(Translation)

# Corporate Governance Report



**Last Update: October 1, 2024**

**Sumitomo Heavy Industries, Ltd.**
Shinji Shimomura, President and CEO
Contact: Yoshitaka Shimamura, General Manager, Corporate Communication Dept.
Securities code: 6302
https://www.shi.co.jp

The corporate governance of Sumitomo Heavy Industries, Ltd. (the "Company") is described below.

## I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

### 1. Basic Views

The Company has established the Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd. (the "Basic Policy"). The Company is making efforts to enhance its corporate governance, aiming to establish an efficient and highly transparent management structure, in order to increase the Company Group's corporate value and further enhance its reputation among and trustfulness of all stakeholders.

Please refer to the Basic Policy posted on the Company's website:
Japanese: https://www.shi.co.jp/ir/policy/governance/index.html
English: https://www.shi.co.jp/english/ir/policy/governance/index.html

### Reasons for Non-compliance with the Principles of the Corporate Governance Code

The Company implements all principles of the Corporate Governance Code.

### Disclosure Based on the Principles of the Corporate Governance Code Updated

**[Principle 1.4] Cross-Shareholdings**

(1) Policy on Cross-Shareholding and the Standards for Exercising the Voting Rights as to Cross-Shareholdings

Article 6 of the Basic Policy provides as follows:

Article 6

1. While SHI considers the task of improving asset efficiency to be important, from the viewpoint of establishing and maintaining stable and long-term transaction relationships and facilitating and strengthening business tie-ups and cooperative business development, among other matters, SHI may hold shares that it considers necessary to promote the businesses it owns as strategic shareholdings.
2. SHI shall annually review the significance, compare between benefits or earnings, such as dividends, and capital costs, and examine risks of each strategic shareholding at a Board of Directors meeting. SHI shall proceed to sell shares for which the rationality of its strategic shareholding is not confirmed.
3. SHI shall appropriately exercise the voting rights of its strategic shareholdings by judging whether such exercise of the voting rights will contribute to the improvement of the corporate value over the long-term of the SHI Group and the company shares which SHI holds as strategic shareholdings by confirming whether such companies' capital policies could cause dilution or proposals submitted by such companies could harm corporate value, among others.

(2) Result of Assessment of Cross-Shareholdings

At the Board of Directors meeting in December 2023, the Company examined the significance, comparison between benefits or earnings, such as dividends, and capital costs, and risks of each of its 37 total shareholdings, and reviewed the appropriateness of each shareholding.

As a result, the Company recognized the rationality of all shareholdings.

**[Principle 1.7] Related Party Transactions**
Article 7 of the Basic Policy provides as follows:

Article 7
When SHI conducts a transaction involving a conflict of interest with a director, and when SHI conducts with a corporate auditor, executive officer or main shareholder who holds shares of 10% or more of SHI's total voting rights an important transaction that could harm the common interests of shareholders, SHI shall, in accordance with the company rules, seek prior approval for such transaction at a Board of Directors meeting and report to the Board of Directors the result of such transaction.

**[Supplementary Principle 2.4.1] Ensuring Diversity in the Promotion to Core Human Resources**
Article 10 of the Basic Policy provides as follows:

Article 10
1. For the SHI Group's sustainable growth, SHI shall seek employees from a broad range of people regardless of nationality, gender and form of recruitment, and promote their utilization by appointing them to managerial positions.
2. SHI shall promote diversity management, aiming for an active organization that comprises diverse human resources and where individual employees may work actively and manifest their abilities.
3. For the purpose of encouraging the active participation of women, SHI shall continue to make efforts for, among other initiatives, a reform of awareness, the improvement of the work environment, the development of scopes of work, the expansion of opportunities for the participation of women and the appointment of women, and the promotion of work-life balance, including the establishment of a work-life balance support program, in the SHI Group.

In addition to the above, please refer to the Company's website below for more information on the Company's approach to ensuring diversity in areas such as the promotion of human resources:
SHI Group Human Resource Policy: https://www.shi.co.jp/english/csr/employee/index.html
Diversity: https://www.shi.co.jp/english/csr/employee/diversity/index.html

Key targets for areas such as the promotion of human resources (key targets by January 1, 2027) are as follows:
1. Expanding hiring of women
   Percentage of new graduates hired who are women: 20% or more each year
2. Proactive promotion of women
   Number of women on the Board of Directors: 2
   Double the number of management positions held by women (compared to April 2022): 48 (4.5%)
3. Tapping into a diverse workforce
   Percentage of management positions held by mid-career hires: 30% or more
   Percentage of positions held by foreign nationals: 1.4%
   Percentage of employees using paternity leave (including statutory leave): 100%

**[Principle 2.6] Roles as Asset Owners of Corporate Pension Funds**
The Company's corporate pension fund is a defined contribution pension fund. The Company has not adopted a defined benefit pension fund or an employee pension fund of the fund or contract type presumed by this principle, and has therefore determined that this principle does not apply to the Company's pension plan.

**[Principle 3.1]**

(i) Corporate philosophy, business strategies and business plans

<Corporate philosophy>

Under the Sumitomo's business philosophy, the Company has established the Purpose (significance of a company's existence) and business principles as follows, and shall strive to improve the Company Group's social and corporate value.

Purpose

Enhance society and those within it with compassion through our ownership and vision

For other details of the Purpose, please refer to "Purpose (significance of existence)" on the Company's website (https://www.shi.co.jp/english/company/purpose/index.html).

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 Strategies and Business Plans>

For the business strategies and business plans, please refer to the Medium-Term Management Plan posted on the Company's website (https://www.shi.co.jp/english/ir/policy/plan/index.html).

(ii) Basic views and guidelines on corporate governance

Article 2 of the Basic Policy provides as follows:

Article 2

SHI shall make efforts to enhance its corporate governance, aiming to establish an efficient and highly transparent management structure, in order to increase the SHI Group's corporate value and further enhance its reputation among and trustfulness of all stakeholders.

(iii) Policies and procedures in determining the remuneration of directors and executive officers

The Company defines the policies for remuneration to establish a remuneration system that contributes to the Group's sustainable growth, the improvement of corporate value and value sharing with shareholders, and sets an appropriate remuneration standard for the Company's officers as follows:

The remuneration of the Company's directors and executive officers shall consist of basic remuneration, performance-linked remuneration and stock-based remuneration, and the ratio is about 60%, 30% and 10%, respectively. The basic remuneration is a

fixed remuneration determined for each position. For Directors, we provide a Directors' allowance, of which 85% is a fixed amount compensation.

The performance-linked remuneration consists of the dividend-linked basic remuneration that fluctuates based on the Company's annual dividend and the division's performance-linked basic remuneration. For the Directors and Executive Officers at the Head Office, the performance-linked basic remuneration is changed based on the Company's consolidated financial results, and for the Directors and Executive Officers who are in charge of operational divisions, it reflects the performance of the operational division of which they are in charge. The ratio of the dividend-linked basic remuneration and the division's performance-linked basic remuneration is 50:50. The dividend-linked basic remuneration is calculated by multiplying the basic remuneration for each position by a factor based on the Company's annual dividend. Fifteen percent of the Directors' allowance fluctuates by being multiplied by a dividend-linked basic remuneration factor. For the division's performance-linked basic remuneration, the Company, having the President as the final decision-maker, defines ranks from A to E based on three indicators* of net operating income, operating income ratio, and ROIC, considering the status of safety record, compliance, etc. The amount is calculated by multiplying the basic amount for each position by a factor for each rank. As for the decision on the ranks, the President shall make the final decision after confirming with concerned divisions at the Head Office. By adopting these indicators, the Company intends to share the value with shareholders, and reflect perspectives such as profitability, growth, the maintenance of fiscal discipline, safety and compliance in officers' remuneration. Through the above, the Company ensures the appropriateness of remuneration. Basic remuneration and performance-linked remuneration are paid periodically during the term of office.

*From January 1, 2024, the indicators related to the division's performance-linked basic remuneration were revised from three indicators of net sales, operating income, and operating income ratio to three indicators of operating income, operating income ratio, and ROIC. The remunerations will be calculated based on the revised indicators from April 1, 2025.

Stock-based remuneration aims to improve awareness about the need to help enhance earnings and increase corporate value in the medium to long term, by clarifying the linkage between remuneration of Directors to the Company's stock value, with Directors sharing profits and risks due to changes in the stock price with shareholders. Under this remuneration system, the Company contributes money and establishes a trust, which acquires the Company's shares, and the Company's shares (the number of the Company's shares, corresponding to the points to be granted by the Company to each Director) are issued to each Director via the trust.

The Company abolished the retirement benefits system for Directors at the conclusion of the 109th Ordinary General Meeting of Shareholders held on June 29, 2005.

The Company has established a voluntary Compensation Committee that deliberates and reports regarding the remuneration system and standards of directors and executive officers, among other matters, upon an inquiry from the Board of Directors, based on which the Board of Directors adopts resolutions.

The remuneration of Corporate Auditors is determined based on the discussion by Corporate Auditors. The remuneration of Outside Directors consists only of basic remuneration.

The maximum amount of remuneration is resolved as follows:

<Directors>

・June 29, 2006 (110th Ordinary General Meeting of Shareholders)

Resolution passed to limit the amount of remuneration for Directors to not more than ¥40 million per month.

- June 29, 2022 (126th Ordinary General Meeting of Shareholders)

Separate from the above, resolution passed to introduce a stock-based remuneration system to contribute cash with an upper limit of ¥112.5 million as funds for purchasing shares for three fiscal years.

*If the eligible period is extended, an additional contribution of up to ¥45.0 million per fiscal year can be made. The upper limit on total points to be granted to Directors is 30,000 points per fiscal year.

<Corporate Auditors>

- June 29, 2022 (126th Ordinary General Meeting of Shareholders)

Resolution passed to limit the amount of remuneration for Corporate Auditors to not more than ¥10 million per month.

(iv) Policies on and procedures in nomination of director and corporate auditor candidates and appointment/dismissal of executive officers

The policies on and the procedures for nominating director candidates are provided in Article 16 of the Basic Policy as follows:

Article 16

1. SHI's director candidates shall be nominated from those who satisfy the matters specified in each of the following items:
   (1) a person who has excellent character, insights, and abilities, as well as a great sense of ethics;
   (2) a person who has the capability to view the overall management system of SHI, the intrinsic sense of risks, and extensive knowledge on management; and
   (3) a person who may understand and embody the Sumitomo's business philosophy and the SHI Group's business principles, among others.
2. In nominating director candidates, SHI shall consider the balance of the expertise and experience (including management and business experience and experience in developing global business) of each director candidate, and diversity, among other factors, to be able to realize effective corporate governance by the Board of Directors as a whole.
3. Inside director candidates shall be nominated also in consideration of their association with SHI's management strategy and business scope, and their past experience in management, business, and their specialized areas, among other fields.
4. Outside director candidates shall be nominated in consideration of not only their role to supervise SHI's management independently from the management team and appropriately reflect stakeholders' viewpoints, but also of their abundant experience as a manager or extensive knowledge on management, among other factors.
5. Director candidates shall be evaluated and determined at a Board of Directors meeting following examination by and reporting of the Nomination Committee, an advisory body to the Board of Directors.

The policies on and the procedures for nominating corporate auditor candidates are provided in Article 24 of the Basic Policy as follows:

Article 24

1. SHI's corporate auditor candidates (including substitute corporate auditor candidates; the same will apply hereinafter) shall be nominated from those who satisfy the matters specified in each of the following items and who have the ability to make appropriate judgements from an independent and objective standpoint:
   (1) a person who has excellent character, insights, and abilities, as well as a great sense of ethics;
   (2) a person who has the capability to view the overall management system of SHI, the intrinsic sense of risks, and extensive knowledge on management; and
   (3) a person who may understand and embody the Sumitomo's business philosophy and the SHI Group's business principles, among others.
2. In nominating corporate auditor candidates, SHI shall consider the balance of the expertise and experience (including management and business experience) of each corporate auditor candidate, and diversity, among other factors, to be able to realize effective audits by the Board of Corporate Auditors. In addition, SHI shall nominate at least one candidate who has appropriate knowledge on finance and accounting.

3. Inside corporate auditor candidates shall be nominated also in consideration of their understanding about SHI's management strategy, management, and business.
4. Outside corporate auditor candidates shall be nominated also in consideration of their abundant experience as a manager and extensive knowledge on finance, accounting, and legal affairs, among other areas.
5. Corporate auditor candidates shall be evaluated and determined at a Board of Directors meeting following examination by and reporting of the Nomination Committee, an advisory body to the Board of Directors, and consent from the Board of Corporate Auditors.

The policies on and the procedures for appointing executive officers are provided in Article 17 of the Basic Policy as follows:

Article 17
1. SHI's executive officers shall be appointed from those who satisfy the matters specified in each of the following items:
   (1) a person who has excellent character, insights, and abilities, as well as a great sense of ethics;
   (2) a person who has the capability to view the overall management system of SHI, the intrinsic sense of risks, and extensive knowledge on management; and
   (3) a person who may understand and embody the Sumitomo's business philosophy and the SHI Group's business principles, among others.
2. Executive officers shall be appointed from those in charge of business execution (including those who undertake such a responsibility as an assistant), such as SHI's president, a general manager of SHI's main business, the president of a main group company, and a general manager of a main division at SHI's headquarters.
3. Executive officer candidates shall be reported to the Nomination Committee, an advisory body to the Board of Directors, and after receiving necessary advice, the executive officers shall be appointed or dismissed after deliberation at a Board of Directors meeting.

(v) Explanations with respect to the individual nominations of director and corporate auditor candidates and the appointments of executive officers

Please refer to the "Reference Documents for the Shareholders' Meeting" attached to the "Notice of the 128th Ordinary General Meeting of Shareholders" for explanations with respect to the individual nominations of director and corporate auditor candidates. With regard to explanations with respect to the appointments of executive officers, the "Business and Financial Report" attached to the "Notice of the 128th Ordinary General Meeting of Shareholders" states that executive officers are appointed in accordance with the policies and procedures set forth in the Basic Policy, comprehensively taking into account the knowledge, experience and ability possessed by the candidates (https://www.shi.co.jp/english/ir/stock/meeting/index.html).

**[Supplementary Principle 3.1.3] Disclosure of Initiatives on Sustainability**

Please refer to the Integrated Report (https://www.shi.co.jp/english/ir/library/annual_report/index.html) for information on matters such as the Company's sustainability efforts and investments in human capital and intellectual property.

**[Supplementary Principle 4.1.1] Decision Matters of the Board of Directors and Scope of Delegation to the Management Team**

Article 13 of the Basic Policy provides as follows:

Article 13
1. Regarding matters that are set as resolution matters of the Board of Directors under laws and regulations, and matters specified as important matters to be decided for management by the regulations of the Board of Directors, SHI shall decide such matters by resolution at Board of Directors meetings.
2. Regarding decisions on business execution other than the matters specified in the preceding paragraph, SHI's Board of Directors shall delegate such decisions to the president and other executive officers and clearly specify the scope of such delegation in the decision-making authority regulations.

**[Principle 4.9] Independence Standards for Outside Officers**

Please refer to Article 28 and Exhibit 1 "Independence Standards for Outside Officers" of the Basic Policy.

**[Supplementary Principle 4.10.1] Mandates and Roles of Nomination Committee and Compensation Committee**

The mandates and roles of the Nomination Committee and the Compensation Committee are provided in Article 31 of the Basic Policy as follows:

Article 31

1. SHI's Board of Directors shall, in order to strengthen its independence and objectivity and ensure the transparency of the management, establish as its advisory bodies a Nomination Committee and a Compensation Committee chaired by an independent outside director, having the majority of the directors in each committee be outside directors and outside corporate auditors.
2. The Nomination Committee shall deliberate and report regarding the nomination of director and corporate auditor candidates, the dismissal of directors and corporate auditors, the appointment and removal of the representative director and directors with managerial positions, and the succession plan for the CEO and other top executives, upon an inquiry from the Board of Directors. When deliberating and reporting, the Nomination Committee shall confirm execution of business of SHI by the CEO and other top executives, among others.
3. The Compensation Committee shall deliberate and report regarding the remuneration system and standards of directors and executive officers, among other matters, upon an inquiry from the Board of Directors.

The composition of the Nomination Committee and Compensation Committee is as described in "2. Matters Concerning Functions of Business Execution, Auditing and Supervision, Nomination, and Remuneration Decisions (Overview of Current Corporate Governance System)" in "II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management."

**[Supplementary Principle 4.11.1] View on the Balance, Diversity and Size of the Board of Directors**

The view on the structure of the Board of Directors of the Company is provided in Article 15 of the Basic Policy as follows:

Article 15

1. The number of SHI's directors shall be no more than 12, the maximum number stipulated in its Articles of Incorporation. The board shall comprise an appropriate number of directors so that substantial discussions at Board of Directors meetings are ensured, and for which director diversity is considered.
2. As part of establishing a governance structure for the SHI Group's sustainable growth and improvement of its corporate value over the medium- to long-term, SHI shall appoint at least one third of its directors as outside directors who satisfy the Independence Standards for Outside Officers stipulated in Article 28 of this basic policy to strengthen the Board of Directors' management supervision function.
3. Under the Corporate Mission Statement "We will aim to become a machinery manufacturer that continues to provide excellent products and services to the world" and "With integrity being a key principle in the Group, we will contribute towards society by gaining high respect and confidence from all stakeholders," for the SHI Group's sustainable growth and improvement of corporate value over the medium- to long-term, in the composition of the Board of Directors, SHI shall consider each director's expertise and experience (including management and business experience, and experience of global business), as well as the diversity.

A skills matrix of the Board of Directors is also included at the end of this report.

**[Supplementary Principle 4.11.2] Directors and Corporate Auditors Serving Concurrently as an Officer at Another Listed Company**

Article 19 of the Basic Policy provides as follows:

Article 19
In reference documents for a General Meeting of Shareholders and in a business report, SHI shall disclose every year where its directors, corporate auditors, and their candidates are serving concurrently as an officer at another listed company, and other important details concerning jobs they concurrently have.

Please refer to the "Reference Documents for the Shareholders' Meeting" and "Business and Financial Report" attached to the "Notice of the 128th Ordinary General Meeting of Shareholders" for the concurrent positions of officers during the current fiscal year (https://www.shi.co.jp/english/ir/stock/meeting/index.html).

**[Supplementary Principle 4.11.3] Evaluation of Effectiveness of the Board of Directors**
The Company evaluates the effectiveness of the Board of Directors every year aiming to improve the function of the Board of Directors through the ongoing process to verify if the Board of Directors is functioning properly and take necessary measures to improve the issues and reinforce it based on the results.
The summary of the evaluation for the fiscal year ended December 31, 2023, is as follows:
I. Analysis and Evaluation Process for the Fiscal Year Ended December 31, 2023

(i) At the meeting of outside officers (attended by all of the outside officers) held in December 2023, outside officers discussed the contents of the questionnaire survey for evaluating the effectiveness of the Board of Directors, and created the questionnaire.

(ii) A questionnaire survey was conducted from December 2023 to January 2024 using the questionnaire in (i) for all 11 Directors and all four Corporate Auditors.

(iii) Based on the results of the questionnaire survey in (ii), in order to delve further into the awareness of issues by the Company's Board of Directors and other matters, interviews of all of the outside officers and some of the Directors and Corporate Auditors (total of 12 persons) were conducted from January 2024 to February 2024 with the Specific Outside Director serving as the interviewer.

(iv) Based on the results of the interviews in (iii), at the meeting of outside officers held in March 2024, outside officers discussed the results of the evaluation of the effectiveness of the Company's Board of Directors for the fiscal year ended December 31, 2023.

(v) Based on the discussions in (iv), at the Board of Directors meeting held in March 2024, deliberations regarding the results of the evaluation of the effectiveness of the Company's Board of Directors were conducted among all of the Directors and Corporate Auditors, and the evaluation results for the fiscal year ended December 31, 2023, were finalized.

The Company believes that a certain degree of objectivity is ensured by establishing a process whereby outside officers create the contents of the questionnaire survey and also by involving outside officers in many aspects of the effectiveness evaluation, such as having an Outside Director serve as the interviewer, conducting interviews with all of the outside officers, and finalizing the results of the effectiveness evaluation based on discussions at the meeting of outside officers, and the Company is continuously using the self-evaluation method.

<Questionnaire Survey Items>

The major items of the questionnaire survey for the fiscal year ended December 31, 2023, are as follows (the major sub-items are enclosed in parentheses). In principle, a response is given for each question based on an evaluation using a four-level scale, and a space is provided to freely add remarks, etc. regarding each item.

1. Roles and responsibilities of the Board of Directors (direction of the Board of Directors, follow-up regarding medium-term management plans, sustainability, allocation of management resources, business portfolio strategy, deliberations that take into account the cost of capital, activities of the Nomination Committee and the Compensation Committee, and other matters)

2. Composition of the Board of Directors

3. Support for operations of Board of Directors meetings and for officers (materials and explanations for Board of Directors meetings, officer training, support for outside officers, and other matters)

4. Relationship with shareholders and other stakeholders

5. Evaluation of the effectiveness of the Board of Directors (method of evaluation, and other matters)

6. Other (general matters regarding the Board of Directors (freely added remarks))

II. Initiatives for the Fiscal Year Ended December 31, 2023, Based on the Analysis and Evaluation Results for the Previous Fiscal Year

With respect to the evaluation of the effectiveness of the Board of Directors for the previous fiscal year, the Company implemented the following initiatives in the fiscal year ended December 31, 2023, based on the issues that were identified regarding strengthening of the supervisory function of the Board of Directors, discussions regarding long-term strategy and composition of the business portfolio, enhancement of deliberations that take into account the cost of capital, discussions regarding the strengthening and appropriate allocation of investment in human capital and intellectual property, and other matters.

1. Strengthening of the supervisory function of the Board of Directors

The Company appointed a female Outside Director at the Ordinary General Meeting of Shareholders held in March 2023, so that the Board of Directors attained an increased gender diversity and higher ratio of Outside Directors. In addition, the Company reduced matters to be submitted to the Board of Directors in accordance with the new standard revised concurrently with the introduction of the segment system, revised the Policies on Determining the Remuneration of Officers and focused on discussions on medium- to long-term strategies, mainly on the three-year medium-term management plan starting in fiscal year ending December 31, 2024.

2. Discussions regarding long-term strategy and composition of the business portfolio

At meetings of the Board of Directors and at meetings attended by all members of the Board of Directors including outside officers to discuss long-term strategies, discussion on medium-term management plan for the three-year period starting in fiscal year ending December 31, 2024, including the ideal state for 2030 and business portfolio reform policies, was proceeded. Furthermore, the Board of Directors discussed and established the Purpose indicating the medium- to long-term direction of the Group.

3. Deliberations that take into account the cost of capital

Considering the necessity for the Board of Directors to conduct deliberations that further take into account the cost of capital, the Board of Directors intensively examined ROIC* in each business division’s report to the Board of Directors and worked to enhance deliberations.

* ROIC: Return on Invested Capital

4. Discussions regarding the strengthening and appropriate allocation of investment in human capital and intellectual property

During the discussion on the medium-term management plan for the three-year period starting in fiscal year ending December 31, 2024, the Board of Directors examined human capital management policies that position human resources as the greatest capital, as well as strengthening development investment in priority investment areas.

III. Summary of the Analysis and Evaluation Results for the Fiscal Year Ended December 31, 2023

(i) Conclusion

Based on the results of the effectiveness evaluation questionnaire survey for the fiscal year ended December 31, 2023, interviews, discussions in the meeting of outside officers and deliberations by the Board of Directors, it was confirmed that the effectiveness of the Board of Directors was secured and the Board of Directors functioned effectively in the fiscal year ended December 31, 2023.

(ii) Evaluation

- Regarding the Company's Board of Directors, there were many opinions stating that, of the functions of business execution and supervision, a direction that focuses on supervision is desirable.
- In the effectiveness evaluation questionnaire survey, a high percentage of the Directors and Corporate Auditors answered "Agree" or "Mostly agree" for many of the question items for the evaluation of the current situation.
- Among the issues from the previous fiscal year, there were many opinions that a certain level of improvement had been made regarding "Discussions regarding long-term strategy and composition of the business portfolio" and "Enhancement of deliberations that take into account the cost of capital," while there were many opinions requesting further initiatives regarding the issues of "Strengthening of the supervisory function of the Board of Directors" and "Discussions regarding the strengthening and appropriate allocation of investment in human capital and intellectual property."
- There were proposals, recommendations, problems pointed out, etc. for all of the question items, which confirmed that each Director and Corporate Auditor conducted an appropriate analysis of the effectiveness of the Board of Directors based on its roles and responsibilities. In particular, there was a high level of recognition regarding issues in "Strengthening of the supervisory function of the Board of Directors," "Discussions regarding medium- to long-term management policy and business portfolio" and "Supervision of the allocation of human capital, intellectual property and other management resources." Furthermore, it was confirmed that the Board of Directors must continue to supervise the progress of initiatives for addressing climate change and other sustainability-related issues.

As a result of the evaluation, the following points were confirmed to be the main areas to be continuously improved.

1. Deeper discussions on how the Board of Directors should be

While the Company's Board of Directors has considered itself to be a hybrid-type Board of Directors that incorporates mechanisms to strengthen supervisory functions, based on a management-type Board of Directors that emphasizes the decision-making function for individual business execution, in recent evaluations of the effectiveness of the Board of Directors, the majority opinion is that the supervisory function should be further strengthened. In response, the Company's Board of Directors has taken initiatives such as increasing the number of Outside Directors including a female Director, establishing a meeting body to discuss long-term strategies, and revising the criteria for discussion at the Board of Directors meetings, as well as providing prior explanations to outside officers and actions to improve the management of proceedings, such as by extending the deliberation time for important agenda items, and has received a certain level of praise from members of the Board of Directors for these initiatives.

In this fiscal year's evaluation of the effectiveness of the Board of Directors, there were opinions that there was insufficient discussion of medium- to long-term management policy and portfolio reform, that the deliberation time was insufficient, and agenda were too detailed. In order to improve these points, it may be necessary to consider a revision of the current hybrid-type operation. Although individual Board of Directors members actively express their opinions in the evaluation of the effectiveness of the Board of Directors, some opinions remain at an individual level, and it is necessary to summarize these opinions into the thoughts of the Board of Directors.

Based on the above circumstances, the Company would like to set "discussion on the form of the Board of Directors" as a

challenge for the Board of Directors in fiscal year ending December 31, 2024, and by clarifying how the Board of Directors should be and working to realize it, the Company aims to improve its corporate value.

The following are the main items to be specifically considered in the discussion of how the Board of Directors should be:

(i) How the deliberations on medium- to long-term management policies and the business portfolio be conducted

Consideration at the Board of Directors about the methods and ideas for effectively conducting deliberations regarding medium- to long-term management policies and business portfolios

(Main opinions in the questionnaire surveys and interviews)

・The Board of Directors should place emphasis on the discussion of overall strategy and the function of supervision over the execution.

・Discussions regarding the selection and concentration of the business should be enhanced..

(ii) How the items for resolutions at the Board of Directors and the reports to the Board of Directors should be

Consideration of the matters to be discussed at the Board of Directors, as well as their content and timing, based on the fact that, being pointed out that the Board of Directors' deliberation is insufficient, on the one hand it is necessary to reduce the number of matters to be discussed in order to secure time to deliberate on important agenda items, while, on the other hand, necessary information needs to be reported in a timely manner for effective supervision of execution

(Main opinions in the questionnaire surveys and interviews)

・It is necessary to narrow down the matters to be submitted to the Board of Directors and ensure sufficient time for deliberation.

・Reports should be focused on issues, not just business explanations.

(iii) Board of Directors' composition and organizational design

Consideration of an optimal personnel composition (skill matrix, ratio of outside officers, diversity) and organizational design in light of the functions of the Company's Board of Directors, including the possibility of changing the organizational design

(Main opinions in the questionnaire surveys and interviews)

・Personnel with corporate management experience and global experience are desired for the Board of Directors.

・There is a trend in the market going forward that requires the appointment of a majority of independent Outside Directors.

・Discussion should be made on the necessity of changing the organizational design to strengthen the supervisory function

2. Deepening and enhancement of deliberations at the Board of Directors

At the Board of Directors, it is necessary to deepen and enhance the deliberations especially on the following items:

(i) Deliberations regarding medium- to long-term management policy and business portfolio

It is necessary to deepen discussion on the medium- to long-term management policy and the optimal composition of the

business portfolio.

(Main opinions in the questionnaire surveys and interviews)

・Discussion should be enhanced on action plan toward the ideal state in 2030

・Discussion on developing core competencies is required

(ii) Supervision of the allocation of human capital, intellectual property and other management resources

It is necessary to deepen discussion on investment in human capital and intellectual property based on the key investment areas established in Medium-Term Management Plan 2026.

(Main opinion in the questionnaire surveys and interviews)

・Discussion is required to develop the human resources and technologies in required fields

IV. Future Initiatives Based on the Analysis and Evaluation Results for the Fiscal Year Ended December 31, 2023

As a result of discussions by the Board of Directors based on recommendations, etc. from Directors and Corporate Auditors, the Company will promote further improvements in the fiscal year ending December 31, 2024, mainly in the following area.

1. Discussion on how the Board of Directors should be, including strengthening of the supervisory function of the board of directors

Clarify the ideal state of the Company's Board of Directors and deepen considerations on the method to achieve such a state, mainly on (i) how the deliberations on medium- to long-term management policies and the business portfolio be conducted, (ii) how the items for resolutions at the Board of Directors and the reports to the Board of Directors should be, and (iii) the Board of Directors' composition and organizational design.

2. Deepening and enhancement of deliberations at the Board of Directors

Deepen and enhance the deliberations at the Board of Directors especially in the areas of (i) deliberations regarding medium- to long-term management policy and business portfolio and (ii) supervision of the allocation of human capital, intellectual property and other management resources.

**[Supplementary Principle 4.14.2] Training Policy for Directors and Corporate Auditors**

Article 32 of the Basic Policy provides as follows:

Article 32

1. SHI shall provide its directors and corporate auditors with opportunities for the training necessary to fulfill their important roles and responsibilities in SHI's corporate governance at SHI's expense before and at the time when they assume their positions. Further, SHI shall continue to provide such opportunities after they assume their positions to improve and renew the knowledge and capability of them.
2. As opportunities for the training outlined in the preceding paragraph, SHI shall provide its directors and corporate auditors with necessary and useful knowledge, information, and the like on management, such as matters on the quality of directors and corporate auditors, on legal affairs under the Companies Act and the like, on compliance, and on corporate governance.
3. SHI shall provide its outside directors and outside corporate auditors with an explanation necessary for them to understand the Sumitomo's business philosophy, the SHI Group's business principles and management strategy, and its business situation, among other matters, when they assume their positions. For the SHI Group's main business, SHI shall offer opportunities to its outside directors and outside corporate auditors to visit factories and have relevant officers provide such an explanation, among other actions.

4. SHI's Board of Directors shall confirm whether the provision of training opportunities for directors, corporate auditors and the like is being conducted appropriately.

**[Principle 5.1] Policy for Constructive Dialogue with Shareholders**

1. Basic Views

Based on Article 33 of the Basic Policy and "Policy for Constructive Dialogue with Shareholders" in Exhibit 2 of the Basic Policy, the Company is listening to the opinions of investors, including shareholders, while fulfilling its responsibility to explain corporate activities through general meetings of shareholders and IR activities. In doing so, it is working to maintain and improve trust from the stock market and endeavoring toward appropriate stock prices and improved corporate value through an accurate understanding of the company.

Furthermore, the company is working toward timely, fair information disclosure based on Article 11 of the Basic Policy.

2. Situation of Engaging in Dialogue with Capital Market

Please refer to the Company's website "Shareholders/Investors".

https://www.shi.co.jp/english/csr/social/shareholders/index.html

**[Action to Implement Management that is Conscious of Cost of Capital and Stock Price]**

The rate of return on invested capital (ROIC) was introduced as a management indicator and "Achieving profitability that continuously surpasses capital costs and reforming the business structure" (ROIC > WACC) was set as the management goal.

In the long-term vision for FY2030, we will aim to achieve 10% or more of ROIC and JPY130.0 billion of operating profit.

Under Medium-Term Management Plan 2026 (FY2024-FY2026), we plan to achieve ROIC of 8% and operating profit of ¥100.0 billion (operating profit ratio of 8%).

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.

Please refer to the integrated reports and latest handout for financial briefing, for details.

- Integrated Reports

https://www.shi.co.jp/english/ir/library/annual_report/index.html

- Handout for Financial Briefing

https://www.shi.co.jp/english/ir/library/presentation/index.html

## 2. Capital Structure

| | |
|---|---|
| Foreign Shareholding Ratio | 30% or more |

### Status of Major Shareholders

| Name or Company Name | Number of Shares Owned | Percentage (%) |
|---|---|---|
| The Master Trust Bank of Japan, Ltd. (trust account) | 20,308,600 | 16.52 |
| Custody Bank of Japan, Ltd. (trust account) | 9,373,349 | 7.63 |
| NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST<br>Standing proxy: The Hongkong & Shanghai Banking Corporation Limited, Tokyo Branch | 8,149,700 | 6.63 |
| Sumitomo Life Insurance Company | 4,333,128 | 3.53 |
| BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1<br>Standing proxy: MUFG Bank, Ltd. | 3,916,400 | 3.19 |
| NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS<br>Standing proxy: The Hongkong & Shanghai Banking Corporation Limited, Tokyo Branch | 3,824,532 | 3.11 |
| Sumitomo Heavy Industries, Ltd. Kyoeikai | 3,309,900 | 2.69 |

| | | |
|---|---|---|
| NORTHERN TRUST CO. (AVFC) RE NON TREATY CLIENTS ACCOUNT<br>Standing proxy: The Hongkong & Shanghai Banking Corporation Limited, Tokyo Branch | 2,926,886 | 2.38 |
| STATE STREET BANK AND TRUST COMPANY 505103<br>Standing proxy: Mizuho Bank, Ltd. | 2,195,467 | 1.79 |
| NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT<br>Standing proxy: The Hongkong & Shanghai Banking Corporation Limited, Tokyo Branch | 2,108,700 | 1.72 |

| | |
|---|---|
| Name of Controlling Shareholder, if applicable (excluding Parent Company) | --- |
| Name of Parent Company, if applicable | None |

Supplementary Explanation Updated

The above Status of Major Shareholders is the status as of December 31, 2023. The following large volume holding reports and change reports thereof are available for public inspection as of the date of submission of this report.

(1) Change Report for Large Volume Holding Report by Sumitomo Mitsui Trust Bank, Limited and its Joint Holders dated January 19, 2024
(2) Change Report for Large Volume Holding Report by Nomura Asset Management Co., Ltd. and its Joint Holders dated April 5, 2024
(3) Change Report for Large Volume Holding Report by Sumitomo Mitsui Trust Bank, Limited and its Joint Holders dated April 19, 2024
(4) Change Report for Large Volume Holding Report by Nomura Asset Management Co., Ltd. and its Joint Holders dated May 7, 2024
(5) Change Report for Large Volume Holding Report by Silchester International Investors LLP and its Joint Holders dated August 1, 2024
(6) Change Report for Large Volume Holding Report by Sumitomo Mitsui Trust Bank, Limited and its Joint Holders dated September 20, 2024
(7) Change Report for Large Volume Holding Report by Nomura Asset Management Co., Ltd. and its Joint Holders dated September 24, 2024
(8) Large Volume Holding Report by SMBC Nikko Securities Inc. and its Joint Holders dated September 24, 2024
(9) Change Report for Large Volume Holding Report by Silchester International Investors LLP and its Joint Holders dated September 26, 2024

## 3. Corporate Attributes

| | |
|---|---|
| Listed Stock Exchange and Market Segment | Prime Market of Tokyo Stock Exchange |
| Fiscal Year-End | December |
| Business Sector | Machinery |
| Number of Employees (Consolidated) as of the End of the Previous Fiscal Year | 1,000 or more |
| Net Sales (Consolidated) as of the End of the Previous Fiscal Year | ¥100 billion or more and less than ¥1 trillion |
| Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year | 100 or more and fewer than 300 |

## 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

---

## 5. Other Special Circumstances which May have Material Impact on Corporate Governance

---

# II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

## 1. Organizational Composition and Operation

| | |
|---|---|
| Corporate Governance System | Company with Board of Corporate Auditors |

### Directors

| | |
|---|---|
| Number of Directors Stipulated in Articles of Incorporation | 12 |
| Number of Directors | 11 |
| Directors' Term of Office Stipulated in Articles of Incorporation | 1 year |
| Chairperson of the Board | Chairperson (excluding those concurrently serving as President) |
| Election of Outside Directors | Elected |
| Number of Outside Directors | 4 |
| Number of Independent Directors | 4 |

Outside Directors' Relationship with the Company (1)

| Name | Attributes | Relationship with the Company* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k |
| Susumu Takahashi | From another company | | | | | | | | | | | |
| Akio Hamaji | From another company | | | | | | | | | | | |
| Sumie Morita | From another company | | | | | | | | | | | |
| Yaeko Hodaka | Lawyer | | | | | | | | △ | | | |

*Categories for "Relationship with the Company".
(Use "○" when the director presently falls or has recently fallen under the category; "△" when the director fell under the category in the past; "●" when a close relative of the director presently falls or has recently fallen under the category; and "▲" when a close relative of the director fell under the category in the past.)

a. Person who executes business of the Company or a subsidiary
b. Person who executes business or a non-executive director of a parent company
c. Person who executes business of a fellow subsidiary
d. Person/entity for which the Company is a major client or a person who executes business for such person/entity
e. Major client of the Company or a person who executes business for such client
f. Consultant, accounting expert, or legal expert who receives large amounts of cash or other assets in addition to director/corporate auditor compensation from the Company
g. Major shareholder of the Company (in cases where the shareholder is a corporation, a person who executes business of the corporation)
h. Person who executes business for a client of the Company (excluding persons categorized as any of d, e, or f above) (applies to self only)
i. Person who executes business for another company holding cross-directorships/cross-auditorships with the Company (applies to self only)
j. Person who executes business for an entity receiving contributions from the Company (applies to self only)
k. Other

Outside Directors' Relationship with the Company (2)

| Name | Designation as Independent Director | Supplementary Explanation of the Applicable Relationship | Reasons for Appointment |
|---|---|---|---|
| Susumu Takahashi | ○ | | Mr. Susumu Takahashi possesses high-level knowledge in economy and management, and has broad experience of actual professional practice in both private sector and government institutions. As an Outside Director, he provides advice for the Company's sustainable growth and improvement of corporate value and supervises the Company's management from an objective and independent standpoint. He has been designated as an Independent Director because he has no mutual or conflicting interest with the Company's management team and there is no risk of conflicts of interest with general shareholders. |
| Akio Hamaji | ○ | | Mr. Akio Hamaji has long experience of actual professional practice as a manager and is well versed in corporate management. He is providing advice for the Company's sustainable growth and the improvement of the Company's corporate value, and his supervision of the Company's management. Based on this abundant experience and deep insight, as an Outside Director, he provides advice for the Company's sustainable growth and improvement of corporate value and supervises the Company's management from an objective and independent standpoint. He has been designated as an Independent Director because he has no mutual or conflicting interest with the Company's management team and there is no risk of conflicts of interest with general shareholders. |

| | | | |
|---|---|---|---|
| Sumie Morita | ○ | | Ms. Sumie Morita has extensive experience of actual professional practice as a developer of product in the area of telecommunications and information networks. In addition, she has engaged in corporate management serving as Corporate Executive. Based on this abundant experience and deep insight, as an Outside Director, she provides advice for the Company's sustainable growth and improvement of corporate value and supervises the Company's management from an objective and independent standpoint. She has been designated as an Independent Director because she has no mutual or conflicting interest with the Company's management team and there is no risk of conflicts of interest with general shareholders. |
| Yaeko Hodaka | ○ | There is no direct business relationship between Ms. Yaeko Hodaka and the Company. In addition, while there were transactions between the Company and the law firm Baker & McKenzie, of which Ms. Hodaka was a partner until April 2023, in which the Company had received legal advice, the average annual transaction amount over the past three fiscal years was less than ¥2 million, which is insignificant and was therefore determined to have no impact on her independence. | Ms. Yaeko Hodaka, as an attorney-at-law, is well versed in law. She has extensive experience and ample knowledge, especially regarding corporate legal affairs. The Company has determined that, as an Outside Director, she will provide advice for the Company's sustainable growth and improvement of corporate value and supervise the Company's management from an objective and independent standpoint. Although there was a business relationship between the law firm Ms. Hodaka formerly belonged to and the Company, as described on the left, she has been designated as an Independent Director because the Company has determined that there is no risk of conflicts of interest with general shareholders. |

| | |
|---|---|
| Voluntary Establishment of Committee(s) equivalent to Nomination Committee or Remuneration Committee | Established |

Status of Voluntarily Established Committee(s), Attributes of Members Constituting the Committee and the Committee Chair (Chairperson) Updated

| | Committee's Name | All Members | Full-time Members | Inside Directors | Outside Directors | Outside Experts | Other | Chairperson |
|---|---|---|---|---|---|---|---|---|
| Voluntarily Established Committee Equivalent to Nomination Committee | Nomination Committee | 6 | 6 | 2 | 4 | 0 | 0 | Outside Director |
| Voluntarily Established Committee Equivalent to Remuneration Committee | Compensation Committee | 6 | 6 | 2 | 4 | 0 | 0 | Outside Director |

Supplementary Explanation Updated

The Nomination Committee and Compensation Committee are as described in "2. Matters Concerning Functions of Business Execution, Auditing and Supervision, Nomination, and Remuneration Decisions (Overview of Current Corporate Governance System)" in "II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management."

## Corporate Auditors

| | |
|---|---|
| Establishment of Board of Corporate Auditors | Established |
| Number of Corporate Auditors Stipulated in Articles of Incorporation | 5 |
| Number of Corporate Auditors | 4 |

Cooperation among Corporate Auditors, Accounting Auditors and Internal Audit Departments

The cooperation among Corporate Auditors and Accounting Auditors is provided in Article 27 of the Basic Policy as follows:

Article 27
SHI's corporate auditors shall ensure sufficient cooperation with the accounting auditor necessary for appropriate audits by receiving reports, such as audits of financial statements, audits of internal control, and quarterly reviews, among other reports, from the accounting auditor, and exchanging opinions at Board of Corporate Auditors meetings.

The cooperation among Corporate Auditors and Internal Audit Department is provided in Paragraph 4, Article 23 of the Basic Policy as follows:

4. In order for the Board of Corporate Auditors to fulfill its functions, SHI shall establish a system in which the internal control division appropriately reports directly to the Board of Corporate Auditors.

| | |
|---|---|
| Appointment of Outside Corporate Auditors | Appointed |
| Number of Outside Corporate Auditors | 2 |
| Number of Independent Corporate Auditors | 2 |

## Corporate Auditors' Relationship with the Company (1)

| Name | Attributes | Relationship with the Company* | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | a | b | c | d | e | f | g | h | i | j | k | l | m |
| Masaichi Nakamura | CPA | | | | | | | | | | | | | |
| Mio Minaki | Lawyer | | | | | | | | | | | | | |

*Categories for "Relationship with the Company".
(Use "○" when the director presently falls or has recently fallen under the category; "△" when the director fell under the category in the past; "●" when a close relative of the director presently falls or has recently fallen under the category; and "▲" when a close relative of the director fell under the category in the past.)

a. Person who executes business of the Company or a subsidiary
b. A non-executive director or an accounting advisor of the Company or its subsidiaries
c. Person who executes business or a non-executive director of a parent company
d. A corporate auditor of a parent company of the Company
e. Person who executes business of a fellow subsidiary
f. Person/entity for which the Company is a major client or a person who executes business for such person/entity
g. Major client of the Company or a person who executes business for such client
h. Consultant, accounting expert, or legal expert who receives large amounts of cash or other assets in addition to director/corporate auditor compensation from the Company
i. Major shareholder of the Company (in cases where the shareholder is a corporation, a person who executes business of the corporation)
j. Person who executes business for a client of the Company (excluding persons categorized as any of f, g, or h above) (applies to self only)
k. Person who executes business for another company holding cross-directorships/cross-auditorships with the Company (applies to self only)
l. Person who executes business for an entity receiving contributions from the Company (applies to self only)
m. Other

## Outside Corporate Auditors' Relationship with the Company (2)

| Name | Designation as Independent Corporate Auditor | Supplementary Explanation of the Applicable Relationship | Reasons for Appointment |
|---|---|---|---|
| Masaichi Nakamura | ○ | | Mr. Masaichi Nakamura, as a certified public accountant, is an expert in finance and accounting and has long experience of actual professional practice. He has also been involved in company management as a Representative Director in the past. Based on this abundant experience and deep insight, as an Outside Corporate Auditor, he conducts effective audits of the Company's management from an objective and independent standpoint. He has been designated as an Independent Corporate Auditor because he has no mutual or conflicting interest with the Company's management team and there is no risk of conflicts of interest with general shareholders. |

| | | | |
|---|---|---|---|
| Mio Minaki | ○ | | Ms. Mio Minaki has been active as a prosecutor, and after her retirement, as an attorney - at - law. She has extensive experience and ample knowledge cultivated through her long service in the judicial world. The Company has determined that, as an Outside Corporate Auditor, she will conduct effective audits of the Company's management from an objective and independent standpoint. She has been designated as an Independent Corporate Auditor because she has no mutual or conflicting interest with the Company's management team and there is no risk of conflicts of interest with general shareholders. |

## Matters Concerning Independent Directors and Independent Corporate Auditors

| | |
|---|---|
| Number of Independent Directors and Independent Corporate Auditors | 6 |

Other Matters Concerning Independent Directors and Independent Corporate Auditors

The Company designates all Outside Directors and Corporate Auditors who meet the qualifications for Independent Directors and Corporate Auditors as Independent Directors and Corporate Auditors.

## Incentives

| | |
|---|---|
| Implementation Status of Measures related to Incentives Granted to Directors | Introduction of Performance-linked Remuneration Scheme, Other |

Supplementary Explanation for Applicable Items Updated

The Company defines the policies for remuneration to establish a remuneration system that contributes to the Group's sustainable growth, the improvement of corporate value and value sharing with shareholders, and sets an appropriate remuneration standard for the Company's officers as follows:

The remuneration of the Company's directors and executive officers shall consist of basic remuneration, performance-linked remuneration and stock-based remuneration, and the ratio is about 60%, 30% and 10%, respectively. The basic remuneration is a fixed remuneration determined for each position. For Directors, we provide a Directors' allowance, of which 85% is a fixed amount compensation.

The performance-linked remuneration consists of the dividend-linked basic remuneration that fluctuates based on the Company's annual dividend and the division's performance-linked basic remuneration. For the Directors and Executive Officers at the Head Office, the performance-linked basic remuneration is changed based on the Company's consolidated financial results, and for the Directors and Executive Officers who are in charge of operational divisions, it reflects the performance of the operational division of which they are in charge. The ratio of the dividend-linked basic remuneration and the division's performance-linked basic remuneration is 50:50. The dividend-linked basic remuneration is calculated by multiplying the basic remuneration for each position by a factor based on the Company's annual dividend. Fifteen percent of the Directors' allowance fluctuates by being multiplied by a dividend-linked basic remuneration factor. For the division's performance-linked basic remuneration, the Company, having the President as the final decision-maker, defines ranks from A to E based on three indicators* of net operating income, operating income ratio, and ROIC, considering the status of safety record, compliance, etc. The amount is calculated by multiplying the basic amount for each position by a factor for each rank. As for the decision on the ranks, the President shall make the final decision after confirming with concerned divisions at the Head Office. By adopting these indicators, the Company intends to share the value with shareholders, and reflect perspectives such as profitability, growth, the maintenance of fiscal discipline, safety and compliance in officers' remuneration. Through the above, the Company ensures the appropriateness of remuneration. Basic remuneration and performance-linked remuneration are paid periodically during the term of office.

*From January 1, 2024, the indicators related to the division's performance-linked basic remuneration were revised from three indicators of net sales, operating income, and operating income ratio to three indicators of operating income, operating income ratio, and ROIC. The remunerations will be calculated based on the revised indicators from April 1, 2025.

Stock-based remuneration aims to improve awareness about the need to help enhance earnings and increase corporate value in the medium to long term, by clarifying the linkage between remuneration of Directors to the Company's stock value, with

Directors sharing profits and risks due to changes in the stock price with shareholders. Under this remuneration system, the Company contributes money and establishes a trust, which acquires the Company's shares, and the Company's shares (the number of the Company's shares, corresponding to the points to be granted by the Company to each Director) are issued to each Director via the trust.

The Company abolished the retirement benefits system for Directors at the conclusion of the 109th Ordinary General Meeting of Shareholders held on June 29, 2005.

The Company has established a voluntary Compensation Committee that deliberates and reports regarding the remuneration system and standards of directors and executive officers, among other matters, upon an inquiry from the Board of Directors, based on which the Board of Directors adopts resolutions.

The remuneration of Corporate Auditors is determined based on the discussion by Corporate Auditors.

The remuneration of Outside Directors consists only of basic remuneration.

The maximum amount of remuneration is resolved as follows:

<Directors>

- June 29, 2006 (110th Ordinary General Meeting of Shareholders)

Resolution passed to limit the amount of remuneration for Directors to not more than ¥40 million per month

- June 29, 2022 (126th Ordinary General Meeting of Shareholders)

Separate from the above, resolution passed to introduce a stock-based remuneration system to contribute cash with an upper limit of ¥112.5 million as funds for purchasing shares for three fiscal years.

*If the eligible period is extended, an additional contribution of up to ¥45.0 million per fiscal year can be made. The upper limit on total points to be granted to Directors is 30,000 points per fiscal year.

<Corporate Auditors>

- June 29, 2022 (126th Ordinary General Meeting of Shareholders)

Resolution passed to limit the amount of remuneration for Corporate Auditors to not more than ¥10 million per month

| Persons Eligible for Stock Options | |
|---|---|

Supplementary Explanation for Applicable Items

---

## Director Remuneration

| Status of Disclosure of Individual Directors' Remuneration | No Disclosure for any Directors |
|---|---|

Supplementary Explanation for Applicable Items

The total amount of remuneration, etc. for Directors in FY2023 was ¥402 million for 11 Directors (including ¥45 million in remuneration for three (4) Outside Directors).

| | |
|---|---|
| Policy on Determining Remuneration Amounts and the Calculation Methods Thereof | Established |

Disclosure of Policy on Determining Remuneration Amounts and the Calculation Methods Thereof

As described in the Supplementary Explanation for "Implementation Status of Measures related to Incentives Granted to Directors" above.

## Support System for Outside Directors and/or Outside Corporate Auditors

Directors, including Outside Directors, are supported by the Board of Directors Secretariat, and Corporate Auditors, including Outside Corporate Auditors, are supported by a dedicated Corporate Auditor's Department.

## Statuses of Persons who have Retired as Representative Director and President, etc.

Information on Persons Holding Advisory Positions (*Sodanyaku*, *Komon*, etc.) after Retiring as Representative Director and President, etc.

| Name | Job title/ position | Responsibilities | Terms and Conditions of Employment (Full/part time, with/without remuneration, etc.) | Date when former role as president/ CEO ended | Term |
|---|---|---|---|---|---|
| Mitoshi Ozawa | Honorary Consultant | Activities outside the company, including activities in the financial world (not involved in management) | Part time, with remuneration | June 27, 2002 | Permanent |
| Yoshiro Hinoh | Honorary Consultant | Activities outside the company, including activities in the financial world (not involved in management) | Part time, with remuneration | March 31, 2013 | Permanent |
| Yoshinobu Nakamura | Counsellor | Activities outside the company, including activities in the financial world; advice as requested by the management team (not involved in management) | Part time, with remuneration | March 31, 2019 | Fixed term |
| Shunsuke Betsukawa | Honorary Consultant | Activities outside the company, including activities in the financial world (not involved in management) | Part time, without remuneration | March 31, 2022 | Fixed term |

| | |
|---|---|
| Number of Persons Holding Advisory Positions (*Sodanyaku*, *Komon*, etc.) After Retiring as Representative Director and President, etc. | 4 |

Other Related Matters

Effective April 1, 2022, the following revisions were made to the system (those who were appointed as Counsellors on or before March 31, 2022, are not subject to said revision)

- The position of Counsellor shall be abolished and replaced with that of Senior Consultant (not involved in management), who shall be appointed every year for a term of up to two years in principle
- Senior Consultants may be appointed as Honorary Consultants (not involved in management) after retiring, but with a fixed age limit and without remuneration

The above table shows those who served as Representative Director and President before March 31, 2022 and retired as Chairman.

## 2. Matters Concerning Functions of Business Execution, Auditing and Supervision, Nomination, and Remuneration Decisions (Overview of Current Corporate Governance System) Updated

(1) Outline of the Current Corporate Governance System

The Company has adopted a governance system of a company with a board of corporate auditors. An executive officer system has been introduced within this framework to separate management's business execution and supervisory functions.

<Supervision>

Board of Directors

At the time of submitting this report, the Board of Directors is comprised of 11 directors (limited to 12 directors). They include the Chairman of the Board, who chairs the Board of Directors, and four external directors, who supervise management from a standpoint independent from the senior management and whose role is to incorporate the perspectives of external stakeholders into management. (Please refer to the Company's website (https://www.shi.co.jp/english/company/officer/index.html) for the members of the Board of Directors). The Board of Directors has introduced an executive officer system to create an environment that enables prompt and bold business execution. The senior management reports as appropriate to the Board of Directors on critical management issues and high-risk management challenges, thereby ensuring effective supervision over the senior management and directors. The Board of Directors has also appropriately built up the internal control system and risk management system, pursuant to the Companies Act and other relevant laws and regulations, while supervising the operation of those systems as appropriate by receiving reports from the Internal Control Department on its annual plan and operational status and giving necessary instructions. The Board of Directors meets once a month in principle. Extraordinary Board of Directors meetings are held as appropriate. The Board of Directors held 17 meetings in FY2023, with an average attendance rate of 100% for Directors and 100% for Directors excluding Outside Directors.

The Company has also established the Nomination Committee and the Compensation Committee as advisory bodies to the Board of Directors. Each committee is chaired by an Outside Director to ensure objectivity. The roles and composition of each committee are as follows.

Nomination Committee

On the advice of the Board of Directors, the Selection and Nomination Committee deliberates on candidates for directors and corporate auditors, dismissal of directors and corporate auditors, appointments and dismissal of representative directors and directors with managerial positions, as well as progress of the succession plan for the CEO and other top executives, and reports to and advises the Board of Directors. The Selection and Nomination Committee meets at any time as appropriate. In FY2023, the committee met four times to report on the appointment of representative directors and directors with managerial positions, as well as the nomination of candidates for directors and corporate auditor, while advising on the appointment of the candidates for executive officers, verifying the progress of the succession plan for the CEO and other top executives, and revising the Skills Matrix.

(Structure at the time of report submission: Committee Chairman: Akio Hamaji, Outside Director; Committee Members:

Susumu Takahashi, Outside Director; Sumie Morita, Outside Director; Yaeko Hodaka, Outside Director; Tetsuya Okamura, Representative Director and Chairman; Shinji Shimomura, Representative Director and President & CEO)

Compensation Committee
On the advice of the Board of Directors, the Compensation Committee deliberates on the system and standards of compensation of directors and executive officers and related matters, and reports to and advises the Board of Directors. The Compensation Committee meets once a year in principle but may meet at any time as appropriate. In FY2023, the committee met twice to report on the revision of executive compensation for FY2023 and discussed revising the indicators for the performance-linked remuneration (the division's performance-linked basic remuneration).

(Structure at the time of report submission: Committee Chairman: Akio Hamaji, Outside Director; Committee members: Susumu Takahashi, Outside Director; Sumie Morita, Outside Director; Yaeko Hodaka, Outside Director; Tetsuya Okamura, Representative Director and Chairman; Shinji Shimomura, Representative Director and President & CEO)

[Board of Corporate Auditors]
The Board of Corporate Auditors is currently comprised of four corporate auditors (limited to five corporate auditors), including the chairman, served by a standing corporate auditor, and two external corporate auditors. (Please refer to the Company's website (https://www.shi.co.jp/english/company/officer/index.html) for the members of the Board of Corporate Auditors). Highly effective audits are conducted by external corporate auditors who capitalize on advanced expertise and a wealth of experience in various fields, as well as by standing corporate auditors who capitalize on their expertise and wealth of experience in the Company's management. They also provide their opinions actively to the senior management at meetings, including those of the Board of Directors and the Executive & Operating Officers Committee. Mr. Masaichi Nakamura, Corporate Auditor, has considerable knowledge of finance and accounting as a certified public accountant.

The Board of Corporate Auditors meets once a month in principle but may meet at any time as appropriate. The Board of Corporate Auditors held 18 meetings in FY2023, with an average attendance rate of 100% for Corporate Auditors.

In addition, the Corporate Auditor's Department has been established to support Corporate Auditors, and full-time employees have been assigned to support Corporate Auditors in their duties and smoothly provide them with information. The consent of Corporate Auditors is required with respect to matters such as the transfer and performance evaluation of such employees, thereby enhancing their independence from Directors and ensuring the effectiveness of instructions from Corporate Auditors.

<Business Execution>
[Executive & Operating Officers Committee]
The Executive & Operating Officers Committee, chaired by the President and CEO, consists of directors, corporate auditors, executive officers and those responsible for business execution at each operation division of the SHI Group. For the purpose of supervising business execution within the Group, the status of business execution, matters resolved by the Board of Directors and important corporate policies shall be disseminated across the Group, in an effort to follow up with the management of consolidated business results and the implementation of management policies. The Executive & Operating Officers Committee meets once a month in principle.

[Management Strategy Committee]
The Management Strategy Committee, chaired by the President and CEO, consists of directors and others appointed by the President and CEO. It deliberates on matters to be discussed by the Board of Directors, including the important management strategies and business strategies concerning the SHI Group, and equivalent important decision-making matters, as an advisory body to the President and CEO. It reports the results of deliberations to the President and CEO. The Management Strategy Committee meets once a month in principle, but may meet at any time as appropriate.

(2) Auditing Status

(1) Status of Internal Audits and Audits by Corporate Auditors

The Internal Audit Department (13 employees in addition to the General Manager) has been established under the direct control of the President. The Internal Audit Department (Operational Audit Group) (eight employees) promotes the acquisition of professional auditing qualifications to enhance the expertise of audit personnel, and has two Certified Internal Auditors (CIA), one Certified Fraud Examiner (CFE), two Certified Public Accountants (CPA), and five Certified Internal Auditors (QIA).

The Internal Audit Department (Operational Audit Group) has introduced auditing methods in accordance with the international standards of the Institute of Internal Auditors (IIA). Based on an annual risk-based audit plan, the Operational Audit Group conducts regular audits of business execution in each internal department as well as in domestic and overseas affiliates, recommends and follows up on operational improvements, and works to improve the quality of operations of the entire SHI Group.

In addition, the Internal Audit Department (J-SOX Group) (five employees) has been established to objectively evaluate the effectiveness of "internal control over financial reporting" under the Financial Instruments and Exchange Act from an independent standpoint.

All results of internal audits are reported to Corporate Auditors, and information is shared through regular reports on the improvement status of important matters that have been identified. In addition to providing the Accounting Auditor with audit results, Corporate Auditors, the Internal Audit Department, and the Accounting Auditor work closely with each other through regular liaison meetings to exchange information and opinions, thereby establishing and promoting an efficient and effective audit system.

Each Corporate Auditor formulates audit policies and plans in accordance with the Auditing Standards for Corporate Auditors established by the Board of Corporate Auditors, attends the Board of Directors and other important meetings, inspects important documents such as approval documents, as well as examines the operations and financial conditions of each internal department and domestic and overseas affiliates and audits the execution of duties by Directors. Corporate Auditors hold regular meetings with the Representative Director and President and make recommendations based on audit reports and audit findings. Corporate Auditors also exchange opinions with the persons in charge of business sites and affiliates through on-site inspections and make recommendations as necessary. Corporate Auditors, the Board of Corporate Auditors, the Internal Audit Department, and the Accounting Auditor work closely with each other and share information on audit results to build and promote an efficient audit system. Standing Corporate Auditors also collaborate with auditors of affiliated companies through regular information exchanges.

(2) Accounting Audit Status

a. Name of audit firm
   KPMG AZSA LLC
b. Length of continuous audit period
   55 years
c. Certified public accountants who performed services
   Designated Limited Liability Partner, Engagement Partner, Yutaka Matsuki
   Designated Limited Liability Partner, Engagement Partner, Michiko Muramatsu
   Designated Limited Liability Partner, Engagement Partner, Hiroshi Yabumae
d. Composition of audit assistants
   The Company's assistants for the accounting audit consisted of 12 certified public accountants and 31 others.

(3) Limited Liability Contract

The Company has entered into a contract with Outside Directors Susumu Takahashi, Akio Hamaji, Sumie Morita and Yaeko Hodaka and Outside Corporate Auditors Masaichi Nakamura and Mio Minaki, respectively, to limit their liability to the Company for damages under Article 423, Paragraph 1 of the Companies Act to ¥10 million or the minimum liability amount as provided in Article 425, Paragraph 1 of the Companies Act, whichever is higher.

### 3. Reasons for Adoption of Current Corporate Governance System

The Company has adopted the system of a company with a board of corporate auditors. The system is supported by a dual checking function based on management supervision by the Board of Directors' decision-making over business execution and audits by corporate auditors. The supervisory function is further reinforced by the appointments of multiple external directors and utilization of various discretionary committees, with a view to enhancing management transparency and fairness. This structure is believed to be the most appropriate institutional design for ensuring an effective supervisory function for the Company with its highly diversified business domains.

## III. Implementation of Measures for Shareholders and Other Stakeholders

### 1. Measures to Vitalize the General Shareholder Meetings and Facilitate Exercise of Voting Rights

| | Supplementary Explanation |
|---|---|
| Early Posting of Notice of the General Shareholders Meeting | A convocation notice is sent out three weeks prior to the General Meeting of Shareholders. |
| Electronic Exercise of Voting Rights | Voting rights can be exercised through the platform for the electronic exercise of voting rights for institutional investors. |
| Participation in a Platform for the Electronic Exercise of Voting Rights and Other Initiatives to Enhance Environment for Institutional Investors to Exercise Voting Rights | Voting rights can be exercised through the platform for the electronic exercise of voting rights for institutional investors. |
| Provision of Notice (or Summary of Notice) of the General Shareholders Meeting in English | An English translation of the full text of the Notice of the General Meeting of Shareholders is prepared and posted on the Company's website, etc. |
| Other | The Notice of the General Meeting of Shareholders (in Japanese and English) is posted on the Company's website, etc. before it is sent in order to disclose information to shareholders as early as possible. |

### 2. Status of IR-related Activities

| | Supplementary Explanation | Explanation by a representative director or a representative executive officer |
|---|---|---|
| Regular Investor Briefings held for Analysts and Institutional Investors | Financial briefings are held four times a year, at the time of every quarter financial results. Business briefings and factory tours are also held with respect to the Company's main businesses. | Held |
| Regular Investor Briefings held for Overseas Investors | The Company arranges meetings with overseas investors in Europe, the Americas, and Asia about four times a year to explain financial results, management plans, and other matters. | Held |
| Online Disclosure of IR Information | IR information such as the Integrated Report and materials about financial and business briefings are available in | |

| | |
|---|---|
| | Japanese and English. |
| Establishment of Department and/or Placement of a Manager in Charge of IR | Yoshitaka Shimamura, General Manager, Corporate Communications Department, Corporate Planning Group (TEL. 03-6737-2332) |

## 3. Status of Measures to Ensure Due Respect for Stakeholders

| | Supplementary Explanation |
|---|---|
| Implementation of Environmental Conservation Activities and CSR Activities, etc. | The Company engages in environmental conservation activities, social contribution activities, and corporate governance based on Sumitomo's business philosophy and the Company's business principles. Through these activities, the Company strives to earn the trust of society and to solve social issues and enhance corporate value through the provision of products and services. The Board of Directors resolved the Basic Sustainability Policy at its September 2021 meeting. The Company's activities, based on the identified material issues (Materiality), are discussed at the Sustainability Committee, and are reported to the Board of Directors twice a year in principle.<br><br>With regards to the environment, the Board of Directors set the target of reduction of CO2 emissions at its May 2022 meeting (reduction by 50% for Scope 1 and 2 and 30% for Scope 3 (Category 11) compared to FY2019 emissions by 2030; achievement of carbon neutrality by 2050). In addition, the Company formulated the 6th Medium-Term Environmental Plan based on the SHI Group Environmental Policy, which defines key issues, and has been working on environmental management.<br><br>Please refer to the "Sustainability" section of the Company's website*(1) and the "Integrated Report"*(2) for specific details.<br>*(1) https://www.shi.co.jp/english/csr/index.html<br>*(2) https://www.shi.co.jp/english/csr/report/index.html |

| | |
|---|---|
| Other | The Board of Directors resolved the Human Rights Policy at its February 2023 meeting, and the Company is strengthening its initiatives regarding the human rights throughout the Group.<br><br>The Company is promoting diversity management for the sustainable growth of the Group, aiming to create a vibrant organization composed of diverse human resources where all employees can work and play an active role.<br>The Company is promoting various measures, including educational activities to promote understanding of the importance of diversity management, active recruitment of women, development of a workplace environment where women can play more active roles, and enhancement of management skills for line managers. The Company is also working on LGBT-oriented internal educational activities, system revisions, and workplace environment improvements so that everyone can play an active role without losing their identity.<br><br>From FY2019, the Company has strengthened measures to promote female managers, including dispatching employees to organizations that support the development of female managers and providing individual training support for women who are just starting their managerial careers. As a result, the ratio of female managers is steadily increasing, from 1.6% in 2019 to 2.6% in 2023.<br><br>The Company is also making ongoing efforts to secure employees with global capabilities, such as foreign nationals and employees with experience studying at overseas universities, in addition to the appointment of foreign executive officers to respond to business globalization. |

# IV. Matters Concerning the Internal Control System

## 1. Basic Views on Internal Control System and Status of Development

Basic Policies for Establishment of an Internal Control System

I. Purpose

The purpose of these basic policies is to improve the corporate value and ensure the sustainable development of the Company Group through the formulation and implementation by the Board of Directors of the Company of basic policies for the establishment of an internal control system.

II. Basic Policies

(1) Establishment of a structure necessary to ensure the appropriate conduct of business by the Company

1) Structure for ensuring that the execution of duties by the Directors of the Company is in compliance with laws and regulations and the Articles of Incorporation

(a) The Board of Directors of the Company shall determine the basic policies for the establishment of an internal control system, verify its effectiveness as necessary, and strive toward the continuous enhancement and improvement of the Company's internal control system as well as the internal control system of the Group.

(b) The Company shall elect Outside Director(s), who are independent of management, to improve the supervisory function of the Board of Directors.

(c) The Corporate Auditors of the Company shall audit the appropriateness of the execution of duties by the Directors concerning the establishment and operation of the Company's
internal control system as well as the internal control system of the Group.

(d) The Company shall also make the Directors of the Company submit a pledge to observe specific compliance requirements.

2) Structure for maintenance and administration of information relating to the execution of duties by the Directors of the Company

(a) The information related to the execution of duties by the Directors of the Company shall be recorded and maintained under the related rules of the Company, and such records shall be made available to the Directors and the Corporate Auditors of the Company for inspection at any time.

(b) The Company shall make efforts to disclose material information related to the execution of duties by the Directors of the Company pursuant to related laws and regulations in an appropriate and timely manner.

3) Rules and other relevant corporate structures on loss-risk management of the Company

(a) The Company shall establish the Risk Management Committee, which is chaired by the President, formulate the Company's risk management policy, and promote the identification, mitigation and prevention of risks.

(b) The Company shall establish an internal control promotion structure that consists of the persons responsible for the promotion of internal control deployed in each section. Presided over by the President, the Company's Internal Control Group shall supervise the internal control promotion structure and promote risk management.

(c) The section(s) responsible for specific types of risks shall stipulate the rules relevant to risk management, and shall strive to reduce risk through education, training, auditing, etc. based on such rules.

(d) The Company shall deploy persons responsible for being a liaison for emergencies in each section. At the occurrence of an emergency situation, the persons responsible for being a liaison for emergencies shall report such emergency situation promptly to the top management in accordance with the related rules. The management who receive such a report shall take appropriate actions in a timely manner.

4) Structure for ensuring the reliability of the financial reporting of the Company

(a) The Company shall develop a necessary structure to ensure the appropriateness of financial information and to prepare and disclose reliable financial reports.

(b) The Company's internal audit department shall audit the operational status of the internal control system related to financial reporting to ensure the reliability of the Company's financial reporting.

5) Structure for ensuring the efficient execution of duties by the Directors of the Company

(a) To conduct the efficient execution of duties, the Company shall adopt a system of Executive Officers wherein the Directors delegate authority to Executive Officers within an appropriate range under the Company's rules such as rules on approval authority.

(b) The Company shall adopt a structure to monitor the status of the execution of duties by having the responsible Executive and Operating Officers report the status of the execution of medium-term management plans and annual budgets that are determined by resolution of the Board of Directors of the Company at the monthly meetings of the Executive & Operating Officers Committee, etc.

(c) To make decisions on material managerial matters based on a multi-dimensional review, the Management Strategy Committee, etc. shall be established as an advisory organ to the President to consider and discuss such matters.

6) Structure for ensuring that the execution of duties by the Company's Executive Officers and employees is in compliance with laws and regulations and the Articles of Incorporation

(a) The basic policies on compliance shall be determined at the Compliance Committee chaired by the President of the Company, and the Internal Control Group shall promote rigorous observance of such policies through the internal control promotion structure.

(b) The Company shall continue to provide training related to compliance. The Company shall also make the Executive Officers and all managerial staff submit a pledge to observe specific compliance requirements.

(c) The Company shall take a resolute position against entities or individuals that threaten the order and safety of civil society and shall sever any relations with such entities or individuals.

(d) The Company shall set up an in-house whistleblower system through which actual or suspected violations of laws and regulations or corporate ethics should be reported, and the use of this system shall be encouraged so that problems can be detected at an early stage.

(e) The execution of duties by the Executive Officers and employees of the Company shall be audited by the responsible section(s) to ensure that such execution of duties is in compliance with laws and regulations and the Articles of Incorporation.

(2) Establishment of a structure necessary to ensure the appropriate conduct of business by the entire Group comprising the Company and its subsidiaries

1) Structure for reporting to the Company on matters regarding the execution of duties by directors, etc. of the Company's subsidiaries

(a) The Company shall pursue strengthened governance and the efficient execution of duties of its subsidiaries based on the rules concerning the management of the business of the Group.

(b) The Company shall have its major subsidiaries formulate basic policies for the establishment of an internal control system, and the status of operation of the system shall be reported to the Company's Board of Directors through the Company's Internal Control Group.

2) Rules and other relevant corporate structures on loss-risk management of the Company's subsidiaries
(a) The Company's Internal Control Group shall promote group-wide risk management through the internal control promotion structure that has been established at major subsidiaries of
the Company.

(b) The Company shall have its subsidiaries stipulate the rules to manage specific types of risks.
The Company shall strive for group-wide risk reduction through education, training, auditing, etc. by the Company's responsible section for each risk.

(c) The Company shall deploy persons responsible for being a liaison for emergencies at its major subsidiaries. At the occurrence of an emergency situation, the persons responsible for being a liaison for emergencies shall report such emergency situation promptly to the directors of the subsidiary and the top management of the Company in accordance with the related rules. The management who receive such a report shall take appropriate actions in a timely manner.

3) Structure for ensuring the efficient execution of duties by the directors, etc. of the Company's subsidiaries.
(a) Pursuant to the rules concerning the management of the business of the Group, the Company's subsidiaries shall formulate rules on approval authority and execute their duties efficiently.

(b) The medium-term management plans and annual budgets of the Company's major subsidiaries shall be executed after the Company's Board of Directors approves them. The Company shall adopt a structure to monitor the status of the execution of the businesses of the entire Group by having the subsidiaries' directors, etc. report the status of the execution of duties at the meetings of the Executive & Operating Officers Committee, etc. of the Company.

(c) To make decisions on the material managerial matters of the Company's major subsidiaries based on a multi-dimensional review, such matters shall be considered and discussed at the Company's Management Strategy Committee, etc.

4) Structure for ensuring that the execution of duties by the directors, etc. and employees of the Company's subsidiaries is in compliance with laws and regulations and the Articles of Incorporation
(a) The Company's Internal Control Group shall promote rigorous compliance throughout the Group through the internal control promotion structure that has been installed at major subsidiaries of the Company.

(b) The Company shall have its subsidiaries continue to provide training related to compliance. The Company shall also make the directors and all managerial staff of the subsidiaries submit a pledge to observe specific compliance requirements, as necessary.

(c) The Company shall cooperate with its subsidiaries, ensuring that the subsidiaries shall also take a resolute position against entities or individuals that threaten the order and safety of civil society and shall sever any relations with such entities or individuals.

(d) The Company shall have its subsidiaries set up in-house whistleblower systems based on the Company's in-house whistleblower system. Whistleblower reports about subsidiaries shall be shared with the corporate auditors of the company concerned.

(e) The Company shall send Director(s) or Corporate Auditor(s) to its major subsidiaries to reinforce the internal control of the Group. The execution of duties by directors of the subsidiaries of the Company shall be audited by the responsible section(s) of the Company to ensure that such execution of duties is in compliance with laws and regulations and the Articles of Incorporation.

5) Structure for ensuring the reliability of financial reporting of the subsidiaries of the Company

(a) To ensure the appropriateness of financial information of the subsidiaries of the Company and prepare and disclose reliable financial reports, the Company shall require its major subsidiaries to establish the internal control system related to financial reporting.

(b) The Company's internal audit department shall audit the operational status of the internal control system related to financial reporting at major subsidiaries of the Company to ensure the reliability of the financial reporting by subsidiaries of the Company.

(3) Necessary matters for the execution of auditing duties by the Corporate Auditors of the Company

1) Matters related to the staff who assist the Corporate Auditors when the Corporate Auditors request to place such assistant staff

As a department under the direct control of the Board of Corporate Auditors, the Corporate Auditor's Department, which includes dedicated staff who assist the Corporate Auditors of the Company with the execution of auditing duties, shall be established.

2) Matters related to independence of the staff who assist the Corporate Auditors of the Company with the execution of auditing duties from the Directors

The personnel changes, performance appraisals to and disciplinary action against the staff of the Corporate Auditor's Department shall require approval of the Corporate Auditors of the Company.

3) Matters for ensuring the effectiveness of instructions given to staff who assist the Corporate Auditors of the Company with the execution of auditing duties

Concerning the duties of staff who assist the Corporate Auditors of the Company with the execution of auditing duties, instructions and commands to the staff of the Corporate Auditor's Department shall be given by the Corporate Auditors of the Company.

4) Structure for reporting to the Corporate Auditors of the Company

(a) Structure for Directors, Executive Officers and employees of the Company reporting to the Corporate Auditors of the Company

To audit the execution of duties by the Directors and the Executive Officers, the Corporate Auditors of the Company shall attend the meetings of the Board of Directors, the Executive & Operating Officers Committee and other important meetings of the Company and shall inspect major ringisho (documents for approval) and other important documents relating to the execution of duties.

(i) If any actual or potential violation of laws and regulations, the Articles of Incorporation or compliance obligations exists, the Directors, the Executive Officers and employees of the Company shall report to the Corporate Auditors of the Company promptly.

(ii) The contact persons for the Company's in-house whistleblower system shall include the Company's Corporate Auditors.

(b) Structure for directors or employees of subsidiaries of the Company or those who received a report from them reporting to the Corporate Auditors of the Company.

(i) If any actual or potential violation of laws and regulations, the Articles of Incorporation or compliance obligations exists, directors, corporate auditors or employees of the subsidiaries of the Company shall promptly report to the Corporate Auditors of the Company through the responsible section(s) of the Company.

(ii) From among the issues reported to the in-house whistleblower system of the major subsidiaries of the Company, important issues shall be reported, as necessary, by the Company's Internal Control Group to the Company's Corporate Auditors as to the content of the report and how the issue has been addressed.

(iii) Results of audits of the Company's subsidiaries conducted by the Company's internal audit department shall be reported to the Company's Corporate Auditors without delay.

(c) Structure for ensuring that reporters in the preceding section will not receive detrimental treatment because of the reporting
The Company and its major subsidiaries shall stipulate in their internal rules that whistleblowers or persons who inform or report to the Company's Corporate Auditors shall not receive detrimental treatment because of such reporting, and their employees shall be well informed of this stipulation.

5) Policies related to the treatment of expenses or liabilities incurred in connection with the execution of duties by the Company's Corporate Auditors
Expenses, etc. incurred in connection with the execution of duties by the Company's Corporate Auditors shall be included in the budget. In the case where legally prescribed prepayments, etc. are billed, the Company shall make such payments except in the case where it is determined that such payments are unnecessary for the execution of duties by such Corporate Auditors.

6) Other structures for ensuring effective auditing by the Company's Corporate Auditors
(a) The Company's Directors and Executive Officers and the directors of the Company's subsidiaries shall establish a structure for effective auditing by the Company's Corporate
Auditors through liaisons and cooperation with the Company's internal audit department and internal control department, as well as the corporate auditors of subsidiaries and the
Independent Auditor, etc.

(b) To exchange information related to auditing and to enhance the auditing functions across the Company Group, the Company shall hold a group-wide Corporate Auditors meeting on a regular basis, attended by the Corporate Auditors of the Company and the corporate auditors of its subsidiaries.
(c) Corporate Auditors elected by the Company shall include those who have an appropriate level of knowledge of finance and accounting.

III. Revision and Abolition of these Policies
he necessary revision of these policies shall be undertaken by resolution of the Board of Directors.

## 2. Basic Views on Measures for Eliminating Anti-Social Forces and Status of Development

In the "Basic Policies for Establishment of an Internal Control System," the Company clearly states that "The Company shall take a resolute position against entities or individuals that threaten the order and safety of civil society and shall sever any relations with such entities or individuals." This is also stated in the Compliance Manual and SHI Ethics Cards that are distributed to all employees.

# V. Other

## 1. Adoption of Anti-Takeover Measures

| Adoption of Anti-Takeover Measures | Not Adopted |
|---|---|

Supplementary Explanation for Applicable Items

At the Board of Directors meeting held on May 26, 2017, the Company resolved not to continue its "Countermeasures against Large Scale Acquisition Actions of Company Shares," which would expire at the conclusion of the 121st Ordinary General Meeting of Shareholders.

Please refer to the IR information "Notice Regarding the Non-Continuation (Termination) of Countermeasures against Large Scale Acquisition Actions of Company Shares (https://www.shi.co.jp/english/info/2017/6kgpsq0000001w1h.html)" posted on the Company's website dated May 26, 2017, for details.

The "Basic Policy on Position of the Person Controlling Decisions on Financial and Business Policies of the Company" is as follows:

(1) Contents of the Basic Policy
The Company believes that the position of the person controlling decisions on the financial and business policies of the Company should be ultimately decided by the shareholders from the standpoint of improving the Company's corporate value and protecting shareholders' common interests. Therefore, the Company believes that the issue of whether to accept a proposal for a large-scale acquisition of shares, etc. resulting in a change of control of the Company should be ultimately decided based on the intention of the shareholders.

However, the Company anticipates that certain large-scale acquisitions of shares and purchase proposals (hereinafter referred to as the "Large-Scale Acquisition Actions") may materially affect our corporate value or the shareholders' common interests, for instance, where they are expected to plainly infringe upon our corporate value or the shareholders' common interests in light of the purpose of the acquisition and the managerial policy to be adopted after the acquisition, or where they are conducted without providing the shareholders with reasonably necessary information to enable a decision on the acquisition proposal. The Company believes that it should make an exception in the above instances wherein a party who makes such Large-Scale Acquisition Actions is inappropriate as a person controlling decisions regarding the financial and business policies of the Company.

(2) Special Measures to Pursue the Basic Policy
Under the Corporate Mission Statement, "We will aim to become a machinery manufacturer that continues to provide excellent products and services to the world, and with integrity being a key principle in the Group, we will contribute towards society by gaining high respect and confidence from all stakeholders," in order to realize the above Basic Policy, the Company is working to formulate and implement the medium-term management plans, and enhance its corporate governance as follows.

The Company has established the Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd. in order to increase the corporate value of the Company Group and to enhance the evaluations by and trust of stakeholders, for the purpose of establishing an efficient and highly-transparent management structure. In addition, the Company has been striving to invigorate the Board of Directors and maintain the transparency of management; for instance, through the adoption of the system of Executive Officers in 1999, the election of Outside Directors since 2002, the adoption of a shortened term of Directors from two years to one year in 2007, the election of more than one Outside Director since 2015, etc.

Specifically, Outside Directors are responsible for overseeing management from a standpoint independent from management and appropriately reflecting the viewpoints of stakeholders. In addition, by introducing an executive officer system, while establishing an environment that enables prompt and decisive business execution, important management issues and high-risk management issues are reported as appropriate by management at Board of Directors meetings. Based on this, the Board of Directors carries out highly effective supervision of management and Directors. Furthermore, the Board of Directors appropriately develops the internal control system and risk management system based on the Companies Act and other relevant laws and regulations, receives reports from the internal control division about fiscal year plans and the situation, and gives necessary instructions. By doing so, the Board of Directors properly oversees its operation.

Outside Corporate Auditors utilize their high level of expertise and abundant experience in their respective fields, while Standing Corporate Auditors utilize their expertise concerning the Company's management along with their extensive experience, to conduct highly effective audits, as well as to actively state their opinions to management at Board of Directors meetings, and Executive & Operating Officers Committee meetings, etc. In addition, the Company has established the Corporate Auditor's Department as a department supporting Corporate Auditors and staffs the department with full-time employees, thereby supporting the Corporate Auditors' work and providing information to the Corporate Auditors in a smooth manner. Moreover, in order to enhance auditing functions across the Company Group, the Corporate Auditors of the Company hold Corporate Auditors meetings across the Company's subsidiaries and affiliates on a regular basis. In addition, the Corporate Auditors conduct on-site audits annually at overseas subsidiaries in response to the increasingly globalized business conditions within the Company Group.

In addition, the Company has established the Nomination Committee and Compensation Committee as voluntary committees. The Nomination Committee examines and reports regarding the nomination of director and corporate auditor candidates, the dismissal of directors and corporate auditors, and the appointment and removal of directors with a managerial position and representative director, among other matters, upon an inquiry from the Board of Directors. The Nomination Committee also confirms the successor plans each year for the CEO, and reports the progress to the Board of Directors. The Compensation Committee deliberates and reports regarding the remuneration system and standards of directors and executive officers, among other matters, upon an inquiry from the Board of Directors.

(3) Plan to Prevent Any Inappropriate Party, in Light of the Company's Basic Policy, from Controlling Decisions on the Financial and Business Policies of the Company

The Company's proposal regarding the introduction of a plan for responding to large-scale acquisitions of the Company's shares (anti-takeover measures) was approved at the 112th Ordinary General Meeting of Shareholders of the Company held on June 27, 2008. Thereafter, at the 115th Ordinary General Meeting of Shareholders of the Company held on June 29, 2011, and the 118th Ordinary General Meeting of Shareholders of the Company held on June 27, 2014, necessary changes thereto were made, and it was approved by a majority vote of the shareholders to continue the plan for responding to large-scale acquisitions of the Company's shares (hereinafter such continued plan is referred to as the "Plan").

However, as a result of consideration of the Plan, the implementation period of which was expired at the conclusion of the 121st Ordinary General Shareholders Meeting held on June 29, 2017, in the current operating environment, the Company felt that to ensure and increase common interests of shareholders, the focus had to be on the steady implementation of measures aimed at achieving the objectives set forth in the Medium-Term Management Plan as well as further improvements and enhancements to corporate governance. Through such actions, the Company will not only be able to ensure sustainable growth, but also gain the trust of all stakeholders including shareholders, capital markets and the broader society. With this in mind, the Company decided that the continuation of the Plan was no longer necessary and the board members passed a resolution to discontinue such Plan after the expiry of the current implementation period at the Board of Directors meeting held on May 26, 2017.

Moreover, after the expiry of the current implementation period of the Plan, there may be a situation where an entity or person attempts to take a large-scale acquisition action on the Company's shares. If such event occurs, from the standpoint of ensuring corporate value and common interests of shareholders, the Company will adhere to any relevant laws and regulations, and take the necessary steps to allow shareholders to have enough time and information to deliberate on the action. Such steps will include the disclosure of necessary and sufficient information regarding the pros and cons of the large-scale acquisition action to enable shareholders to make an appropriate judgment, and the release of the opinions of the Company's board members.

(4) The Board of Directors' Opinion on Measures to Pursue the Basic Policy

The Company believes that advancing the aforementioned measures (2) and (3) as an effort to realize the basic policy above will lead to ensuring and increasing the Company's corporate value and the common interests of shareholders. At the same time, the Company believes that it will be difficult to conduct a large-scale acquisition that does not contribute to the corporate value of the Company and the common interests of shareholders. In addition, if a person conducting a large-scale acquisition emerges, the Company will take appropriate measures, such as striving to ensure necessary and sufficient information and time for shareholders to properly judge the pros and cons. Therefore, the Company has determined that measures (2) and (3) above are consistent with the above basic policy and are not intended to maintain the Company's officers' positions.

## 2. Other Matters Concerning the Corporate Governance System

1. Basic Policy on Timely Disclosure

The "Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd." stipulates the following basic policy on information disclosure.

1. To maintain and develop relationships of trust with all stakeholders, SHI shall disclose important information concerning the SHI Group timely and appropriately, focusing on transparency, fairness, and continuity.
2. SHI shall establish a Timely Disclosure Judgement Committee with the officer in charge of investor relations and public relations taking charge, and shall disclose information promptly pursuant to relevant laws and regulations, such as the Financial Instruments and Exchange Act, and the rules decided by the Tokyo Stock Exchange, among others.
3. SHI shall not only disclose information based on relevant laws and regulations and the rules decided by the Tokyo Stock Exchange, among others, but also actively and fairly disclose information that SHI has considered useful to deepen stakeholders' understanding about the SHI Group's management policy and business.

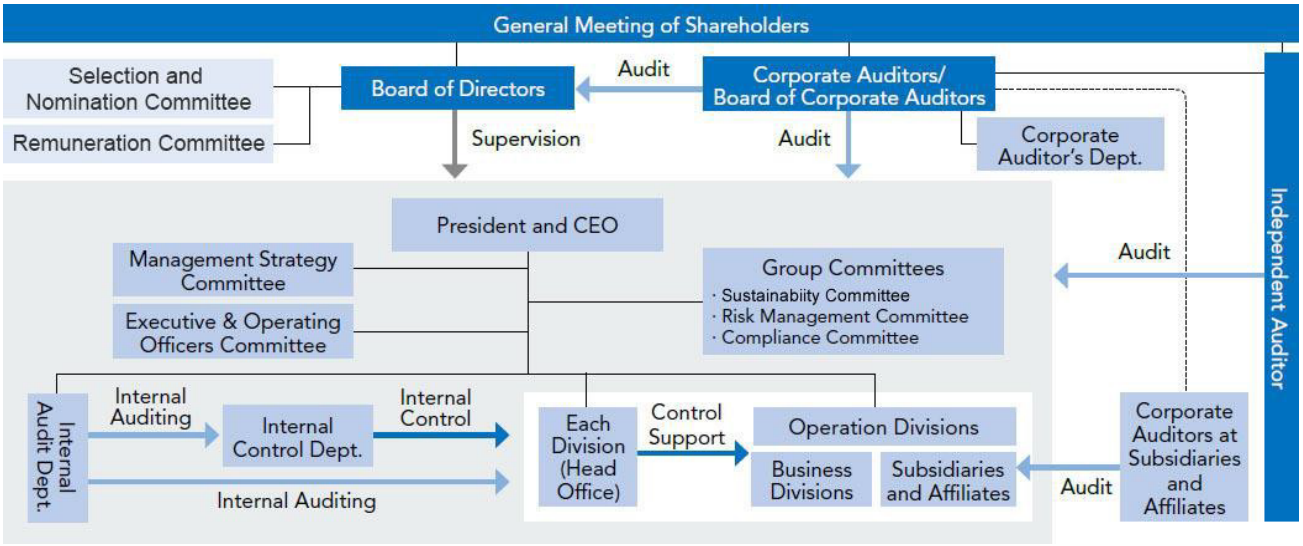
2. Internal System for Timely Disclosure

The Corporate Communications Department of the Corporate Planning Group has been designated as the department in charge of disclosing corporate information, and its General Manager is the person responsible for handling information. The timely and appropriate disclosure of corporate information is conducted as described below.

(1) The Timely Disclosure Judgement Committee shall, in principle, determine whether timely disclosure is required for decision-making facts and financial information before formal decisions are made by the Board of Directors or other parties.
(2) In the event of a disaster, accident, or incident that may have a material impact on management, this fact shall be immediately reported to top management by the emergency liaison officers assigned to each department and major subsidiary in accordance with regulations, and a determination shall be made by the Timely Disclosure Judgement Committee as to whether or not timely disclosure is required. In addition, for incidents other than the above that may affect investment decisions, the Timely Disclosure Judgement Committee shall determine whether timely disclosure is required immediately after the incident.
(3) The Timely Disclosure Judgement Committee shall examine and determine whether or not the facts and information in (1) and (2) above fall under the category of "Corporate Information Required for Timely Disclosure" as defined by the Tokyo Stock Exchange.

(4) If the facts and information are determined to be "Corporate Information Required for Timely Disclosure," the General Manager of the Corporate Communications Department, Corporate Planning Group will make timely disclosure without delay.

END



# SKILLS MATRIX OF THE BOARD OF DIRECTORS

## Composition of the Company's Board of Directors and Approach to Attributes Necessary for the Board of Directors

The Company Group shall have "Sumitomo's business philosophy" as the basis of the management, and in the business principles, "We will aim to become a machinery manufacturer that continues to provide excellent products and services to the world" and "With integrity being a key principle in the Group, we will contribute towards society by gaining high respect and confidence from all stakeholders" as the corporate mission statement. The Company shall strive for sustainable development and improvement of corporate value through the resolution of social issues by providing excellent products and services globally, supported by solid technologies.

The composition of the Board of Directors shall be determined after considering the necessary attributes of the Board of Directors (primary areas of experience and expertise) in embodying these business principles and conducting highly effective supervision over the management.

## Necessary Attributes of the Board of Directors (Primary Areas of Experience and Expertise)

The primary areas of experience and expertise held by individual Directors and Corporate Auditors are as follows:

*The table below does not present all knowledge and expertise of Directors and Corporate Auditors.

| Name | | Independent Outside | Primary Areas of experience and expertise | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Corporate management | Legal affairs/ compliance/ risk management | ESG/ sustainability | Business strategy/ marketing | Global | Technology/ IT/ production | Finance/ accounting |
| Directors | Tetsuya Okamura | | | ✓ | | ✓ | ✓ | ✓ | |
| | Shinji Shimomura | | ✓ | ✓ | ✓ | | ✓ | ✓ | |
| | Eiji Kojima | | | | ✓ | ✓ | ✓ | ✓ | |
| | Kazuo Hiraoka | | | | | ✓ | ✓ | ✓ | |
| | Toshihiko Chijiiwa | | | | ✓ | | | ✓ | |
| | Toshiro Watanabe | | | | ✓ | | | | ✓ |
| | Tatsuro Araki | | | ✓ | | ✓ | | ✓ | |
| | Susumu Takahashi | * | ✓ | ✓ | ✓ | | ✓ | | |
| | Akio Hamaji | * | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ |
| | Sumie Morita | * | | | ✓ | | ✓ | ✓ | |
| | Yaeko Hodaka | * | | ✓ | ✓ | | ✓ | | |
| Corporate Auditors | Hideo Suzuki | | | ✓ | ✓ | | | | ✓ |
| | Shoji Uchida | | | ✓ | | ✓ | ✓ | | |
| | Masaichi Nakamura | * | | ✓ | ✓ | | | | ✓ |
| | Mio Minaki | * | | ✓ | ✓ | | | | |

## Reasons for Selecting Necessary Attributes of the Board of Directors

| Item | Necessity and reasons for selection |
|---|---|
| Corporate management | In the midst of a substantially changing environment surrounding businesses, it will become necessary to indicate the direction of the Company (corporate strategies) and make quick business decisions, based on business principles, in order to respond to changes quickly, develop in a sustainable manner and improve corporate value. |
| Legal affairs/ compliance /risk management | For the Company Group's sustainable development and continued improvement of corporate value, based on Sumitomo's business philosophy, it will be required to promote risk management, taking into account compliance based on business principles, the ethics code and the laws. |
| ESG/sustainability | In the midst of emphasizing the role of companies for the realization of a sustainable society, it will become necessary to improve social value as a company while solving social issues, in order for the Company Group to develop in a sustainable manner and improve corporate value. |
| Business strategy /marketing | It will be necessary to develop and implement realistic and specific business and marketing strategies in order to realize corporate strategies and achieve the Medium-Term Management Plan we commit to. |
| Global | Experience in global business, and extensive experience in understanding overseas cultures, environments, etc. will be necessary to continue providing excellent products and services to the world. |
| Technology/IT/production | In order to be a machinery manufacturer that continues to provide excellent products and services to the world, it will be necessary to continue providing high-quality products and solutions, supported by solid technologies, and this will in turn require knowledge and experience in technology, IT and production. |
| Finance/accounting | Knowledge and experience in finance and accounting will be required to realize accurate financial reporting, development of a resilient corporate structure, and growth investments that contribute to sustainable development and improvement of corporate value. |