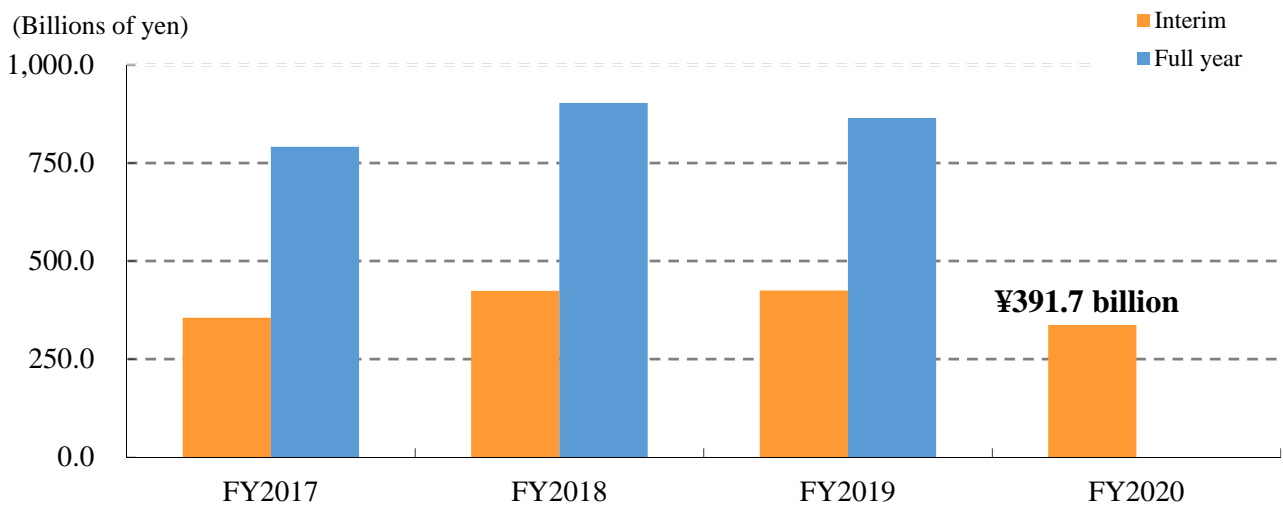
### Orders

(Billions of yen)



### Net Sales

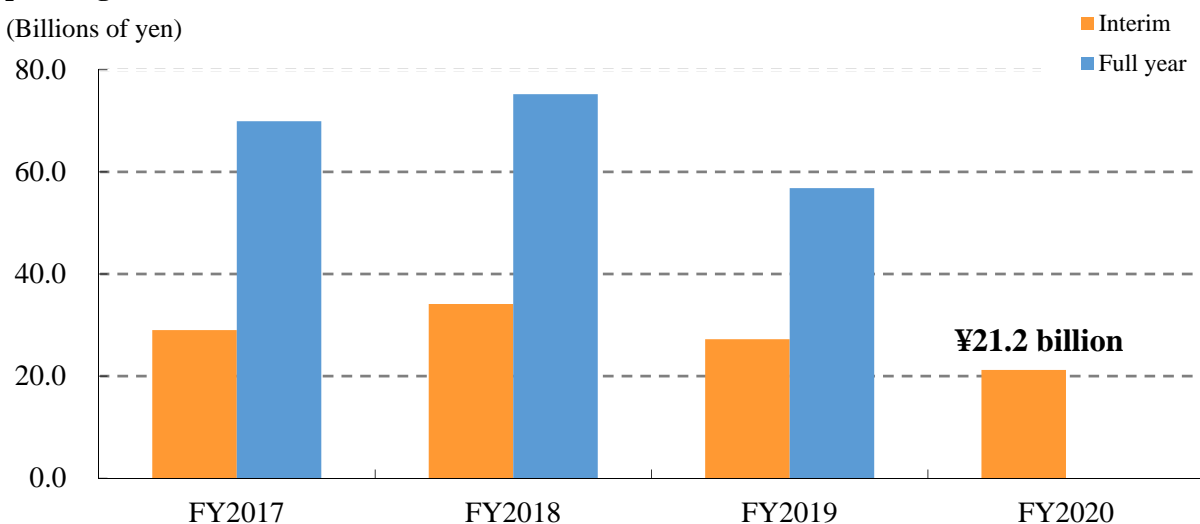
(Billions of yen)





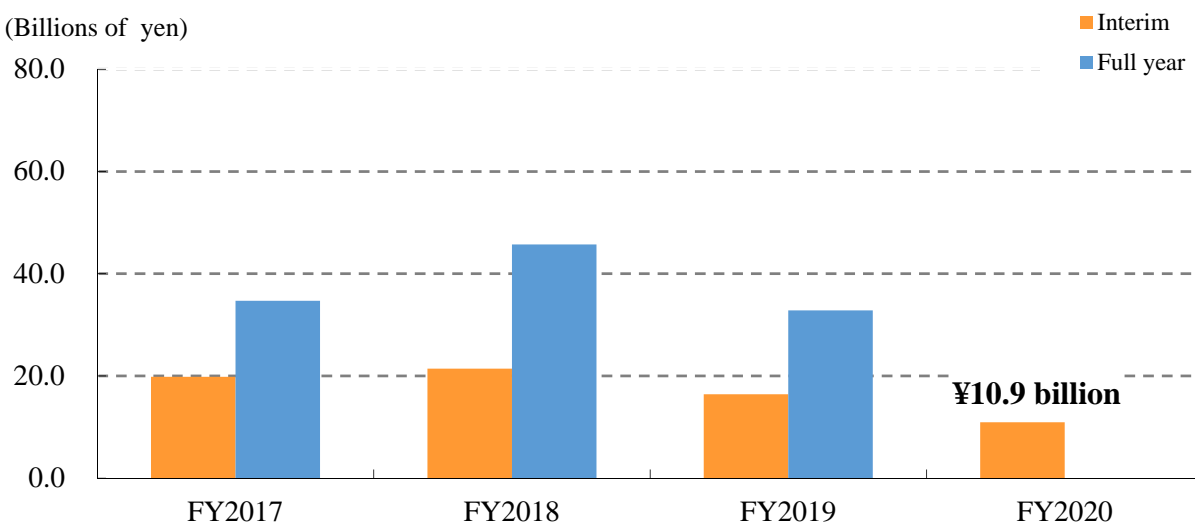
## Operating Profit

(Billions of yen)



## Profit Attributable to Owners of Parent

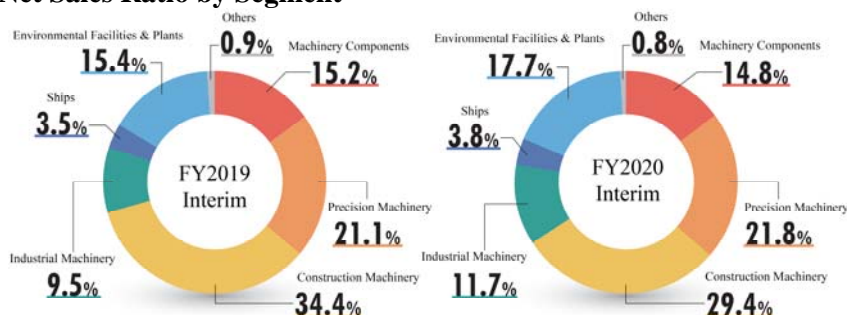
(Billions of yen)



Note: Amounts less than one unit are rounded to the nearest unit.

## Review of Operations by Segment

### Net Sales Ratio by Segment



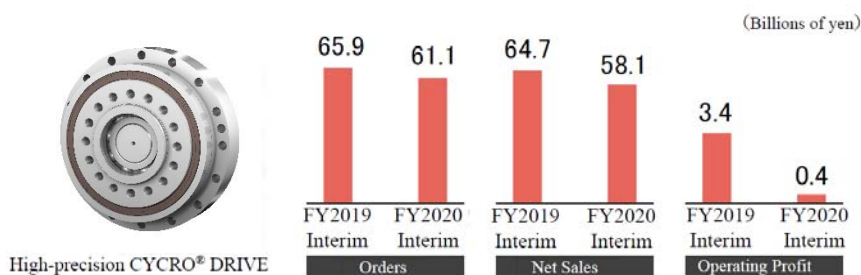
### Machinery Components

Major Products

Power Transmission and Control Equipment, Motors, Inverters

Net Sales ¥51.8 billion Year-on-Year Change -10%

With the global spread of COVID-19, orders, sales, and operating profit all declined.



### Precision Machinery

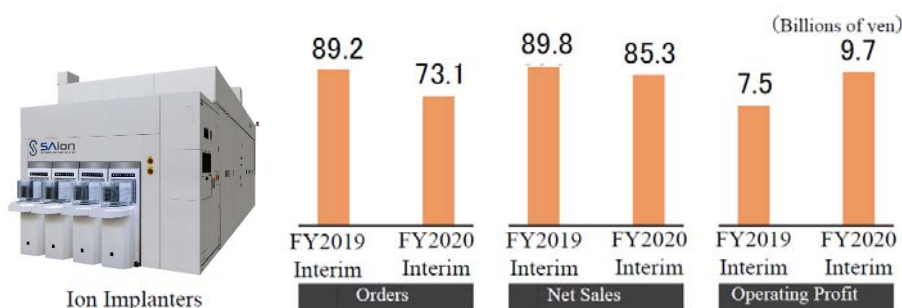
Major Products

Plastic Injection Molding Machines, Extrusion Laminator Machines, Semiconductor Manufacturing Equipment, Laser Processing Systems, Cryogenic Equipment, Precision-Positioning Stages, Precision Forgings, Control Systems, Defense Equipment, Machining Tools

Net Sales ¥85.3 billion Year-on-Year Change -5%

Orders, sales, and operating profit at the plastic injection molding machine business declined on weak automotive-related demand globally as a result of the COVID-19 pandemic.

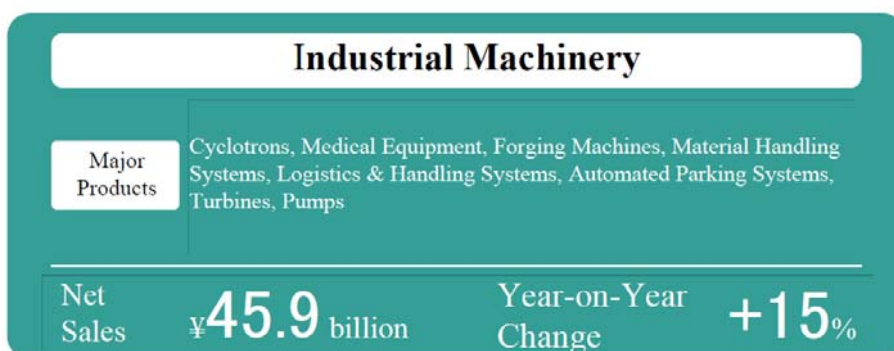
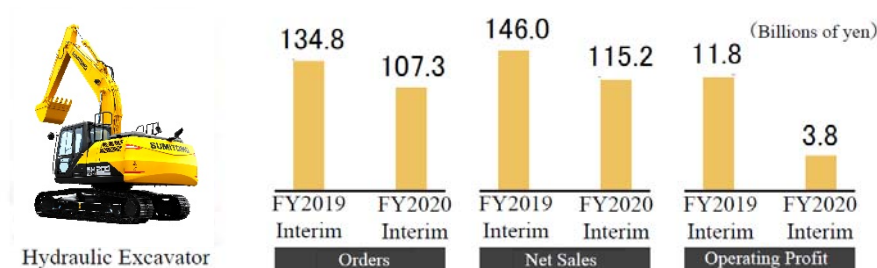
At other precision machinery businesses, orders declined from the year-earlier level but sales and operating profit grew on solid semiconductor-related demand.





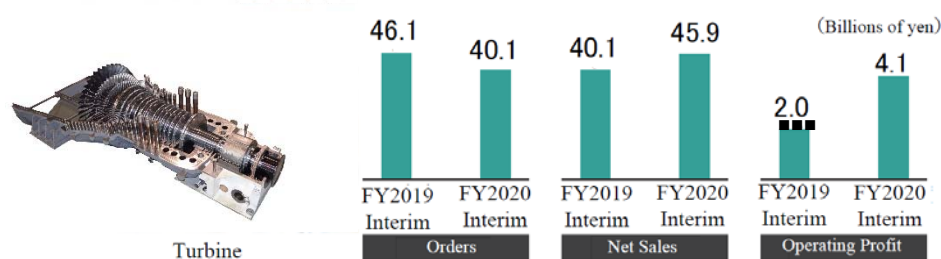
The hydraulic excavator business recorded declines in orders, sales, and operating profit as the COVID-19 pandemic led to a decrease in overseas demand.

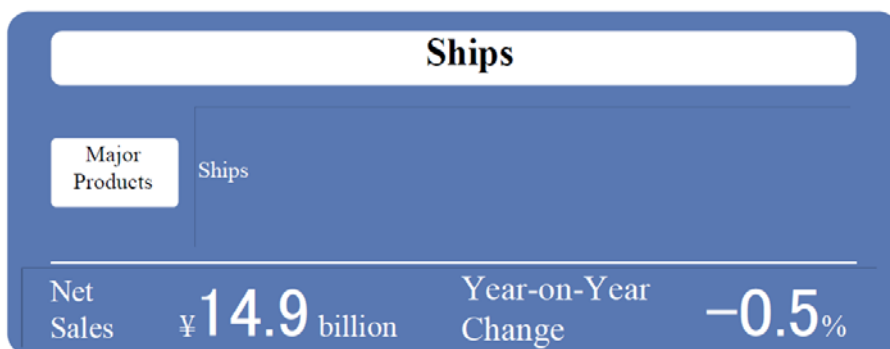
Orders, sales, and operating profit at the construction crane business declined on sluggish demand from the COVID-19 pandemic and decreased demand from North America caused by weak crude oil prices.



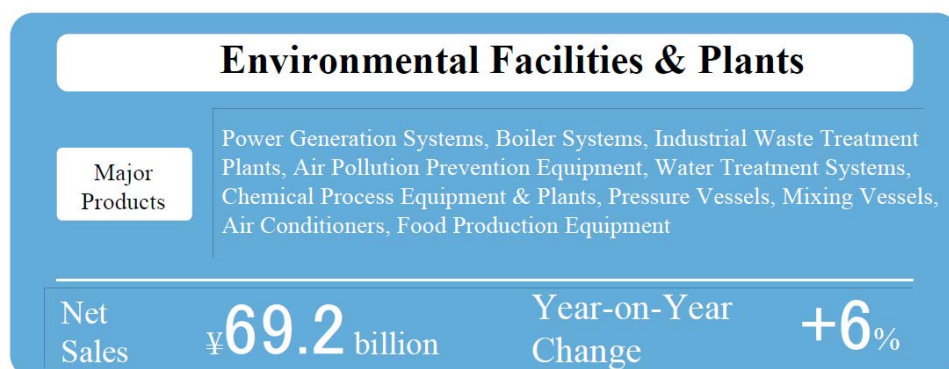
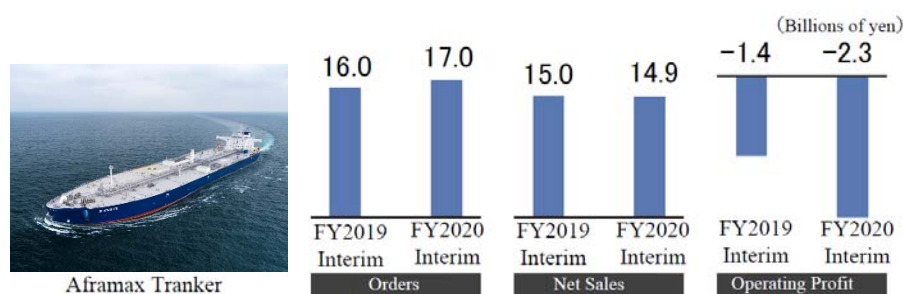
Orders declined at the material handling systems business as orders for logistics & handling systems and automated parking systems were postponed in the face of the COVID-19 pandemic, but with an order backlog, sales and operating profit both rose.

Other industrial machinery businesses saw orders decline from the effect of the COVID-19 pandemic, but sales rose on the order backlog for industrial-use turbines, and with changes in the model configurations in addition to this sales growth, operating profit increased.



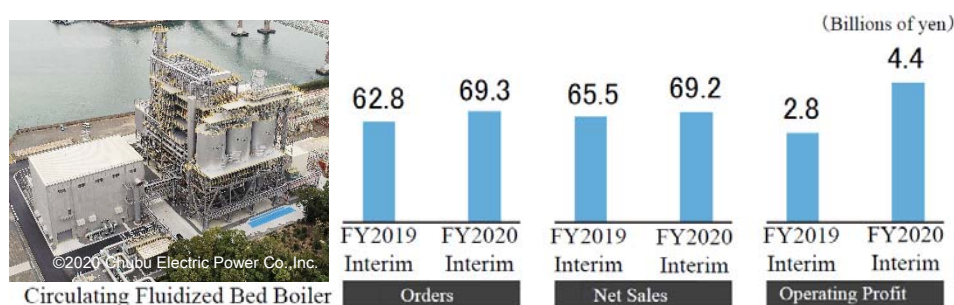


Market conditions remained weak, but orders were received for two new ships, which was one more than in the year-earlier period. Two ships were delivered, and increase of one from the year-earlier period, but with a decline in ship repair projects, sales were flat and the business continued to record an operating loss.



Orders at the energy plant business rose on large orders for biomass-fueled power generation plant projects in Japan and Europe, and combined with an order backlog, primarily in Japan, sales and operating profit increased as well.

The water treatment plant business saw orders decline on a year-on-year decrease in the number of wastewater treatment system projects, but the order backlog resulted in increased sales and operating profit.



## **Feature 2**

### **Message from new Outside Director**

**We spoke with Mr. Akio Hamaji, who assumed the position of Outside Director in June 2020, about his background and how he intends to use that background to contribute to the Company's management as an Outside Director going forward.**

### **On his role as an Outside Director**

After working for Mitsubishi Mining & Cement Co., Ltd. (the present Mitsubishi Materials Corporation) as an engineer on production sites for 10 years, I was responsible for business planning and contracts in M&A deals in the United States and plant construction projects in emerging market countries, and then was involved in public relations and investor relations and corporate planning operations at the head office. After subsequently serving as an executive officer, director, chief financial officer, and executive vice president, I became the chief executive officer of a group company, and during this time I dealt with a range of various management issues including corporate governance and compliance.

Based on this experience, I will strive to give management practical advice focusing on the areas of management strategy, overseas business development, corporate communications, and governance, while also providing management oversight from an independent perspective.

### **On what he, as an Outside Director, is looking for in the Company's management**

The recent coronavirus crisis is causing business models to transform. The issue for the SHI Group is to take a hard look at whether we can continue to achieve a return on invested capital above the cost of capital going forward in the markets for equipment and machinery manufacturing as they change with these global developments, and if necessary, to make decisions regarding revisions to business strategies and portfolios.

Also, in recent years corporate value is being judged increasingly on a company's social value based on things like Sustainable Development Goals (SDGs) and environmental, social and governance (ESG) measures in addition to traditional financial value. In our case, with many Group companies in Japan and overseas, it is difficult for the head office alone to instill these measures. The leaders of these respective organizations need to make all employees aware that pursuing the SDGs and ESG measures create the corporate value, and to create a corporate culture in which each individual employee pursues these objectives on their own initiative.

Akio Hamaji  
Outside Director

### **Personal history**

April 2016: Director, Chief Executive Officer of Mitsubishi Aluminum Co., Ltd.  
Dec. 2019: Outside Director of Japan Best Rescue System Co., Ltd. (incumbent)  
June 2020: Outside Director of the Company (incumbent)

Date of birth: July 13, 1954

Personal motto: Heaven helps those who help themselves

Interests: Mountain climbing, cooking

## **Company Information** (as of September 30, 2020)

### **Corporate Data**

- Incorporated: November 1, 1934
- Paid-in capital: ¥30,871,651,300
- Number of employees (consolidated): 24,099
- Offices
  - Head office: 1-1, Osaki 2-chome, Shinagawa-ku, Tokyo, Japan
  - Business offices: Chubu Office (Nagoya-shi)  
Kansai Office (Osaka-shi)  
Kyushu Office (Fukuoka-shi)
  - Plants: Tanashi Works (Nishitokyo-shi, Tokyo)  
Chiba Works (Chiba-shi)  
Yokosuka Works (Yokosuka-shi, Kanagawa Pref.)  
Nagoya Works (Obu-shi, Aichi Pref.)  
Okayama Works (Kurashiki-shi, Okayama Pref.)  
Niihama Plant of Ehime Works (Niihama-shi, Ehime Pref.)  
Saijo Plant of Ehime Works (Saijo-shi, Ehime Pref.)
  - Laboratory: Technology Research Center (Yokosuka-shi, Kanagawa Pref.)

### **Directors and Corporate Auditors**

Representative Director and Chairman of the Board	Shunsuke Betsukawa
Representative Director and President & CEO	Shinji Shimomura
Representative Director	Tetsuya Okamura
Director	Toshiharu Tanaka
Director	Hideo Suzuki
Director	Kazuo Hiraoka
Director	Eiji Kojima
Director	Susumu Takahashi
Director	Hideo Kojima
Director	Akio Hamaji
Standing Corporate Auditor	Yuji Takaishi
Standing Corporate Auditor	Jun Nogusa
Corporate Auditor	Takeo Wakae
Corporate Auditor	Masaichi Nakamura

### **Executive Officers**

President & CEO	Shinji Shimomura
Senior Executive Vice President	Tetsuya Okamura
Executive Vice President	Toshiharu Tanaka
Executive Vice President	Hideo Suzuki
Executive Vice President	Kazuo Hiraoka
Senior Vice President	Hiroo Morita
Senior Vice President	Tatsuya Endo
Senior Vice President	Taiji Tsuchiya
Senior Vice President	Eiji Kojima
Senior Vice President	Hiroshi Arito
Senior Vice President	Hideshi Shimamoto
Senior Vice President	Morihiro Kondo
Senior Vice President	Yasunobu Kazumi
Senior Vice President	Toshihiko Chijiwa
Senior Vice President	Shaun Dean
Vice President	Tatsuro Araki

Vice President  
Vice President  
Vice President  
Vice President

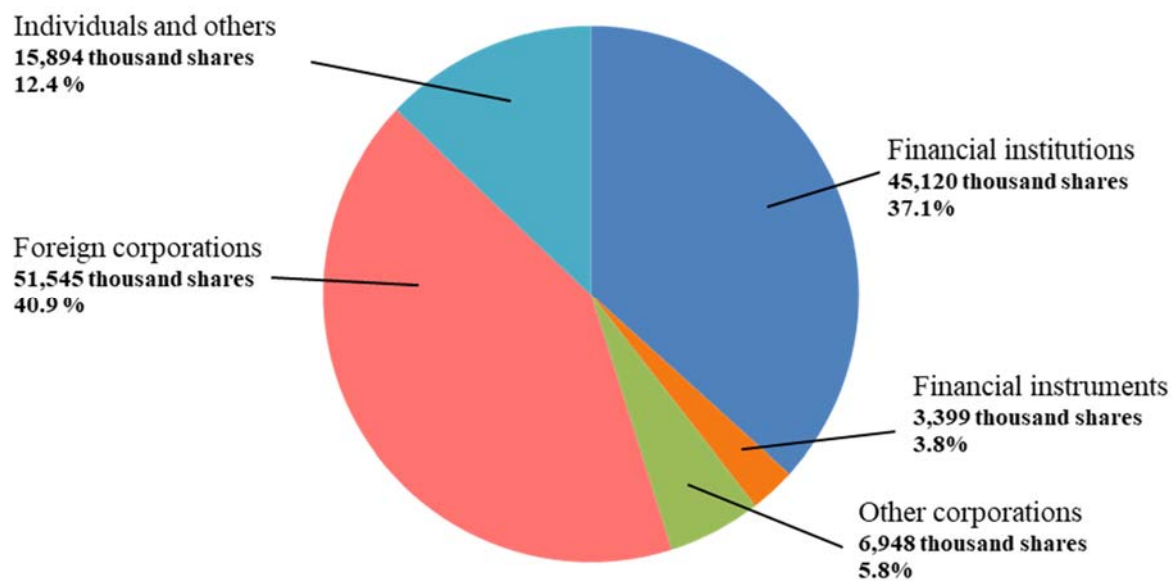
Sadahiko Kimura  
Shigeru Tajima  
Kazutoshi Shiraishi  
Toshiro Watanabe

### **Stock Information** (as of September 30, 2020)

#### **Stock Data**

• Total number of authorized shares:	360,000,000
• Total number of issued shares:	122,905,481
• Number of shareholders:	34,490

#### **Breakdown of Shareholders**



Note: The number of shares and shareholding ratios are rounded to the nearest unit.

## Shareholder Information

Fiscal Year	April 1 each year through March 31 of the following year	
Ordinary General Meeting of Shareholders	June (every year)	
Record Dates	Ordinary General Meetings of Shareholders	March 31
	Payment of Interim Dividends	September 30
	Payment of Term-end Dividends	March 31
Custodian of the Register of Shareholders and the Institution that Manages the Special Accounts	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan	
Handling Place of Register of Shareholders	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan	
	[Mailing Address] Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan	
	[Telephone Inquiries] Toll free number: 0120-782-031 Hours: 9:00-17:00 (except for Saturdays, Sundays, national holidays, and the New Year's holiday)	
	[Website] <a href="https://www.smtb.jp/personal/agency/index.html">https://www.smtb.jp/personal/agency/index.html</a>	
	To be posted on the Company's Website ( <a href="https://www.shi.co.jp">https://www.shi.co.jp</a> ). However, where required by unavoidable circumstances, public notices will be made in the Nihon Keizai Shimbun.	
Method of Public Notice		

### [Notification or Inquiries about Change of Address with Respect to Shares]

Shareholders who have an account with a securities company are asked to give notification or make inquiries about matters such as change of address to the securities company at which he or she has an account. Shareholders who do not have an account with a securities company are asked to call the following telephone number.

### [Special Accounts]

For shareholders who did not use the depository and book-entry transfer system (*Hofuri*) operated by the Japan Securities Depository Center prior to dematerialization of share certificates, we have opened an account (called a special account) at the transfer agent Sumitomo Mitsui Trust Bank, Limited. Inquiries about, or notifications of, matters such as change of address with regard to special accounts should be made to the following telephone number.

### [Request for the Purchase or Sale of Shares of Less than One Unit]

Please contact the securities company at which you have an account for requests for the purchase or sale of shares of less than one unit (100 shares). In the case of requests regarding shares recorded in a special account, please call the following telephone number.

Contact: Stock Transfer Agency Department  
Sumitomo Mitsui Trust Bank, Limited  
Toll free number: 0120-782-031  
Hours: 9:00-17:00 (except for Saturdays, Sundays, national holidays, and the New Year's holiday)

Sumitomo Heavy Industries, Ltd.  
Website [www.shi.co.jp](http://www.shi.co.jp)