

The 126th Interim Business and Financial Report
April 1, 2021 to September 30, 2021

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 126th fiscal year (from April 1 to September 30, 2021) 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 2021, global machinery demand showed an underlying growth trend, as capital investment in Japan, primarily from the manufacturing sector, recovered despite the continued COVID-19 pandemic, and capital investment overseas recovered against a backdrop of economic recovery in Europe, the United States, and China. At the same time, bipolarization was seen as recoveries were slowed in some regions and industries by the continuing effect of the COVID-19 pandemic. The outlook also remained uncertain as a result of factors including higher prices and a tighter supply and demand balance for raw materials and procured goods, increased trade friction between China and the United States, ongoing geopolitical risk, and crude oil price movements.

Given this operating environment, the SHI Group formulated its Medium-Term Management Plan 2023, with the aim of continuously increasing corporate value through the resolution of social issues with our products and services. To achieve this, we are pursuing measures including developing a robust entity, reformation for improving the corporate value, making a greater contribution to the achievement of the UN's Sustainable Development Goals (SDGs), and stepped-up efforts to reduce our environmental burdens.

As a result of these efforts, operating profit increased 30% year on year, to ¥27.5 billion, while ordinary profit was 42% higher, at ¥27.2 billion, and profit attributable to owners of parent increased 63%, to ¥17.7 billion.

Based on these interim results, we have paid an interim dividend of ¥35 per share, an increase of ¥26 year on year.

Launch of Medium-Term Management Plan 2023

The Medium-Term Management Plan 2023, a new medium-term management plan that took effect from April of this year, sets numerical targets for fiscal 2023, the final year of the plan, to achieve net sales of ¥970.0 billion, operating profit of ¥70.0 billion, and ROIC^{*1} of at least 7.5%.

The plan aims to achieve continuous growth as a company over the long term with both numerical targets for corporate value and the creation of social value through social contributions, and positions the Group as a company that can continuously grow and generate profit, and contribute to society, regardless of structural changes in society or markets. To

identify the social issues to be resolved for the creation of social value, we referenced megatrends expected in 2030.

During the period of the Medium-Term Management Plan 2023, to build a foundation for 2030, we will carry out our business activities in accordance with the following basic policies.

We will “develop a robust entity” by formulating business continuity plans (BCPs) to maintain business activity during the COVID-19 pandemic while addressing all potential risks to smooth near-term business operations, while also carrying out plans for proactive investment in equipment and in research and development on a par with the period covered by the previous medium-term management plan.

For “reformation for improving the corporate value,” we are reorganizing the previous six-segment business structure into an organization with four segments to promote the creation of intra-segment synergies, while also using DX^{*2} and pursuing the group-wide PRIDE Project for organizational development activities, to strengthen our organizational capabilities.

We also aim to “transform into a company with a comfortable work environment” by creating safe and healthy workplaces, and continuously investing in human capital to create an organization in which diverse human resources can actively participate, and work to become a company in which diverse and global human resources can work comfortably and actively participate.

As for “contributing to SDG movement through products and services,” we are working both to contribute to the SDGs and increase social value as a company by providing new products and services developed with a focus on “environment and energy” and “automation and digitalization,” which are seen as priority areas for the years to 2030.

To “reduce environmental burdens through business activities,” we are working to reduce our environmental burdens by reducing greenhouse gas emissions and achieving a circular economy in our business activities and throughout the life cycle of our products, and promoting activities to use energy more efficiently.

Although there is currently no end in sight for the COVID-19 pandemic, we intend to make a maximum effort to achieve continuous growth by positioning SHI as a company that creates both corporate value and social value, and that is able to act on business opportunities through steady execution in the world’s markets regardless of the operating environment. I ask for the continued understanding and support of our shareholders.

*1 ROIC: Return on Invested Capital

*2 DX: Digital Transformation; the use of information technology to improve all areas of activity.

Shinji Shimomura
President and CEO

Interim Consolidated Financial Statements

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

Interim Consolidated Balance Sheet (Summary)

(Billions of yen)

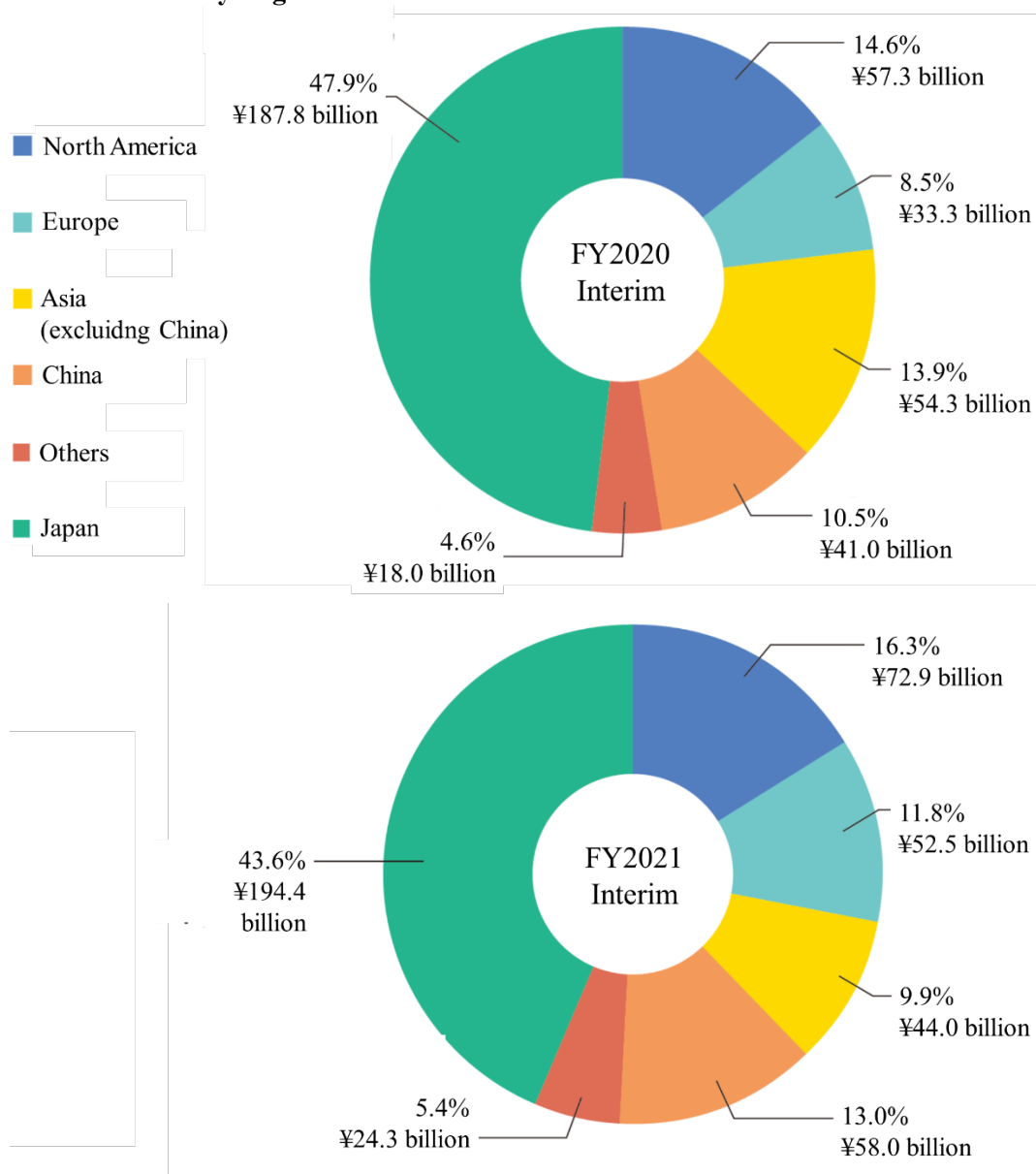
Account Items	End of FY2020 (As of March 31, 2021)	FY2021 End of interim period (As of September 30, 2021)
Current assets	613.6	611.3
Cash and deposits	99.5	99.1
Notes and accounts receivable	282.9	266.5
Inventories	200.2	215.4
Other	31.0	30.4
Fixed assets	417.1	433.7
Tangible fixed assets	275.8	287.4
Intangible fixed assets	76.8	80.2
Investments and other assets	64.5	66.1
Total	1,030.7	1,045.0
Liabilities	525.8	513.9
Notes and accounts payable	160.3	163.4
Interest-bearing liabilities	124.4	109.5
Other	241.1	241.0
Net assets	504.9	531.1
Stockholders' equity	446.2	456.9
Accumulated other comprehensive income	44.5	59.9
Non-controlling interest	14.2	14.4
Total	1,030.7	1,045.0
Net ratio of interest-bearing debts	2.4%	1.0%
Stockholders' equity ratio	47.6%	49.5%

Interim Consolidated Statements of Income (Summary)

(Billions of yen)

Account Items	FY2020 Interim period (April 1, 2020 to September 30, 2020)	FY2021 Interim period (April 1, 2021 to September 30, 2021)
Orders	370.8	489.5
Net sales	391.7	446.0
Operating profit	21.2	27.5
Operating profit ratio	5.4%	6.2%
Ordinary profit	19.1	27.2
Ordinary profit ratio	4.9%	6.1%
Extraordinary gains (losses)	—	(0.3)
Profit before income taxes	19.1	27.0
Profit attributable to owners of parent	10.9	17.7
Ratio of profit attributable to owners of parent	2.8%	4.0%

Net Sales Ratio by Region



FY2020 Interim

Region	Net sales (Billions of yen)	Net sales ratio (%)
North America	57.3	14.6
Europe	33.3	8.5
Asia (excluding China)	54.3	13.9
China	41.0	10.5
Others	18.0	4.6
Japan	187.8	47.9

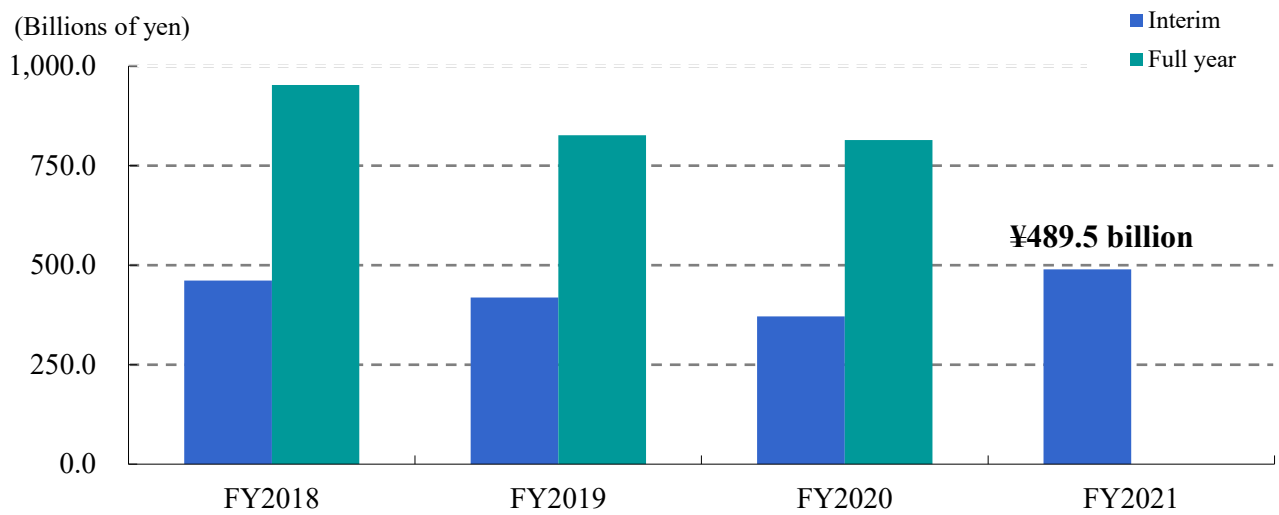
FY2021 Interim

Region	Net sales (Billions of yen)	Net sales ratio (%)
North America	72.9	16.3
Europe	52.5	11.8
Asia (excluding China)	44.0	9.9
China	58.0	13.0
Others	24.3	5.4
Japan	194.4	43.6

Consolidated Financial Highlights

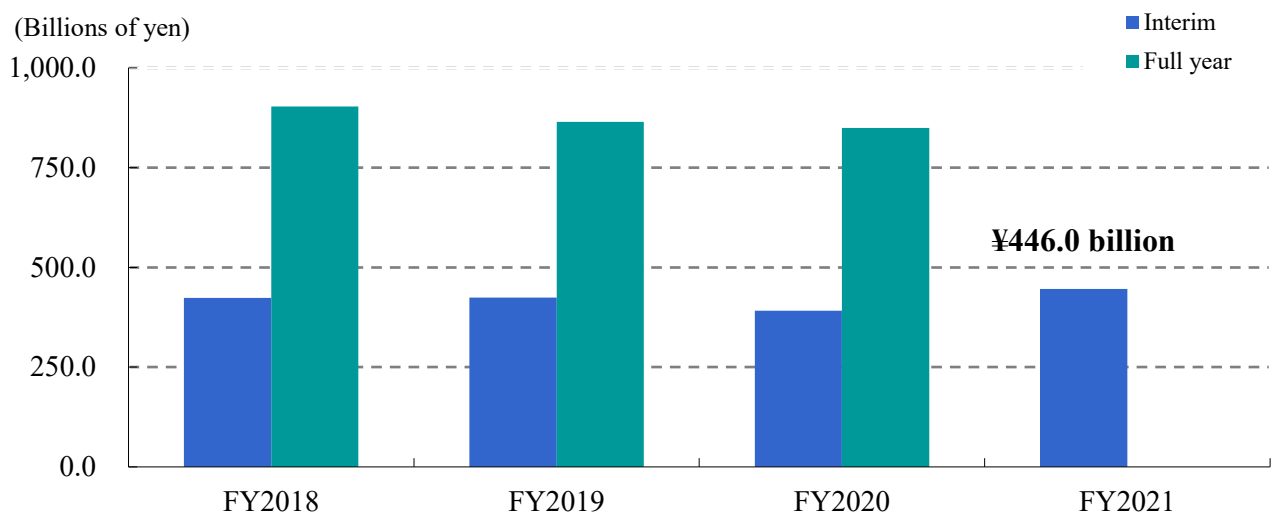
Orders

(Billions of yen)



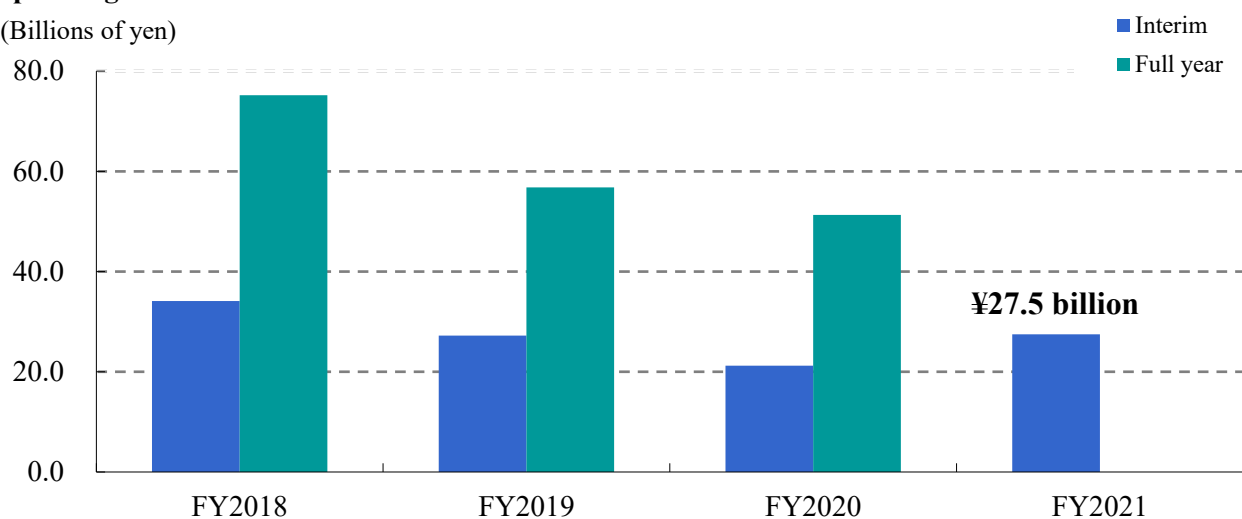
Net Sales

(Billions of yen)



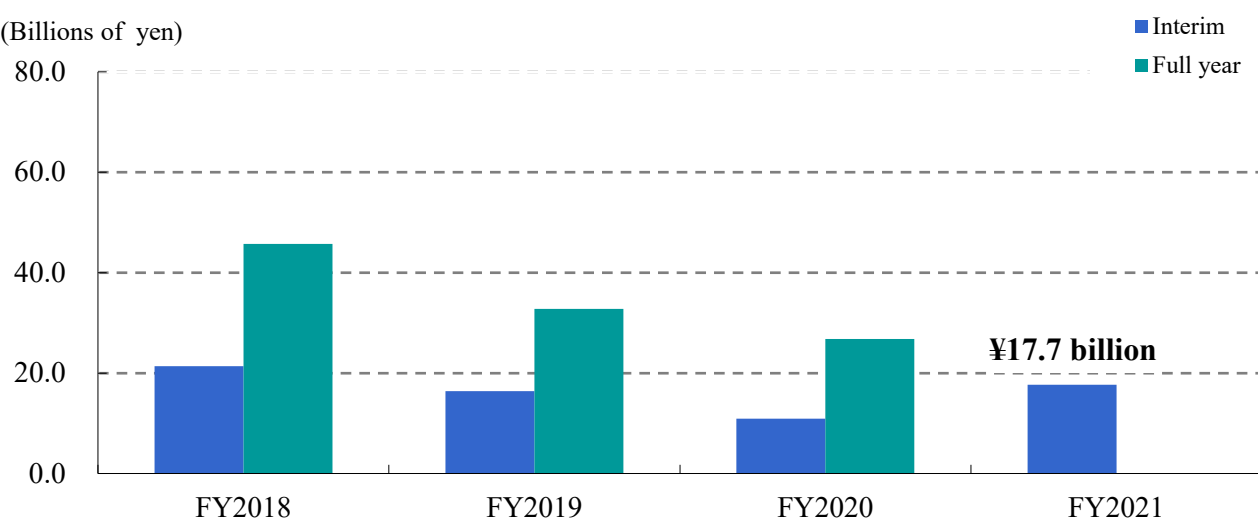
Operating Profit

(Billions of yen)



Profit Attributable to Owners of Parent

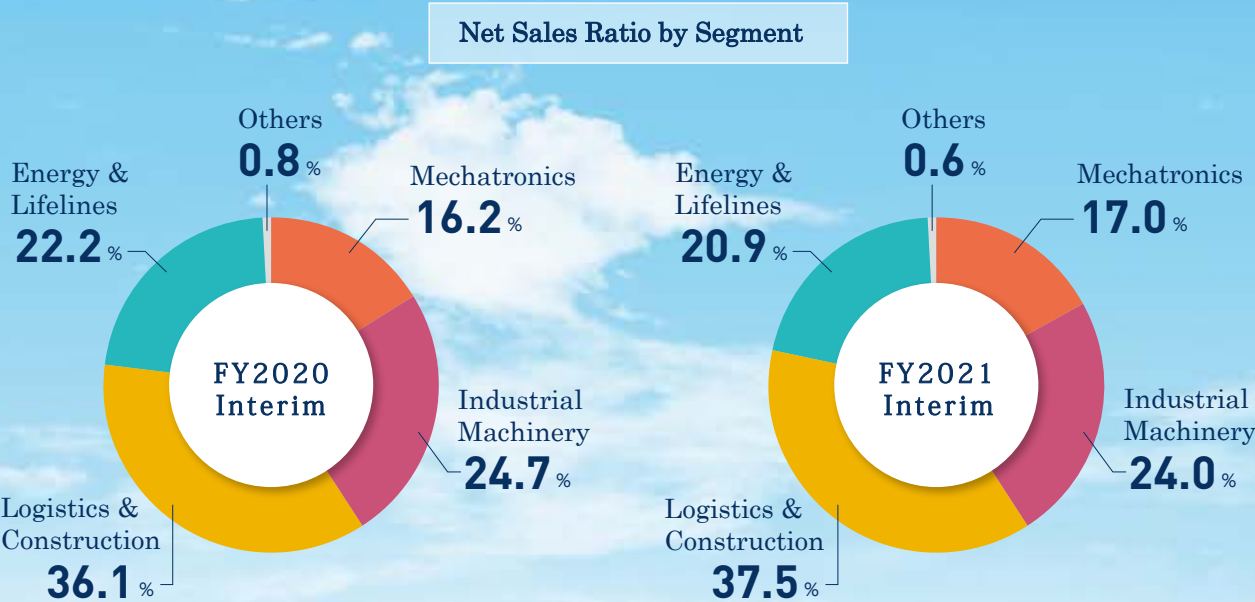
(Billions of yen)



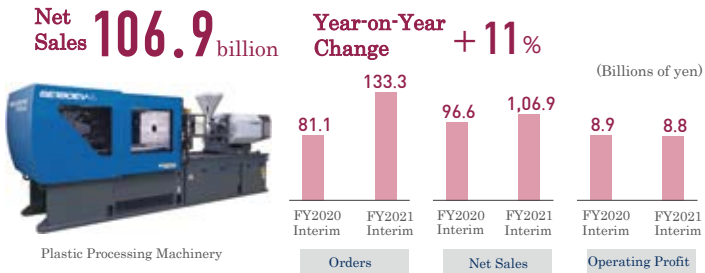
Note: Amounts less than one unit are rounded to the nearest unit.

Review of Operations by Segment

Note: From fiscal 2021, segments are being reclassified as per the policy outlined in the Medium-Term Management Plan 2023. Figures for previous fiscal year have been retroactively recalculated to conform to the new segment classifications.



Industrial Machinery



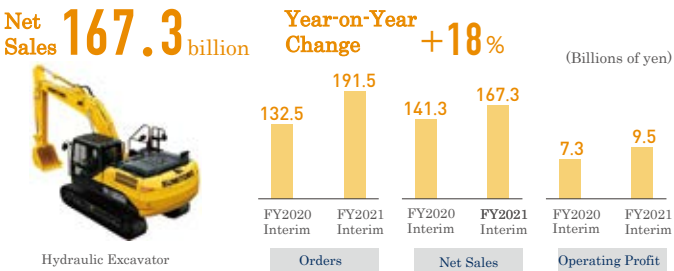
Major Products

Plastic Injection Molding Machines, Cryogenic Equipment, Precision Forgings, Semiconductor Manufacturing Equipment, Quantum Equipment, Accelerators, Forging Presses, Industrial/Environmental Equipment, Machining Tools, Defense Equipment

Orders, sales, and operating profit all grew at the plastic injection molding machine business due to increased electric and electronics-related demand in China, and increased demand in Europe.

In other businesses, orders rose due to increased semiconductor-related demand, but sales and operating profit declined as the semiconductor-related order backlog decreased year on year.

Logistics & Construction



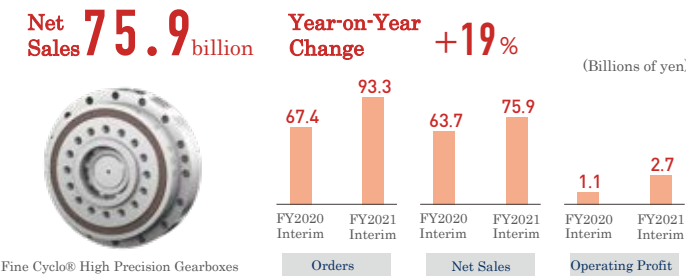
Major Products

Hydraulic Excavators, Road Construction Machinery, Construction Cranes, Material Handling Systems, Forklifts

The hydraulic excavator business recorded higher orders, sales, and operating profit due to solid markets in Japan and China and a recovery in demand in North America.

In other businesses, the construction crane business saw increases in orders, sales, and operating profit due to a recovery in demand in Japan and North America, but orders, sales, and operating profit declined at the material handling systems business due to delayed recoveries in shipbuilding and iron- and steel-related demand.

Mechatronics

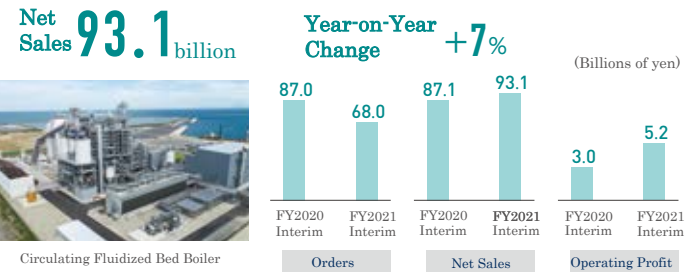


Major Products

Power Transmission and Control Equipment, Motors, Inverters, Precision Positioning Equipment

Orders, sales, and operating profit all rose due to increased demand for small and medium-sized power transmission and control equipment, robotics-use precision gear reducers, and motors in Japan, Europe, the United States, and China.

Energy & Lifelines



Major Products

Energy Environmental Equipment, Water Treatment Systems, Turbines, Pumps, Pressure Vessels, Chemical Instruments, Food Production Equipment, Ships

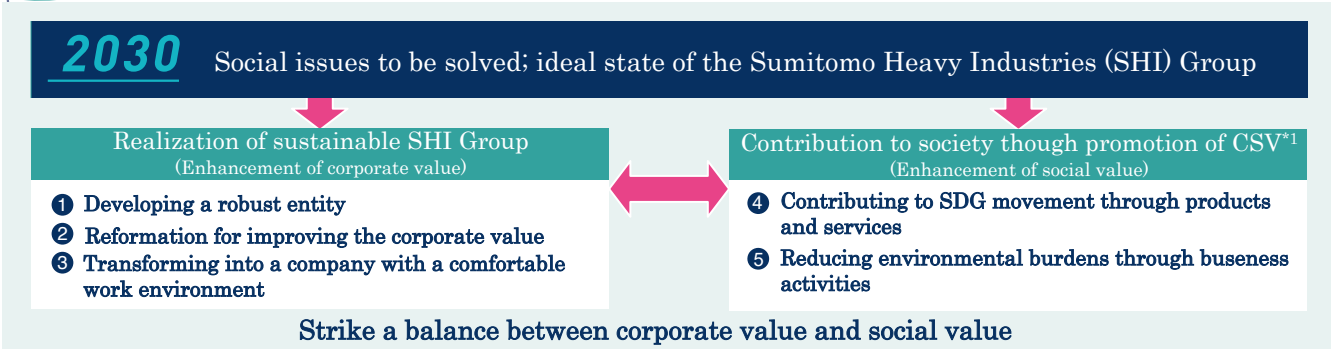
Orders declined at the energy plant business in the absence of large orders for biomass-fueled power generation plant projects recorded in the year-earlier period, but the order backlog, primarily in Japan, led to higher sales and operating profit.

Orders increased at other businesses including ships, but sales and operating profit declined.

The SHI Group launched a new Medium-Term Management Plan 2023 from April 2021. The plan sets long-term targets for both corporate value and social value, and positions the Group to be able to continue generating ongoing growth and profit, while also being able to create social value, regardless of structural changes in society or markets.

Basic Policy for the Medium-Term Management Plan 2023

The Medium-Term Management Plan 2023 lays out the following five basic policies.



*1 CSV: Creating Shared Value

Financial Targets of the Medium-Term Management Plan 2023

Again under the Medium-Term Management Plan 2023, we will continue to pursue ROIC management to meet the expectations of all stakeholders while continuously increasing corporate value. Once more returning to fundamentals, we are working to raise our financial performance by emphasizing improved capital efficiency in addition to profit growth.

Financial Targets		FY2020 Actual	FY2021 Forecast	FY2023 Target
	Orders	813.9	880.0	1,000.0
	Net Sales	849.1	870.0	970.0
	Operating Profit	51.3	50.0	70.0
	Operating Profit Ratio	6.0 %	5.7 %	7.2 %
	ROIC	6.1 %	5.6 %	7.5 %
	Exchange Rate (US dollars)	¥106 (Record)	¥105	¥100
	[Reference] ROE	5.6 %	5.4 %	8.0 %

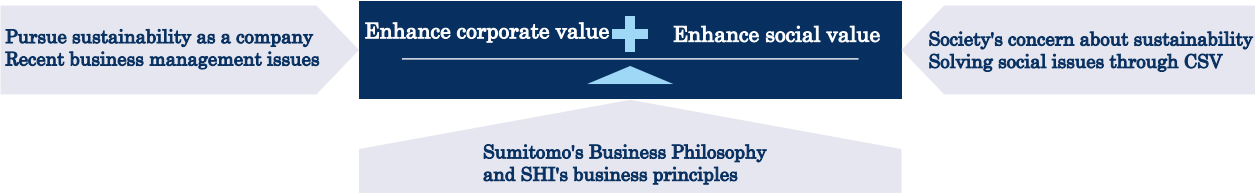
(Billions of yen)

Investment Plan		Capital Investment	R&D Expense	M&A, New Business
	Key Point	Focus on core businesses and informatization investment	Enhance our products strength for growth	Identify growth projects
	3-Year Cumulative Results	100.0	74.0	40.0

3 Points for Formulation

1 Aim to strike a “balance between corporate value and social value”

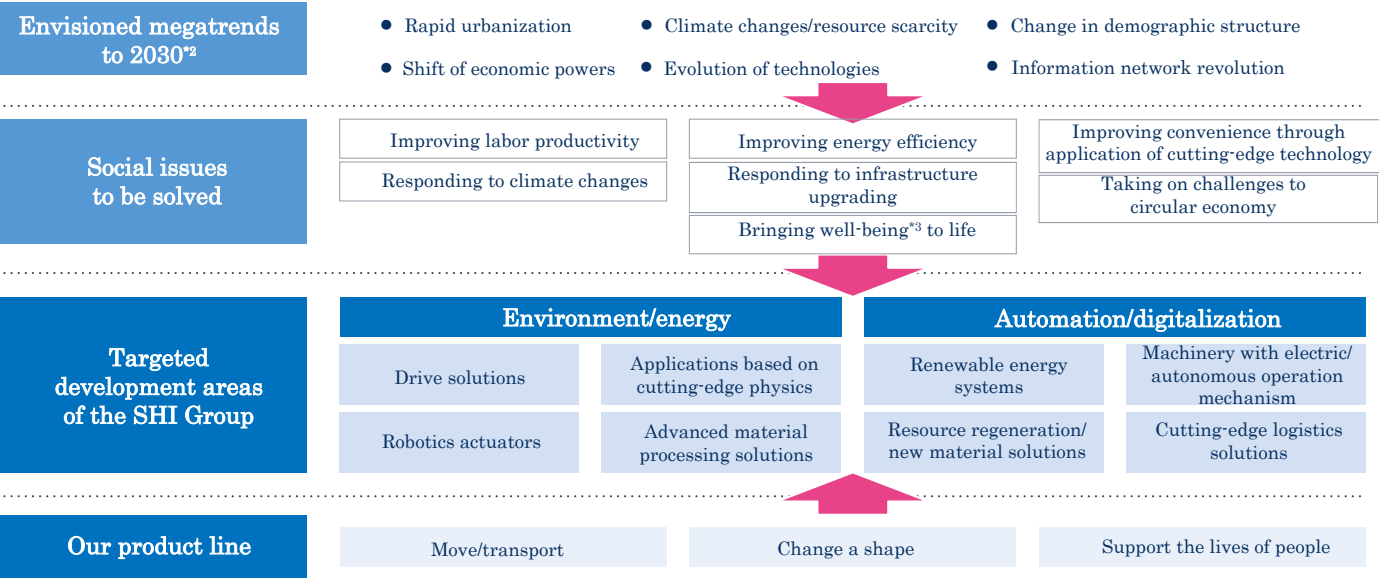
Based on Sumitomo’s Business Philosophy and SHI’s business principles, which are at heart of the SHI Group, we are working to increase both corporate value and social value through the pursuit of sustainability as a company and by addressing social issues to increase society’s sustainability.



2 Determine a long-term direction by “backcasting”

Social Issues Identified from the Viewpoint of Megatrends and the SHI Group’s Technologies

Along with identifying social issues that will need to be addressed against the backdrop of megatrends envisioned for the period to 2030, we have designated “environment and energy” and “automation and digitalization” as priority areas for future development for the resolution of social issues, by combining the necessary technologies with “move and transport,” “change a shape,” and “support the lives of people,” which describe our product lines.



*2 Source: PwC Japan’s website “Megatrends–five megatrends and their potential impact”

*3 A condition of total physical, emotional, and social fulfillment for individuals and groups

Efforts to Promote Sustainability

We have already designated company-wide material issues for the proactive promotion of corporate social responsibility (CSR), and have been strengthening our CSR activities. We will pursue these activities even more aggressively under the new medium-term management plan, which aims for a balance of corporate value and social value as a basic policy.

Medium-Term Management Plan
2019&FY2020 (2017 to 2020)

**Medium-Term Management
Plan 2023 (2021~2023)**

2024 to 2030

Aim to strike a “balance between corporate value and social value” and promote the following actions:

- Solve social issues through products and services
- Enhance capabilities to respond to environmental and climate change issues
- Apply the TCFD* framework in the management of climate-related risks and opportunities and disclose information

*Task Force on Climate-related Financial Disclosures

Understand social needs

- Determining the overall image of CSR activities of the SHI Group
- Identifying company-wide material issues
- Expanding the scope of disclosure of environment-related information

Penetrate material issues within the SHI group

- Formulating value creation stories
- Deployment of issues
- Enhancing capabilities to respond to environmental issues

Publish and communicate the value creation stories

Pursue sustainability of the SHI Group and society as a whole by solving social issues

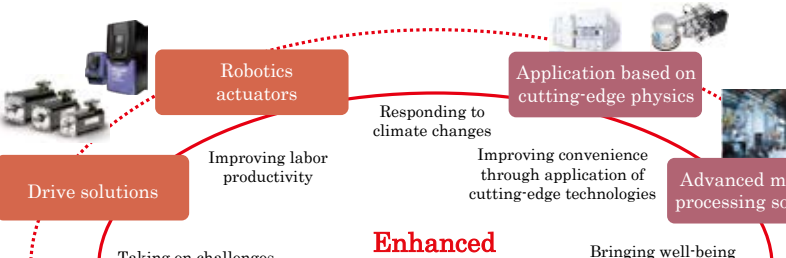
3 Review the “business portfolio” to maximize value

As we take up the challenges of continuously increasing corporate value and strengthening our response to social issues, we need to strengthen our exploratory capabilities that lead to the establishment of new businesses and add depth to existing businesses to increase their competitiveness, and have therefore embarked on a new review of our business portfolio.

New Segments and Business Exploration Direction

Mechatronics

Power Transmission and Control Equipment, Motors, Inverters, Precision Positioning Equipment



Industrial Machinery

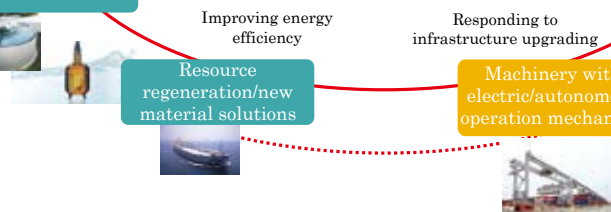
Plastic Injection Molding Machines, Cryogenic Equipment, Precision Forgings, Semiconductor Manufacturing Equipment, Quantum Equipment, Accelerators, Forging Presses, Industrial/Environmental Equipment, Machining Tools, Defense Equipment



Enhanced social value

Energy & Lifelines

Energy Environmental Equipment, Water Treatment Systems, Turbines, Pumps, Pressure Vessels, Chemical Instruments, Food Production Equipment, Ships



Logistics & Construc

Hydraulic Excavators, Road Construction Machinery, Construction Cranes, Material Handling Systems, Forklifts



Company Information (as of September 30, 2021)

Corporate Data

- Incorporated: November 1, 1934
- Paid-in capital: ¥30,871,651,300
- Number of employees (consolidated): 24,413
- 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	Eiji Kojima
Director	Hideo Suzuki
Director	Kazuo Hiraoka
Director	Susumu Takahashi
Director	Hideo Kojima
Director	Akio Hamaji
Standing Corporate Auditor	Yuji Takaishi
Standing Corporate Auditor	Jun Nogusa
Corporate Auditor	Masaichi Nakamura
Corporate Auditor	Yaeko Hodaka

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
Executive Vice President	Tatsuya Endo
Executive Vice President	Taiji Tsuchiya
Executive Vice President	Eiji Kojima
Senior Vice President	Hiroo Morita
Senior Vice President	Hideshi Shimamoto
Senior Vice President	Morihiro Kondo
Senior Vice President	Yasunobu Kazumi
Senior Vice President	Toshihiko Chijjiwa
Senior Vice President	Shaun Dean
Senior Vice President	Tatsuro Araki

Vice President
Vice President
Vice President
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Vice President

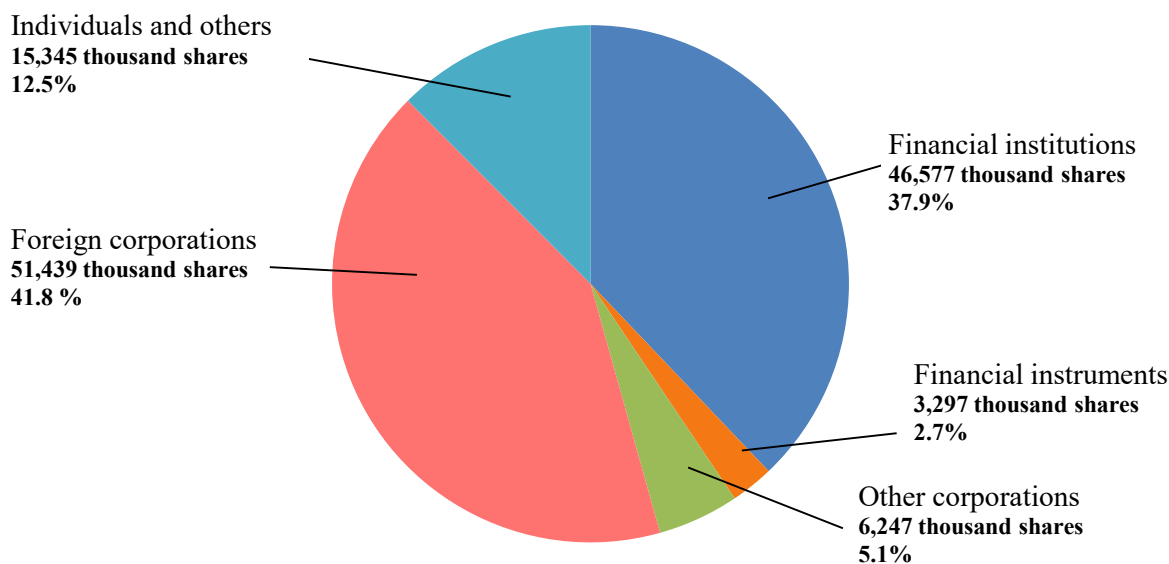
Sadahiko Kimura
Shigeru Tajima
Kazutoshi Shiraishi
Toshiro Watanabe
Mitsukuni Tsukihara
Takanori Nagai

Stock Information (as of September 30, 2021)

Stock Data

• Total number of authorized shares:	360,000,000
• Total number of issued shares:	122,905,481
• Number of shareholders:	32,416

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] https://www.smtb.jp/personal/agency/index.html	
	Method of Public Notice To be posted on the Company's Website (https://www.shi.co.jp). However, where required by unavoidable circumstances, public notices will be made in the Nihon Keizai Shimbun.	

[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