

Securities Code: 6302

**The 128th Interim Business and Financial Report
January 1, 2023 through June 30, 2023**

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 128th fiscal year (from January 1 through June 30, 2023) 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 June 2023, despite some areas of solid performance, the Japanese market was weak overall, with a gradual decline in capital investment, especially in manufacturing industries, and continued weakening of semiconductor market conditions. Overseas, the United States and other markets saw gradual economic recoveries and solid capital investment on the one hand, but at the same time the effect of global financial tightening depressed investment sentiment in certain regions and industries. In China, rebounds in production and consumption lagged, and demand showed a trend of decline. The rise in prices abated somewhat, but prices remained high and supply-demand pressure continued for certain procured goods. In addition, geopolitical risk remained, including the situation in Russia and Ukraine, for a continued high degree of uncertainty in market conditions overall.

Given this operating environment, the SHI Group moved forward under the Medium-Term Management Plan 2023 by implementing measures including developing a robust business entity, reformation for improving 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, with the aim of enhancing corporate value in a sustainable manner by solving social issues through products and services.

As a result of these efforts, operating profit increased 2% year on year, to ¥30.7 billion, while ordinary profit was 2% higher, at ¥32.9 billion, and profit attributable to owners of parent increased 8%, to ¥22.5 billion.*¹

Based on these interim results, we have decided to pay an interim dividend of ¥60 per share, an increase of ¥15 year on year.

Progress under the Medium-Term Management Plan 2023

The Medium-Term Management Plan 2023, formulated in May 2021, is the first medium-term management plan toward the achievement of our ideal state in 2030, which is the enhancement of corporate value in a sustainable manner by solving social issues through products and services with the long-term target of balancing both corporate value and social value, and we are pursuing the following five basic policies during the period covered by this medium-term management plan.

(1) Developing a robust business entity

We are creating business continuity plans (BCPs) to address a variety of risks including a procurement BCP in which the head office plays the central role for an integrated response to the procurement of semiconductors and electronic components, which was strained by the COVID-19 pandemic, while continuing to invest in our competencies required for growth and developing a robust business entity that is resilient against environmental changes.

(2) Reformation for improving corporate value

Along with the evolution of our ROIC^{*2} management, we have begun working to create new products through new combinations by reviewing and reorganizing our business segments. In addition, given that human resources are the source of corporate value, we are strengthening organizational development and other activities to enhance human resource training including reskilling and increasing employee engagement.

(3) Transforming into a company with a comfortable work environment

In addition to promoting health management, we are working to create comfortable work environments through work-style reforms including the introduction of a remote work system, promoting the taking of childcare leave, and rigorously managing appropriate work hours. Furthermore, with the implementation of the Human Rights Policy for the Sumitomo Heavy Industries Group, we continue to give maximum consideration to the human rights of all stakeholders involved in our business activities and fulfill our responsibility as a company to respect human rights.

(4) Contributing to SDGs movement through products and services

We are continuously working to solve social issues and to increase corporate value by providing products and services that contribute to economic and technological development, and are promoting development in the priority areas of “energy and the environment” and “automation and digitalization” and bringing new products to market. Specifically, in the area of energy and the environment, we are currently constructing a demonstration plant that uses liquid air energy storage (LAES) technology, and in the area of automation and digitalization, we are working toward the launch of a remote operation and monitoring system for the SHI Group’s products.

(5) Reducing environmental burdens through business activities

We are putting greater effort into reducing our environmental burdens through initiatives including reducing greenhouse gas emissions, promoting circular economies, and improving energy efficiency in our business activities and throughout the entire life cycle of the products we provide. We are developing measures to achieve the long-term goal of carbon neutrality by 2050 and the 2030 target for CO₂ reductions set last year, and introducing them in our business activities.

The Medium-Term Management Plan 2023 set final-year targets for 2023 of ¥1,070 billion for orders, ¥1,050 billion for net sales, and ¥76 billion of operating profit, with ROIC of at least 7.5%. Although market conditions have been stable for some businesses, there are disparities in the demand environment by geographic region and business. This has made the outlook for the Group’s operating environment unclear, and with the additional effect of a greater-than-anticipated rise in cost prices, we have revised our 2023 forecasts to ¥1,055 billion for orders, ¥1,075 billion for net sales, and ¥64 billion of operating profit, with ROIC of at least 6.0%.

We are making progress in passing on higher procurement costs and maintaining a certain level of improvement in profitability, and having successfully implemented the Medium-Term Management Plan 2023, we will continue to build a solid business as we begin operating under the new medium-term management plan from next fiscal year.

We intend to make every effort to take advantage of business opportunities in the global market and to act resolutely, regardless of the management environment. I ask for the continued understanding and support of our shareholders.

*1 From fiscal 2022, the Company's fiscal year has been changed to January 1 through December 31 of each year. As a transitional measure, the first half of fiscal 2022 for the Company and consolidated subsidiaries with fiscal years from April 1 through March 31 of the following year was the six-month period from April 1 through September 30, 2022, and for consolidated subsidiaries with fiscal years of January 1 through December 31 of each year, the nine-month period from January 1 through September 30, 2022, was used as an irregular settlement period. Therefore, information for the previous fiscal year has been retrospectively restated so that year-on-year comparisons shown for the current first half are with the corresponding period of the previous fiscal year.

*2 ROIC: Return on Invested Capital

Shinji Shimomura
President and CEO

Interim Consolidated Financial Statements

Note: From fiscal 2022, the Company's fiscal year has been changed to January 1 through December 31 of each year. As a transitional measure, the first half of fiscal 2022 for the Company and consolidated subsidiaries with fiscal years from April 1 through March 31 of the following year was the six-month period from April 1 through September 30, 2022, and for consolidated subsidiaries with fiscal years of January 1 through December 31 of each year, the nine-month period from January 1 through September 30, 2022, was used as an irregular settlement period. Therefore, the figures for the previous fiscal year for the Interim Consolidated Statements of Income (Summary), Net Sales Ratio by Region, and Review of Operations by Segment have been retrospectively restated so that year-on-year comparisons shown for the current first half are with the corresponding period of the previous fiscal year.

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

Interim Consolidated Balance Sheet (Summary)

(Billions of yen)

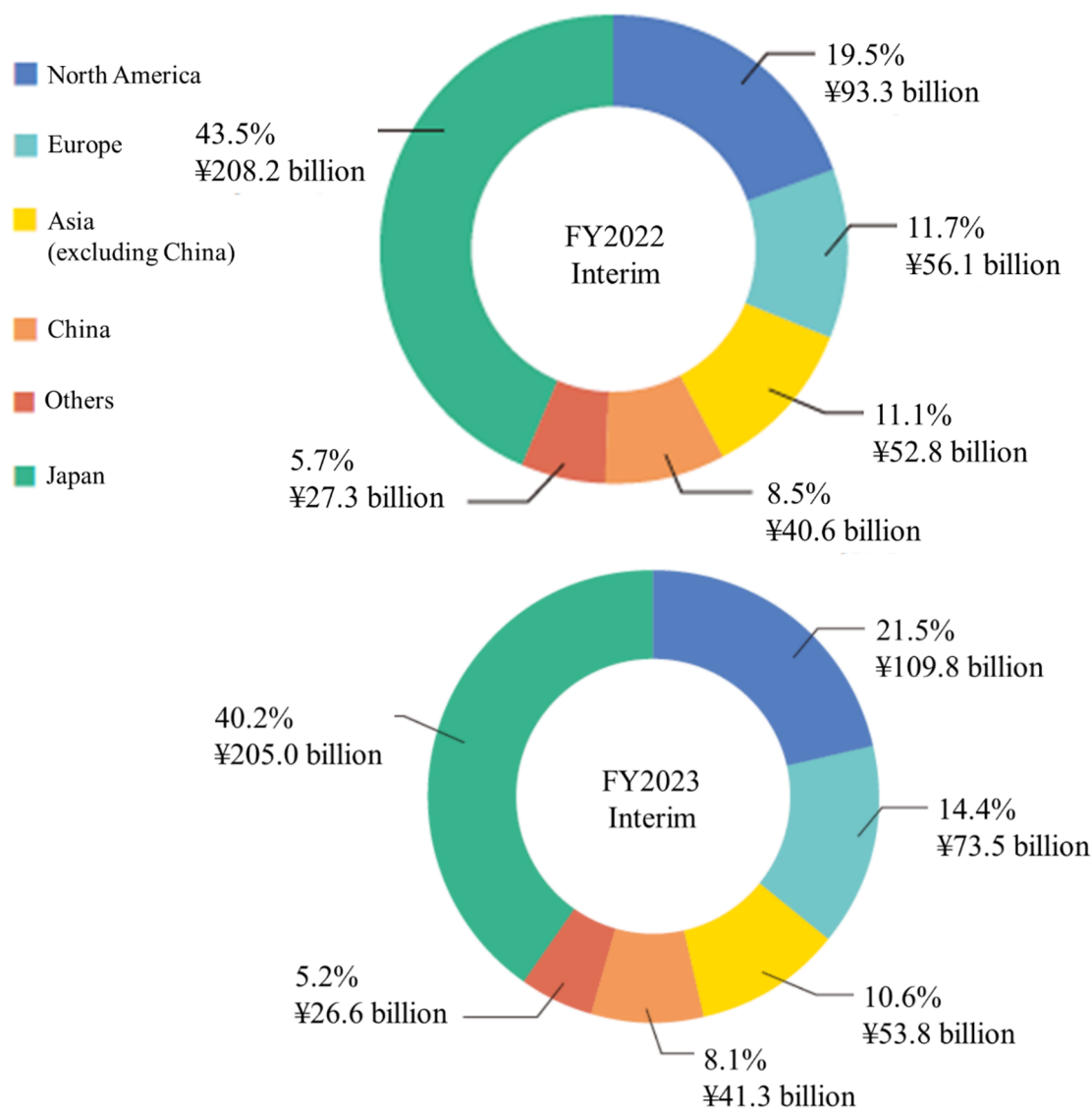
Account Items	End of FY2022 (As of December 31, 2022)	FY2023 End of interim period (As of June 30, 2023)
Current assets	711.4	742.3
Cash and deposits	97.5	90.8
Notes and accounts receivable	300.3	296.7
Inventories	275.5	322.3
Other	38.1	32.6
Fixed assets	437.5	461.1
Tangible fixed assets	320.1	334.8
Intangible fixed assets	56.6	59.7
Investments and other assets	60.8	66.7
Total	1,148.9	1,203.5
Liabilities	571.9	583.5
Notes and accounts payable	186.3	185.0
Interest-bearing liabilities	160.8	162.9
Other	224.9	235.5
Net assets	576.9	620.0
Stockholders' equity	468.5	485.6
Accumulated other comprehensive income	100.8	126.2
Non-controlling interest	7.7	8.2
Total	1,148.9	1,203.5
Net ratio of interest-bearing debts	5.5%	6.0%
Stockholders' equity ratio	49.5%	50.8%

Interim Consolidated Statements of Income (Summary)

(Billions of yen)

Account Items	FY2022 Interim period (January 1, 2022 through June 30, 2022)	FY2023 Interim period (January 1, 2023 through June 30, 2023)
Orders	581.0	512.7
Net sales	478.4	510.1
Operating profit	29.9	30.7
Operating profit ratio	6.3%	6.0%
Ordinary profit	32.2	32.9
Ordinary profit ratio	6.7%	6.4%
Extraordinary gains (losses)	(1.6)	(0.3)
Profit before income taxes	30.6	32.6
Profit attributable to owners of parent	20.8	22.5
Ratio of profit attributable to owners of parent	4.3%	4.4%

Net Sales Ratio by Region



FY2022 Interim

Region	Net sales (Billions of yen)	Net sales ratio (%)
North America	93.3	19.5
Europe	56.1	11.7
Asia (excluding China)	52.8	11.1
China	40.6	8.5
Others	27.3	5.7
Japan	208.2	43.5

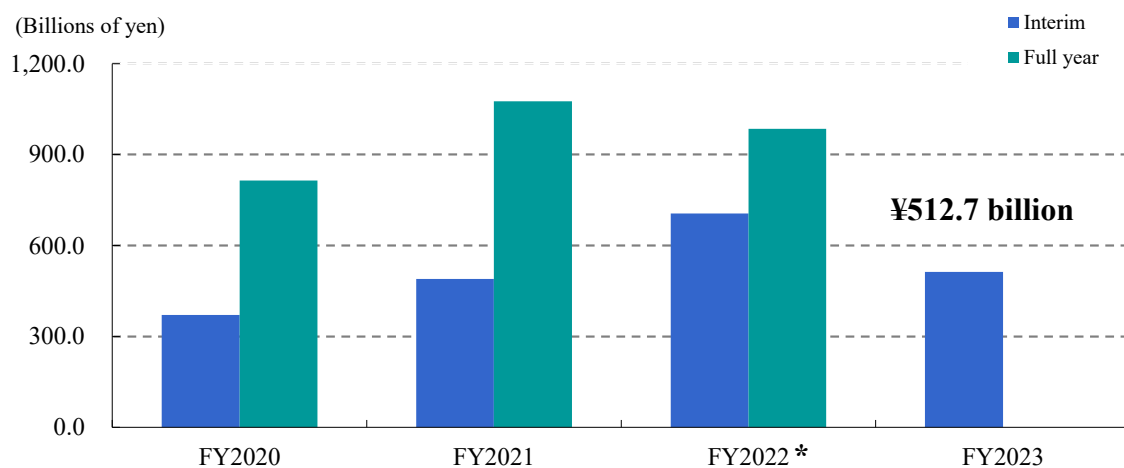
FY2023 Interim

Region	Net sales (Billions of yen)	Net sales ratio (%)
North America	109.8	21.5
Europe	73.5	14.4
Asia (excluding China)	53.8	10.6
China	41.3	8.1
Others	26.6	5.2
Japan	205.0	40.2

Consolidated Financial Highlights

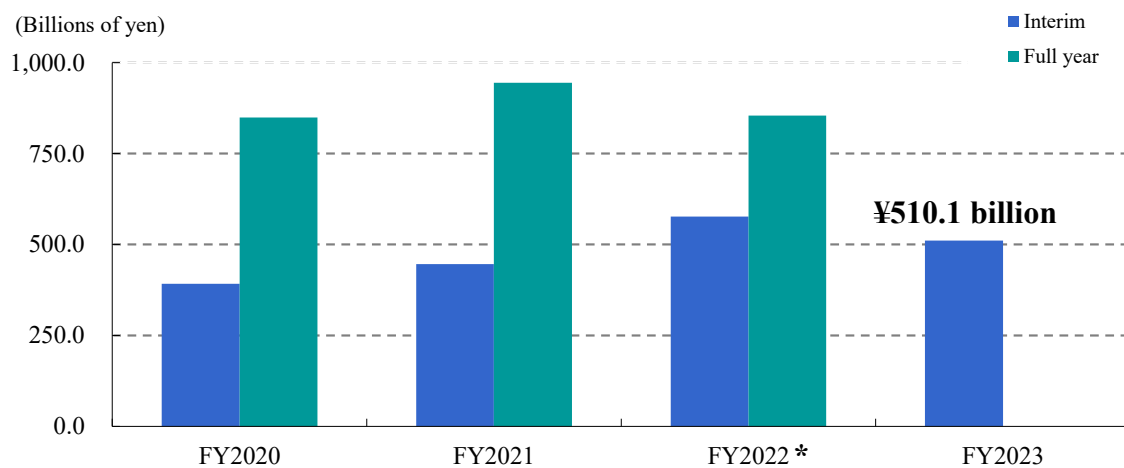
Orders

(Billions of yen)

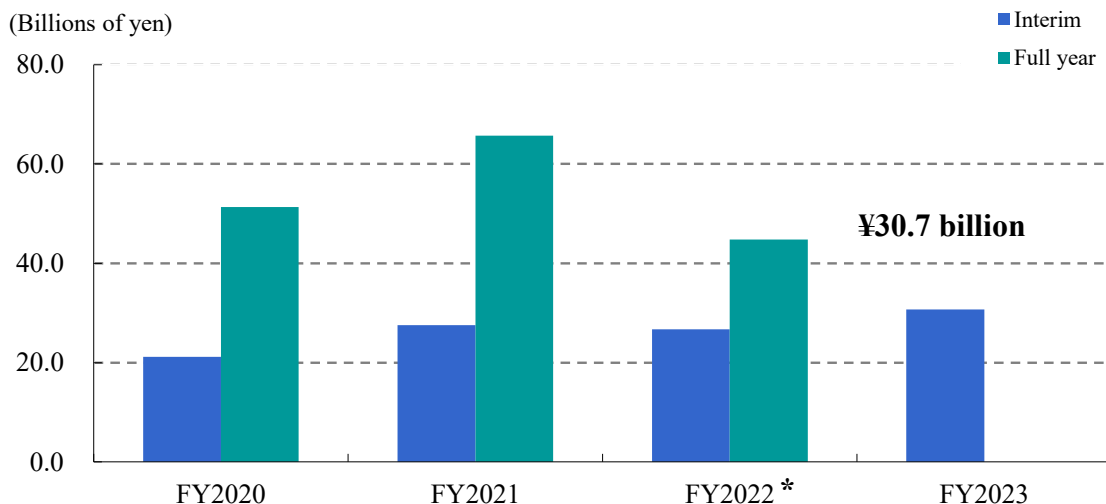


Net Sales

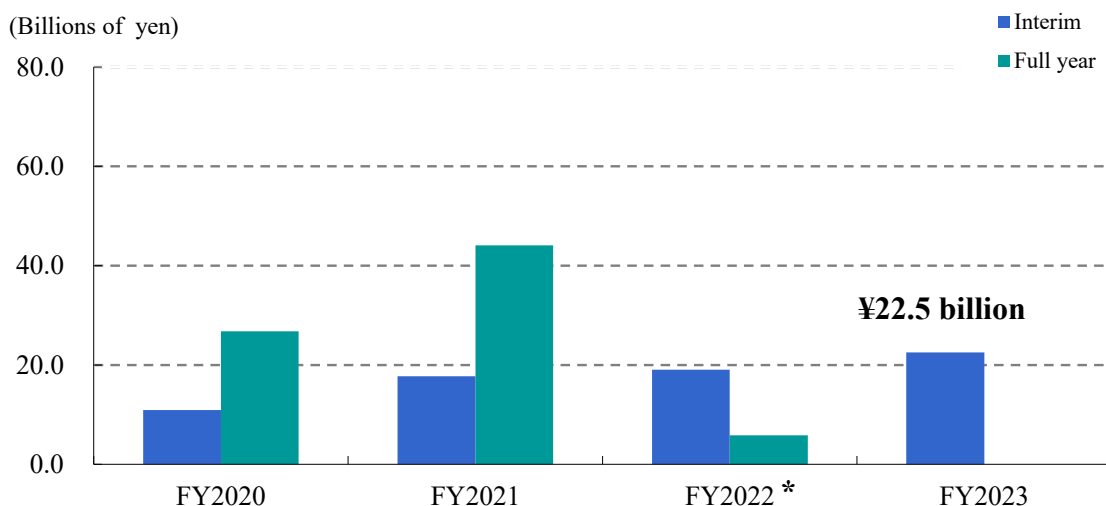
(Billions of yen)



Operating Profit

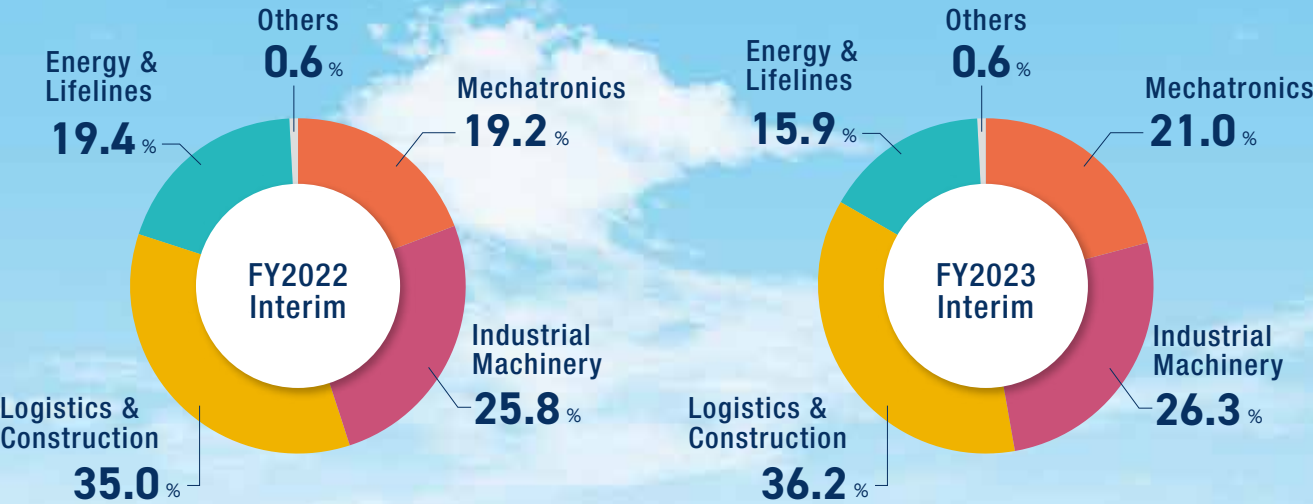


Profit Attributable to Owners of Parent



* With the change in the Company's fiscal year, the first half of fiscal 2022 for the Company and consolidated subsidiaries with fiscal years from April 1 through March 31 of the following year was the six-month period from April 1 through September 30, 2022, and for consolidated subsidiaries with fiscal years of January 1 through December 31 of each year, the first half was the nine-month period from January 1 through September 30, 2022. Also, with the change of the Company's fiscal year, fiscal 2022 for the Company and consolidated subsidiaries with fiscal years ending in March was the nine-month period from April 1 through December 31, 2022, and for consolidated subsidiaries with fiscal years ending in December, fiscal 2022 was the 12-month period from January 1 through December 31, 2022.

Net Sales Ratio by Segment

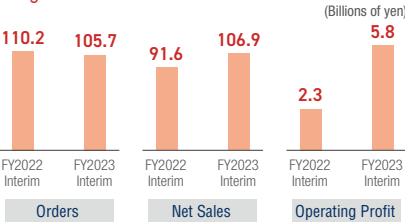


Mechatronics

Net Sales ¥106.9 billion
Year-on-Year Change +17%



Fine Cyclo® High Precision Gearbox



Major Products

Power Transmission and Control Equipment, Motors, Inverters, Laser Processing Systems, Precision Positioning Equipment, Equipment for Control Systems

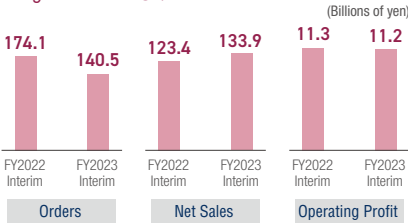
Demand for small and medium-sized power transmission and control equipment and motors was stagnant due to inventory adjustments at customers in Europe and the United States and a weak Chinese market, and orders declined as a result, but with the order backlog, sales and operating profit increased.

Industrial Machinery

Net Sales ¥133.9 billion
Year-on-Year Change +8%



Ion Implanter



Major Products

Plastic Injection Molding Machines, Film Processing Machines, Cryogenic Equipment, Precision Forgings, Semiconductor Manufacturing Equipment, Accelerators, Medical Equipment and Devices, Forging Presses, Machining Tools, Air Conditioning Equipment, Defense Equipment

Orders at the plastic injection molding machine business decreased on stagnant electric and electronic-related demand in China and a cooling of investment in Japan and Europe, but with the order backlog, sales increased. On the other hand, continued rising prices for materials resulted in a decline in operating profit.

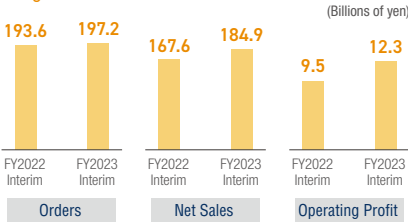
At other businesses, orders decreased from factors including a softening of the semiconductor market and customers' inventory adjustments and postponed investment, but sales and operating profit rose on the order backlog.

Logistics & Construction

Net Sales ¥184.9 billion
Year-on-Year Change +10%



Hydraulic Excavator



Major Products

Hydraulic Excavators, Construction Cranes, Road Construction Machinery, Material Handling Systems, Logistics Systems, Parking Systems

Orders at the hydraulic excavator business declined in the wake of orders from the United States placed upfront in the previous fiscal year, but sales and operating profit rose on the order backlog.

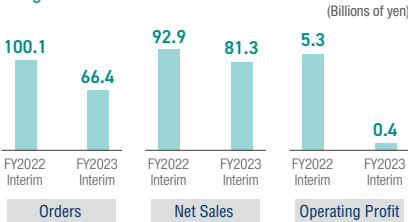
At other businesses, the construction crane business recorded growth in orders and sales on solid demand from North America. On the other hand, operating profit decreased from factors including a sharp rise in material prices. The material handling systems business saw a decline in orders due to a decrease in orders for material handling systems service projects, but sales rose on the order backlog. Operating profit decreased, however, as a result of changes in the breakdown of models sold.

Energy & Lifelines

Net Sales ¥81.3 billion
Year-on-Year Change -12%



Power Plant with Circulating Fluidized Bed Boiler



Major Products

On-Site Power Generation Equipment, Boilers, Air Pollution Control Systems, Water Treatment Systems, Turbines, Pumps, Reactor Vessels, Mixing Vessels, Food Production Equipment, Ships

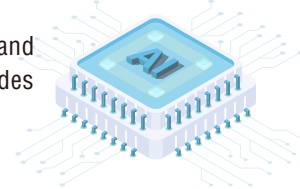
The energy plant business recorded lower orders, sales, and operating profit due to a decrease in large domestic orders for biomass-fueled power generation plant projects.

At other businesses, orders, sales, and operating profit declined from factors including the transfer of the general waste treatment business in the previous fiscal year.

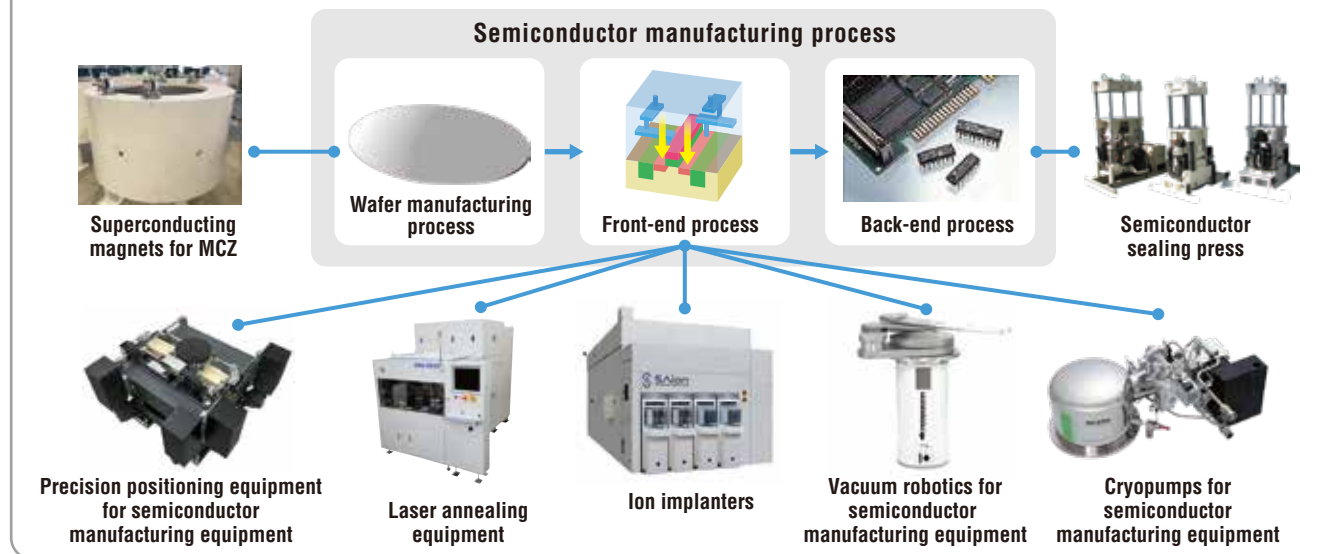
The SHI Group's Semiconductor-Related Business

Semiconductors are what drive the daily innovation of digital society in areas including AI, IoT, autonomous driving, 5G, robotics, and DX.* In this feature, we introduce some of the SHI Group's semiconductor-related businesses. The SHI Group engages in a semiconductor manufacturing equipment business that includes ion implanters and laser annealing equipment, and a semiconductor manufacturing equipment components business that includes cryopumps and vacuum robotics.

* DX: Digital Transformation. The use of information technology to bring about positive change in all types of activities.



The SHI Group's main semiconductor-related equipment



Semiconductor manufacturing equipment business Laser annealing equipment

SHI's Mechatronics Division addresses customer needs as a laser systems integrator that is able to adopt a wide range of light sources including femtosecond laser and excimer laser in addition to fiber laser systems for metal welding and cutting, laser annealing equipment for semiconductors, and laser drilling systems for printed circuit boards. Combining our proprietary optical handling technology with our system design as a machine manufacturer, we are among the world's leading sellers of laser annealing equipment for power semiconductors.

SWA "UV" Laser series

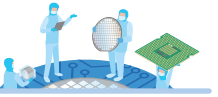
Laser annealing equipment for next-generation power devices

Applications: SiC ohmic contact generation, activation, etc.

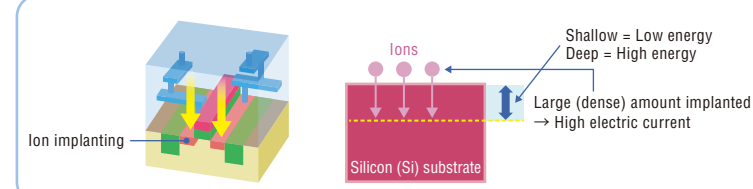
The metal-SiC interface is heated to a high temperature while suppressing the temperature rise on the non-irradiation side, and the generation of the ohmic contact is achieved using OPTSWING (a proprietary high-speed scanning method) to attach electrically the circuitry on the molded substrate to the n-type area and the p-type area of the semiconductor.



Semiconductor manufacturing equipment business Ion implanters

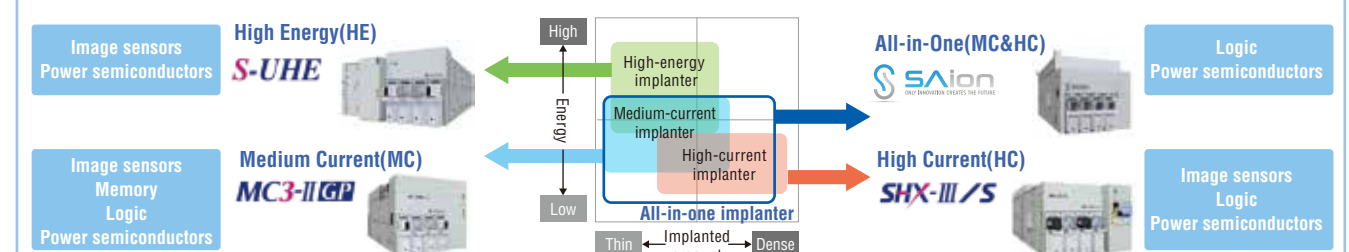


Our subsidiary Sumitomo Heavy Industries Ion Technology Co., Ltd. develops and manufactures "ion implanters" that are used to manufacture semiconductors that are found in electric products that are essential to daily life, including personal computers, mobile phones, and household appliances. As the top manufacturer of ion implanters for semiconductor manufacturing in Japan, we offer high-energy, high-current, and medium-current ion implanters for the manufacturing of cutting-edge semiconductor devices.



In the front-end process of forming circuits on the silicon wafer, ion implanting implants phosphorus, boron, and other ions onto the silicon substrate, and is one of the key processes in creating electrical characteristics. Different types of semiconductors like logic, memory, and image sensors require different depths and amounts of implantation, requiring high-energy, high-current, and medium-current ion implanters.

Sumitomo Heavy Industries Ion Technology's products



SAion All-in-one ion implanter

All-in-one implanter with flexibility in applications that combine medium-current and high-current technologies

- Feature 1** Significant improvement in productivity with a wide energy dose range covering the combined range of conventional medium-current and high-current ion implanters.
- Feature 2** High-quality implanting with features including particle reduction and beam angle control.

Three companies in the world manufacture and sell all three types—**high-energy**, **high-current**, and **medium-current**—and Sumitomo Heavy Industries Ion Technology is the only company in Japan.

Sumitomo Heavy Industries Ion Technology's new plant

We have built a new plant to improve efficiency in production and logistics and for future business expansion. The facility opened in October 2022 and began manufacturing equipment in December 2022.

Overview of new plant

Location: 1501 Imazaike, Saijo City, Ehime Prefecture
Total investment: Approx. ¥12 billion
Production capacity: Twice the current level with existing facilities
Building area: 21,835.94 square meters
Floor area: 38,394.64 square meters

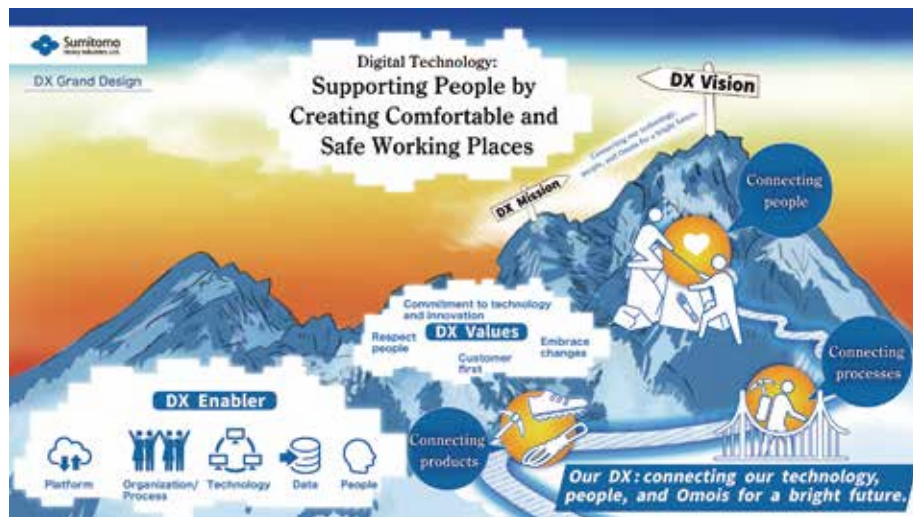


“People Are Our Most Important Asset”

Creating a Work Environment
That Brings the Best Out of Our Diverse Human Resources

On the basis of our underlying philosophy that “People are our most important asset,” the SHI Group is working toward the growth of both our employees and companies.

DX human resources development



Conceptual image of the DX Grand Design: Expressed as the figure of a person climbing a mountain to achieve the DX Vision.

On the basis of the DX Grand Design, our DX literacy training seeks to enhance the capabilities of “people,” meaning that all employees, not just certain engineers and other specialists, can learn and use digital technologies.

To promote DX, roughly 8,500 SHI Group employees in Japan (roughly 70% of the domestic workforce) took DX literacy training during fiscal 2022. DX training programs were also made available for employees who wanted to study in greater depth, including through the SHI Open College and specialized technical courses.

The Group is working as one to promote DX with the aim of achieving our DX Vision to “utilize the power of digital technologies to make workplaces around the world more comfortable and bring happiness to everyone involved.”

Pride Project for organizational development

We have launched this group-wide organizational development initiative to promote the cultivation of a corporate culture in which employees within the organization think and act on their own initiative to achieve growth and improvement for the organization. Since fiscal 2020, secretariats have been set up in a total of 38 operating divisions, divisions of the head office, and at subsidiaries and affiliates to promote activities centered on the keywords of “dialogue” and “collaboration.”



100% Paternity Leave Declaration

Promoting the use of childcare leave by male employees is one of the important initiatives we are pursuing from the perspective of retaining human resources, and from this fiscal year we have endorsed the 100% Paternity Leave Declaration that has been promoted by Work-Life Balance Co., Ltd. The male childcare leave utilization ratio (including paid vacation days) for fiscal 2022 was 69.2% and is increasing every year.



Company Information (as of June 30, 2023)

Corporate Data

- Incorporated: November 1, 1934
- Paid-in capital: ¥30,871,651,300
- Number of employees (consolidated): 25,400
- 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	Tetsuya Okamura
Representative Director and President & CEO	Shinji Shimomura
Representative Director	Eiji Kojima
Director	Kazuo Hiraoka
Director	Toshihiko Chijiiwa
Director	Toshiro Watanabe
Director	Tatsuro Araki
Director	Susumu Takahashi
Director	Hideo Kojima
Director	Akio Hamaji
Director	Sumie Morita
Standing Corporate Auditor	Hideo Suzuki
Standing Corporate Auditor	Shoji Uchida
Corporate Auditor	Masaichi Nakamura
Corporate Auditor	Yaeko Hodaka

Executive Officers

President & CEO	Shinji Shimomura
Executive Vice President	Toshiharu Tanaka
Executive Vice President	Kazuo Hiraoka
Executive Vice President	Tatsuya Endo
Executive Vice President	Taiji Tsuchiya
Executive Vice President	Eiji Kojima
Executive Vice President	Toshihiko Chijiiwa
Senior Vice President	Hiroo Morita
Senior Vice President	Morihiro Kondo
Senior Vice President	Yasunobu Kazumi
Senior Vice President	Shaun Dean
Senior Vice President	Tatsuro Araki
Senior Vice President	Toshiro Watanabe

Senior Vice President
 Senior Vice President
 Senior Vice President
 Vice President
 Vice President
 Vice President
 Vice President
 Vice President

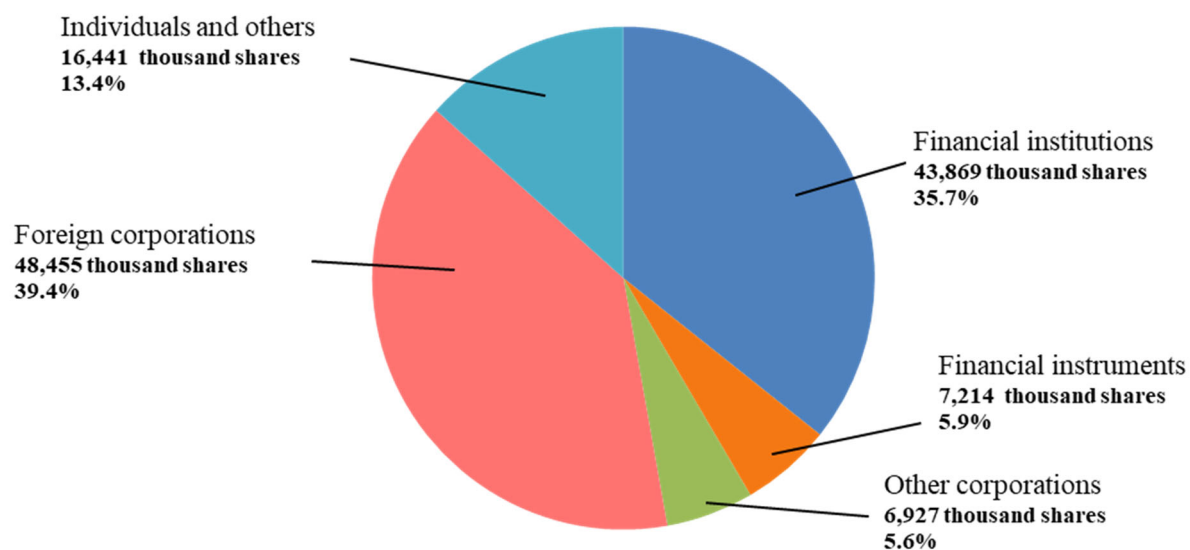
Shigeru Tajima
 Kazutoshi Shiraishi
 Mitsukuni Tsukihara
 Takanori Nagai
 Haruhiko Tsuzuki
 Melvin Porter
 Yoichi Kato
 Isamu Mitsuhashi

Stock Information (as of June 30, 2023)

Stock Data

• Total number of authorized shares:	360,000,000
• Total number of issued shares:	122,905,481
• Number of shareholders:	33,243

Breakdown of Shareholders



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

Shareholder Information

Fiscal Year	January 1 through December 31 of each year	
Ordinary General Meeting of Shareholders	March (every year)	
Record Dates	Ordinary General Meetings of Shareholders	December 31
	Payment of Interim Dividends	June 30
	Payment of Term-end Dividends	December 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/procedure/agency/	
	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