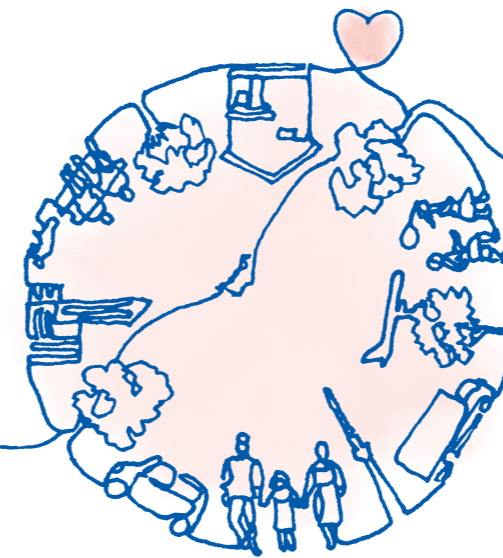


ShinMaywa



Integrated
Report
2023

Becoming a Value Co-creation Company That Makes Society and Life Safer, More Convenient, and Smoother

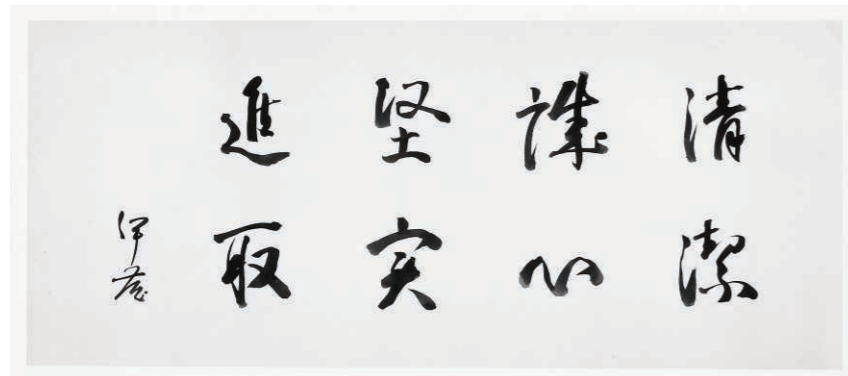
We want to be a corporate group that leverages the insights we have gained over our long history, dating back more than 100 years, and connects with the lives of people now and in the future to make society safer, more convenient, and smoother.



The ShinMaywa Group Philosophy

We are committed to the following philosophy.

Corporate principles



Established in 1964.

The sense of value that ShinMaywa Group has cherished for many years along with our basic principles, which will never change.

Management Philosophy

ShinMaywa Group will contribute to the overall well-being of humanity, bringing unstinting innovation for a stable society and positive living environment.

Established in 2020.

The basic way of thinking about management that shows the reason for ShinMaywa Group's existence, purpose, and mission, which is never shaken even when the surrounding environment changes.

For more details, visit: <https://www.shinmaywa.co.jp/english/company/philosophy.html>



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Editorial Policy

The purpose of this publication is to present to our stakeholders the value that the ShinMaywa Group provides to society through its business and its environmental, social, and governance (ESG) activities. Through this report, we aim to provide you with an understanding of current and future activities, achievements, and challenges of the Group.

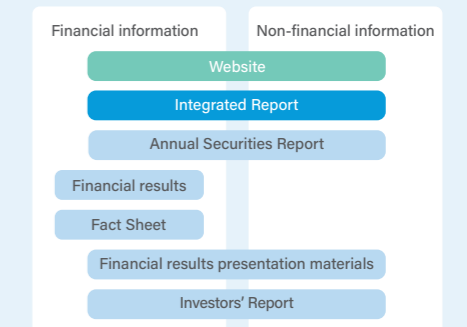
Disclaimer

The forecasts of business performance, future prospects, strategies, targets, and other information in this report are presented based on information available to the Company at the present time and that are deemed reasonable, except for facts about the past or present. Please note that actual results may differ due to future changes in economic conditions and other factors.

Period and Scope

Period: FY2022
(April 2022 to March 31, 2023)
* Some information concerning April 2023 and beyond is also included.
Scope: ShinMaywa Industries, Ltd. and its subsidiaries and affiliates

Disclosure Map



Links

- 

Top page
<https://www.shinmaywa.co.jp/english/index.html>
- 

Sustainability information
<https://www.shinmaywa.co.jp/sustainability/>
- 

Investor relations (IR) information
<https://www.shinmaywa.co.jp/english/ir/index.html>

History and Main Businesses

The ShinMaywa Group currently discloses its business results in six segments. Here is an overview of the key events in ShinMaywa Group's history and of its segments.

History of the ShinMaywa Group since its foundation

1920	Founded Kawanishi Machinery Company	1955	Began production of tail gate lifters Began aircraft overhaul
1947	Changed company name from Kawanishi Aircraft Company, Ltd. to Meiwa Industry Company Limited	1956	Completed the first automatic wire stripping machine (wire processing system)
1949	Established Shin Meiwa Industry Company Limited	1960	Changed company name to ShinMaywa Industries, Ltd.
1950	Began production of rear dump body and tipping gear	1962	Stock listed on the Second Section of the Tokyo Stock Exchange and Osaka Securities Exchange
1952	Completed the first three way dump body and tipping gear for export to Argentina	1964	Established corporate principles: "Clean, Sincere, Steady, and Enterprising"
1954	Completed the first self-priming pump Began production of garbage trucks (refuse compactors)		Developed ShinMaywa Parking Tower, a rotary & vertical type car parking system
			Technical alliance with a Swedish partner for the manufacture of electric submersible pumps

1967	Stock reassigned to the First Section of the Tokyo Stock Exchange and Osaka Securities Exchange First flight of the first PX-S (PS-1) STOL amphibian prototype	1993	Shipped wing-to-body fairing for first Boeing 777 aircraft
1969	Delivered the first two Jetway aircraft passenger boarding bridges to Tokyo International Airport	2002	Head Office relocated from Nishinomiya-shi to Takarazuka-shi in Hyogo
1973	Started production of detachable container system	2003	First flight of the first US-1A Kai (STOL search and rescue amphibian) prototype
1974	First flight of the first PS-1 Kai (STOL search and rescue amphibian) prototype	2006	Shipped main wing spar for first Boeing 787 aircraft
1976	Delivered first in-building refuse collecting and transporting system	2020	Established the management philosophy and long-term vision in celebration of the 100th anniversary of the Company's founding
1979	Completed construction of refuse transfer station system for Jonan Sanitary Control Association in Kyoto	2021	Established the tagline VISION WITH INSIGHT and formulated the long-term management plan SG-Vision 2030* and medium-term management plan SG-2023
1985	Completed brushless DC motor	2022	Stock transferred to the Prime Market of the Tokyo Stock Exchange
1989	Share capital exceeded 10 billion yen		


*SG-Vision: Sustainable Growth with Vision

Special Purpose Truck Business


Business overview

- Manufacture, sale, and after-sales service of special purpose trucks
 - Construction-related vehicles
Dump body and tipping gear, concrete mixer trucks, etc.
 - Logistics-related vehicles
Tail gate lifters, fuel tanks, trailers, etc.
 - Environment-related vehicles
Refuse compactors, detachable container systems, etc.
- Manufacture, sale, and after-sale service of high-performance forestry machinery
- Manufacture and sales of hydraulic functional parts


Production bases 9 locations



Rear dump body and tipping gear



Refuse compactor



Trailer

Parking Systems Business

Business overview

- Manufacture, sale, maintenance, and renovation of parking equipment
 - Elevator type car parking system
 - Rotary & vertical type car parking system
 - Shuttle-type innovatory parking system
 - Multi-storied car parking system
- Operation of coin-operated parking (hourly parking lots)
- Manufacture, sale, and maintenance of aircraft passenger boarding bridges

Production bases 3 locations



Elevator type car parking system ELEPARK®




Aircraft passenger boarding bridge PAXWAY®

Industrial Machinery & Environmental Systems Business


Business overview

- Manufacture, sale, and maintenance of mechatronics products
 - Automatic electrical wire processing systems
 - Vacuum systems
 - Thin films and surface modification products
 - Special motors
 - Vacuum drying systems
- Construction and operation of environmental facilities
 - Refuse transfer station system
 - Refuse resources recycling centre
- Manufacture, sale, and maintenance of refuse collecting and transporting systems and equipment
 - Refuse storage and discharger


Production bases 5 locations



Automatic electrical wire processing system



Vacuum drying system



Refuse transfer station system

Fluid Business

Business overview

- Manufacture, sale, and maintenance of fluid products (submersible pumps and fluid equipment)
 - Submersible pumps
 - Submersible mixers
 - Roots/turbo blowers
 - High pressure washers
- Design and construction of pump equipment/water treatment facilities

Production bases 5 locations



Submersible pump



Submersible mixer




Turbo blower

Aircraft Business


Business overview

- For Japan's Ministry of Defense
 - Manufacture and maintenance of amphibians
 - Maintenance of Self-Defense Forces aircraft, etc.
- For private sector
 - Manufacture of components for commercial aircraft
 - Boeing 787 main wing spar
 - Boeing 777 / 777X wing-to-body fairings
 - Bombardier G7500 rotor blades, etc.
 - Development, design, and manufacture of fixed-wing unmanned aircraft

Production bases 5 locations



STOL search and rescue amphibian




Boeing 787 main wing spar

Other Business

The Company operates construction, real estate, IT-related, and other businesses in the Others segment.

For detailed information on ShinMaywa Group's history from its founding to the present day, please go to the History page from the Company Information menu on our website.



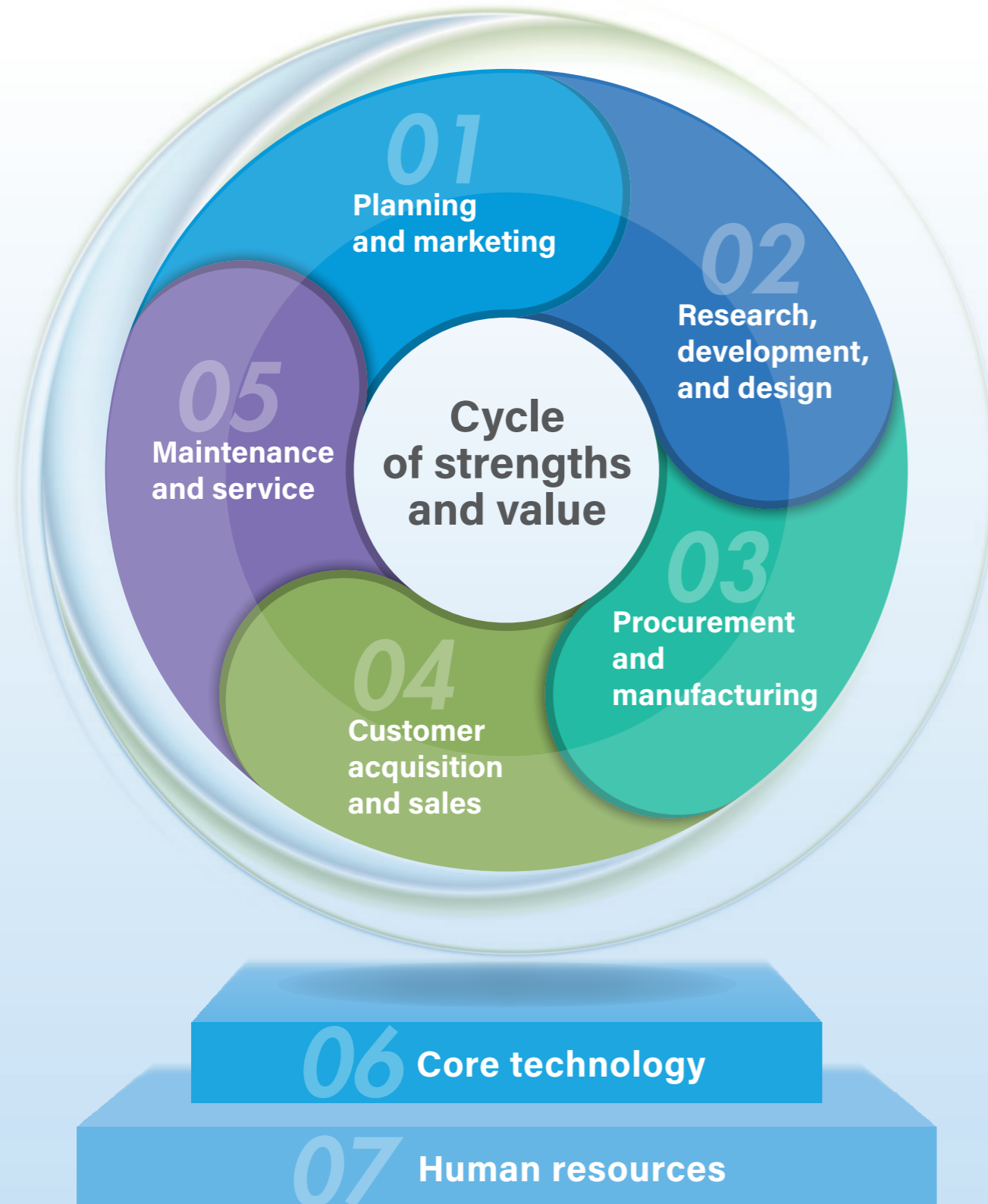
Scan the QR code for details.

<https://www.shinmaywa.co.jp/english/company/history.html>

*Number of production bases includes Group companies and overseas bases.

The ShinMaywa Group's Strengths

Over 100 years of experience since founding in supporting people's daily lives and social infrastructure through technology, products, and services, as well as trust based on this experience



01 Planning and marketing

- High market share of core products
- Ability to gather information from government agencies and industry associations through connections made doing business with them
- Understanding market information and customer issues by conducting business activities together with customers

02 Research, development, and design

- Design capabilities to meet individual customer specifications and complex related regulations
- Technological development capabilities to optimally integrate core technologies with external advanced technologies
- Technology, knowledge, and know-how accumulated over many years of business activities

03 Procurement and manufacturing

- Procurement network and production process to meet customer-specific specifications and high-mix low-volume production
- Supply chain for product and material distribution, adapted to the business continuity plan (BCP) (17 domestic and 10 overseas production bases, approx. 2,500 procurement partners)
- Certification of proficient technicians with extensive experience, knowledge, and advanced skills (95 employees certified under the in-house certification system)

04 Customer acquisition and sales

- Ability to propose products and services that meet customer needs
- Domestic sales bases located close to customers
- Global sales and service network (17 overseas subsidiaries in China, South Korea, and other parts of Asia, and in North America, etc.)

05 Maintenance and service

- In-house maintenance/service capabilities (including domestic and foreign subsidiaries)
- Provision of advanced maintenance technology in collaboration with design departments (failure diagnosis, preventive maintenance, and service life extension, etc.)
- Domestic and overseas service bases covering all customers (approximately 800 bases including affiliated service stations, etc.)

06 Core technology

- Technology to construct mechanical structures through precise material processing and molding, and to precisely control these structures using hydraulic, pneumatic, and electric power
- Number of rights held (patents, utility models, and designs): 1,278 (as of March 31, 2023)
- Hydraulic equipment control
- Design and control of precision mechanisms
- Artificial intelligence (AI; object detection/image classification/anomaly detection)
- Fluid analysis
- Structural/mechanical analysis
- Lightweight design
- High-efficiency design
- Vacuum thin film coating
- Seismic function design
- Heavy load transfer control
- Information and communication technology (ICT)
- Image processing
- Safety design (mechanical/control)
- Plant design/operation
- Aircraft control
- Aircraft maintenance
- Can manufacturing (cutting/forming/welding)
- Composite molding process
- Precision machining/assembly
- Surface treatment
- Coating
- Ultrasonic flaw detection

07 Human resources

- The spirit of challenge and an enterprising approach that have led to the development of product groups with high market shares in many niche markets since the Company's founding
- Diligence, a sense of mission, and loyalty ingrained in the corporate culture
- Putting the ShinMaywa Group Philosophy into practice and demonstrating the abilities of each individual to pioneer the future

Network

The ShinMaywa Group is headquartered in Takarazuka-shi, Hyogo, and operates in key locations in Japan and overseas in view of the relationships with our customers and business partners.

In recent years, an increasing number of new companies have been welcomed into the Group as part of efforts to strengthen our management structure.

Special Purpose Truck Business

Sano Plant ●
Samukawa Plant ●
Hiroshima Plant ●

Group companies in Japan

ShinMaywa Auto Engineering, Ltd.	Daiwa Sogyo Co., Ltd.
Iwafuji Industrial Co., Ltd. ●	Moriyasu Industry Co., Ltd.
TOHO CAR CORPORATION ●	OSK, Ltd. ●
TOHO CAR SERVICE CORPORATION	WAKO, Ltd. ●
ShinMaywa Auto Sales, Ltd.	

Group companies overseas

Thai ShinMaywa Co., Ltd. ●	Chongqing Endurance & ShinMaywa Industries, Ltd. ² ●
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Parking Systems Business

Group companies in Japan

ShinMaywa Parking Technologies, Ltd. ●

Group companies overseas

Taiwan ShinMaywa Industries Co., Ltd.	ShinMaywa Aerobridge Malaysia Sdn. Bhd. ●
ShinMaywa (Asia) Pte. Ltd. ●	

Industrial Machinery & Environmental Systems Business

Takarazuka Plant ●

Group companies in Japan

ShinMaywa Waste Technology, Ltd.	DIAVAC Limited ●
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Group companies overseas

ShinMaywa (America), Ltd.	ShinMaywa (Chongqing) Environmental Solutions Co., Ltd. ³ ●
ShinMaywa (Shanghai) Trading Co., Ltd.	KOREA VACUUM LIMITED
ShinMaywa (Bangkok) Co., Ltd.	ShinMaywa Mexico S. A. de C.V. ³ ●
ShinMaywa (Shanghai) High-Tech Machinery Co., Ltd. ●	

Fluid Business

Ono Plant ●

Group companies in Japan

ShinMaywa Aqua Technology Service, Ltd.	FLUTECH Co., Ltd. ●
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Group companies overseas

Thai ShinMaywa Co., Ltd. ●	Shangdong TurboMAX Environment Technology Co., Ltd. ³
TurboMAX Co., Ltd. ●	TurboMAX India Private Limited ³ ●
TurboMAX (ChangZhou) Technology Co., Ltd. ⁴	

Aircraft Business

Konan Plant ● Tokushima Plant ●
Takarazuka Plant ● Harima Plant ●

Group companies in Japan

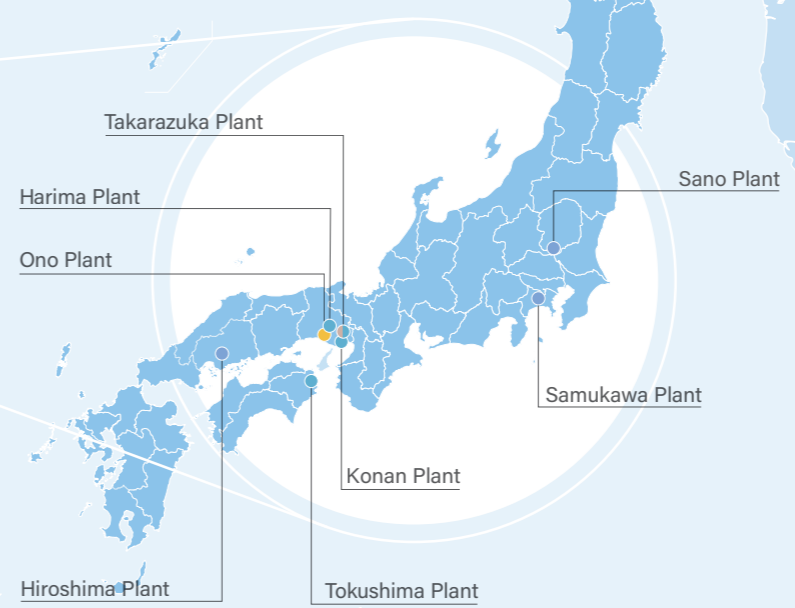
ShinMaywa Iwakuni Aircraft Maintenance, Ltd.	Tenryu Aero Component Co., Ltd. ●
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Group companies overseas

ShinMaywa (California), Ltd.¹

Other Business

Maywa Komuten, Ltd.	ShinMaywa Heartful, Ltd. ³
ShinMaywa Shoji, Ltd.	GODO SOLUTION Inc. ¹
ShinMaywa Soft Technologies, Ltd.	



¹ Non-consolidated subsidiary to which the equity method is applied
² Affiliate to which the equity method is applied
³ Non-consolidated subsidiary to which the equity method is not applied
⁴ Affiliate to which the equity method is not applied
 ● Production bases

Value Creation Process

ShinMaywa Industries celebrated its 100th anniversary in 2020. We reviewed our management philosophy upon clarifying what we will carry on and what we will change towards the next 100 years, and established a long-term vision with 2030 as the target year. We will continue to meet the needs of global society by contributing to the advancement of social infrastructure as we have in the past, through continuous technological innovation.



Changes in the external environment (megatrends and environmental changes)

- Demographic changes**
 - Low birthrate, aging population, and shrinking workforce
 - Decline in growth potential due to population aging
 - Growing global population and a shift in growing regions
- Progress of climate change initiatives**
 - Rising environmental and energy costs
 - Shift away from fossil fuels toward renewable energy
 - Increase in natural disasters and growing demand for resilient infrastructure
- Rising geopolitical risk**
 - Escalating conflicts due to friction between nations
 - Increasing complexity and difficulty of commodity procurement
 - Changes in transportation demand and rising costs due to supply chain restructuring
- Transformation of social structure and lifestyle**
 - Concentration of population in urban areas and depopulation of rural areas
 - Growing importance of CX and UX*
 - A fair society that is inclusive of diversity and respects human rights
 - Diversification of work style and work values, and realization of well-being
 - Borderless collaboration and co-creation
- Technology evolution**
 - Transformation of social structure through implementation and expansion of digital technology
 - Increase in cybersecurity risks
 - Advances in technology to achieve carbon neutrality

Main input capital

- Financial capital**
 - Determination of cash allocation in accordance with the medium-term management plan
 - Total assets: 226,907 million yen
 - Equity ratio: 43.5%
 - Net D/E ratio: 0.30 times
- Human capital**
 - Shift from human resource management to human resource value enhancement
 - Number of employees (consolidated): 5,932
 - Japan: 5,293, Overseas: 639
- Manufacturing capital**
 - Advanced manufacturing know-how and production technology to meet individual customer specifications/high-mix low-volume production
 - Manufacturing bases: 17 in Japan, 10 overseas
 - Number of employees with in-house certification of skill proficiency: 95
 - Capital investment: 4,465 million yen
- Intellectual capital**
 - Create new value by appropriately integrating technologies and know-how cultivated through various businesses with cutting-edge external technologies
 - Number of rights held (patents, utility models, and designs): 1,278
 - Research and development expenses: 2,476 million yen
- Social and relational capital**
 - Over 100 years of experience since founding in supporting people's daily lives and social infrastructure through technology, products, and services, as well as trust and a strong supply chain based on this experience
 - Consolidated subsidiaries: 30 companies
 - Procurement partners: Approximately 2,500 companies
- Natural capital**
 - Contribution to global warming prevention and a recycling-based society
 - Energy consumption in crude oil equivalent: 17,373 kl
 - Waste generated: 6,560 t (Of which, recycled: 6,497 t)
 - Water consumed: 315.6 km³ (1,000m³)
 - As of March 2023



OUTCOME

Economic value (Target level for FY2030)

- Net sales: **400 billion yen or more**
- Overseas sales: **100 billion yen or more**
- ROE: **12% or more**
- ROIC: **10% or more**

Value provided to stakeholders

- Customers
- Employees
- Business partners
- Shareholders
- Local communities and society

Sustainable Development Goals (SDGs)

The ShinMaywa Group aims to contribute to the achievement of the Sustainable Development Goals (SDGs) through its business activities.

*CX: customer experience
UX: user experience

Message from the President

ShinMaywa

We aspire to be a corporate group that is constantly necessary to society through the embodiment of our management philosophy and long-term vision.

President & CEO

Tatsuyuki Isogawa



The 100th anniversary of our founding, which was celebrated in February 2020, was an invaluable opportunity to rethink the nature of the ShinMaywa Group's management. We decided at that time to shift management to a long-term orientation. With technology advancing at an accelerating rate and the social environment changing rapidly, the short-term orientation we had employed would leave us behind the curve in responding to the changes taking place. We would instead carefully consider the future of society and set forth what we aimed to be from a long-term orientation to work for sustainable growth under a form of management for realizing these aims. Based on this new policy, we organized the things we would inherit and the things we would change and put them down in writing as our management philosophy and long-term vision.

Immediately thereafter, the world was imperiled by the COVID-19 pandemic and then severely impacted by Russia's invasion of Ukraine in February 2022. Amid this, up through the present, we have given thought to the strengths of the ShinMaywa Group and future risks.

Based on my own thoughts about this, I will now discuss the recent status of the ShinMaywa Group, the challenges we face, and the future.

A 100-year company

The history and strengths of the ShinMaywa Group

The origins of the ShinMaywa Group date back to 1920 and the establishment of an Aircraft Department within Kawanishi Machinery Company, our forerunner. The department later became Kawanishi Aircraft Company, a dedicated manufacturer of aircraft, and produced high-performance aircraft models that included the flying boat Kawanishi H8K "Emily" and the fighter Shiden-kai "George."

After Japan's defeat in World War II, there was a ban on aircraft manufacturing in the country, but the post-war recovery was a fresh start for the company that led to the core businesses of the ShinMaywa Group today. Our predecessors had a strong sense of mission. They were committed to Japan's reconstruction and to protecting the jobs of the company's employees, so they first got involved in manufacturing small daily commodities that people needed. There was a spirit of making whatever could be made. The company later developed a dump truck using proprietary technologies, a project that started with doing repairs on U.S. military vehicles. Drawing on technological capabilities cultivated in the days of Kawanishi Aircraft Company, our predecessors provided the world with products and equipment that were needed by society, including self-priming pumps and various types of industrial machinery. We bow our heads to the power they possessed.

The company continued to harbor hopes of one day again making aircraft and in 1952 it gradually recommenced its aircraft business. It also got involved in the infrastructure business, which was expanding alongside Japan's high economic growth. This included submersible pumps for sewage treatment, mechanical car parking systems, and refuse transfer station systems. As a result, the company came to possess the five businesses it has today.

There are now numerous dedicated manufacturers in each of these fields, so we feel pride in the fact we were the forerunners in these industries. Our spirit and stance have not changed since our founding. Through our high-level technological capabilities and extensive experience, we solve the issues facing customers and give tangible form to their needs. We continue to maintain this same spirit today.

Of these five businesses, I think the product that is perhaps most familiar to people is our special purpose trucks. Our dump trucks and refuse compactors (garbage trucks), which exemplify special purpose trucks, maintain a high market share in Japan. One in two of these trucks has the ShinMaywa logo. If you live in a condominium complex, the mechanical car parking system may be made by ShinMaywa. We also build environmental facilities that compact and sort the garbage you throw out on its way to its final disposal site and handle various products related to water treatment, including submersible pumps that pump sewage to sewage treatment facilities. Moreover, ShinMaywa components are used in the commercial aircraft we all fly in. As you can see, most products of the ShinMaywa Group have many points of contact with our daily lives.

In recent years, with the dramatic advance in digital technologies, including AI, IoT, and image processing, we have also been working to make our products and services smarter (automation, unmanned/labor-saving, improved convenience and safety, etc.) to fully accommodate the needs and requests of the customers who use and operate the Group's products and services.

In addition, there is greater uncertainty in the world now than before given the spread of the COVID-19 pandemic, the frequency of major natural disasters in various regions, and the emergence of geopolitical risk as represented by Russia's invasion of Ukraine. In order to accommodate a business environment that is changing rapidly alongside all of these changes, we will secure and train DX human resources to put into practice our digital transformation (DX) strategy, which is positioned as a particularly important facet of our management strategy, and will robustly implement a human resources strategy that includes D&I initiatives for taking maximum advantage of individual diversity, which is essential to the growth of the Group.



The ShinMaywa Group's Value Creation Process

I will now go over our value creation process, which refers to the cycle of management activities in the Group.

The foundation of our management is the ShinMaywa Group Philosophy, at the top of which is our corporate principles. On this basis, we are working to embody our management philosophy and long-term vision, which has a target year of 2030.

Long-term vision

To respond to global society needs, we will be a true value co-creation company that advances urban, transportation, and environmental infrastructures.

Under the long-term vision, we plan to promote a form of management oriented to growth and expansion from a long-term perspective, one that is not caught up in the most recent changes or focused on earnings alone. The vision outlines our aspirations for 2030, which are the key to this. This is the first time the ShinMaywa Group has taken this approach.

Our long-term management plan SG-Vision 2030 presents a roadmap to the achievement of the long-term vision. FY2023 marks the third year of SG-Vision 2030.

The ShinMaywa Group has many contact points with social infrastructure, so we need to be constantly aware of global megatrends. From among demographic changes, the progress of climate change initiatives, rising geopolitical risk, changes in the social structure and lifestyles, and technology evolution, we have selected themes that have a particularly deep relationship to the ShinMaywa Group and are monitoring related changes.

In addition, we manage main input capital, the inputs in the value creation process, using the categories of financial capital, human capital, manufacturing capital, intellectual capital, social and relational capital, and natural capital, and have defined key issues (materiality) for each of them.

Capital category	Key issues (materiality)
Financial capital	Determination of cash allocation in accordance with the medium-term management plan, the first phase of the long-term management plan
Human capital	Shift approach from human resource management to human resource value enhancement
Manufacturing capital	Advanced manufacturing know-how and production technology to meet individual customer specifications/high-mix low-volume production
Intellectual capital	Create new value by appropriately integrating technologies and know-how cultivated through various businesses with cutting-edge external technologies
Social and relational capital	Over 100 years of experience since our founding in supporting people's daily lives and social infrastructure through technology, products, and services, as well as trust and a strong supply chain based on this experience
Natural capital	Preventing global warming and contributing to a recycling-based society

We organize the Group's input capital in terms of these six categories and consider and make allocations for addressing each of the key issues (materiality). SG-Vision 2030 constitutes the foundation for this. Oriented to achieving the long-term vision, we are engaged in eight themes on the pillars of two management policies: long-term business strategies, which promote the growth and expansion of business, and strengthening of management foundations, which fortifies our footing. Recognizing, however, that ten years is a long span to be promoted under a single plan, we are working

toward the goals of the long-term management plan through three medium-term management plans, which have "transformation," "expansion," and "advancement" as themes.

The keys to growth and expansion are a segment growth strategy to expand the scale of core businesses and new business creation. To expand the scale of core businesses, we will accelerate the process of adding high value to products and services and carry out initiatives centering on the acceleration of overseas expansion and strategic M&As.

Regarding the acceleration of the overseas expansion, we had generally established sites on a business-by-business basis in response to the needs of customers and business partners, but going forward we will put particular priority on manufacturing and sales and ensure close coordination between business divisions and with overseas Group companies to demonstrate the Group's strengths. We will carefully consider markets where synergies can be expected and commit management resources on a concentrated basis to those regions.

Regarding strategic M&As, in the Japanese market, we will focus on industry reorganization and strengthening our lineup of products and services and will promote an M&A strategy that seeks to maximize synergies based on a firm grasp of our strengths and challenges. With regard to overseas expansion as well, in order to use M&A to gain a foothold for expanding into certain regions, we will actively consider adding prominent companies in those regions to the Group.

As for new business creation, we currently have five businesses, which are the product of the history I discussed above, but they were all formed in the Showa period, which ended in 1989. We feel a sense of crisis from not having effected a major change ourselves since that time, which was one of the driving forces behind the creation of the long-term vision. Creating a new business and getting it on track for success is no easy task in a mature society, but we are in an era in which change is emerging in various strata that topples the conventional wisdom, so one might say there is also substantial opportunity. We will not proceed hastily. We are working toward the goal of establishing a considerable position in a new field in 2030, a little way into the future.

In addition, in order to successfully expand the scale of core businesses and create new businesses, it is

imperative that we create an environment that allows us to flexibly accommodate market changes and also establish a development environment for new businesses and products.

For this reason as well, going forward it will be essential for us to promote DX, which includes business process innovation centered on data and business model transformation not possible through the mere extension of existing businesses, and we will aim to establish organizational capacities that allow us to achieve this.

Alongside growth and expansion, we must also focus on strengthening management foundations. For the ShinMaywa Group, which transitioned to the Prime Market in 2022 and is oriented to overseas markets in its business activities as well, it is essential that we work to meet social requirements from a global perspective. To be acknowledged by customers and business partners as a corporate group worthy of trust and to be recognized for sustainable growth potential by the world's investors, we have incorporated strategies that emphasize the environment, society, and governance (ESG) into our long-term business strategies and efforts to strengthen management foundations and will report on their progress each year through this report so that they can be properly evaluated. In particular, in promoting the six input capital key issues and our long-term management plan, we will also focus on human capital management, which includes formulating a human resources strategy linked to management strategy, promoting the acquisition and optimal placement of key personnel, and working to raise employee engagement while increasing corporate value.

We will repeatedly carry out the series of management activities that constitute our value creation process and work to achieve the following targets of our long-term vision, SG-Vision 2030, in the target year of FY2030.

Net sales	400 billion yen or more
Overseas sales (within the above net sales figure)	100 billion yen or more
Return on equity (ROE)	12% or more
Return on invested capital (ROIC)	10% or more

Progress on our medium-term management plan SG-2023

Among the three medium-term management plans I mentioned previously, we are currently engaged in the medium-term management plan SG-2023 (hereinafter, "SG-2023"), which is the first phase and has "transformation" as its theme. This plan runs through FY2023. The first phase happened to coincide with the COVID-19 pandemic, and the assumptions inevitably changed a great deal from when the plan was formulated in 2019. For this reason, we don't expect to meet our initial forecast for operating profit, a key indicator expressing the true strength of a company, but net sales are expected to exceed the forecast. Even during the pandemic, a majority of the Group's businesses continued to function in various strata as social infrastructure, which reminds us once again how they are perpetually needed by society.

In FY2022, the Special Purpose Truck segment, which of our five businesses has driven performance and is expected to contribute the most to earnings, had a difficult battle due to difficulty in procuring key parts and surging prices for materials. The Parking Systems segment also fell short of its profit target for the same reasons. Fortunately, orders remain strong in both segments, so profit levels are expected to recover in FY2023 as selling prices improve and procurement gets back on track.

Meanwhile, the Industrial Machinery & Environmental Systems segment has been growing during this period at a pace that has greatly exceeded forecasts. Along with strong showings from mechatronics and environmental systems, which are the foundation of this segment, vacuum drying systems for automotive secondary batteries, the mainstay product of KOREA VACUUM LIMITED (Korea), which was added to the Group in 2018, has produced remarkable growth. Also, the Fluid segment, which was split off from the Industrial Machinery & Environmental Systems segment in FY2022, has made progress in excess of targets thanks in part to the contribution of TurboMAX Co., Ltd. (Korea), which became a member of the Group in 2021.

In the Aircraft segment, which struggled the most during the pandemic, cost reduction activities for commercial aircraft components began to have an effect, and yen depreciation also contributed, so profit in the final fiscal year is expected to exceed the planned target.

In this way, under SG-2023, the contributions of companies added to the Group via M&A have been

noteworthy, and we are evolving significantly in terms of both growth and expansion and acceleration of overseas expansion.

The difficulty procuring components due to the pandemic is a temporary risk, but with regard to surging material prices, it is difficult to think that geopolitical factors will be eradicated over the short term, so for the time being we will need to incorporate this risk and take measures to secure a certain level of profit margin. We will also continue making efforts to earn the understanding of customers with respect to necessary price increases.

Considering and formulating the next medium-term management plan

Around half a year is left on SG-2023, and we are currently working to formulate our next medium-term management plan, which is the second phase and has "expansion" as its theme. In the structure of our long-term management plan, these ten years are tied together through three medium-term management plans, and this next medium-term management plan plays a central role in this. It is being formulated primarily by organizing the unresolved challenges and newly emerged risks of the first phase, taking into account the most recent megatrends, and backcasting from the ideal presented in the long-term vision in order to identify items to be undertaken during this period and incorporate them into specific initiatives. The net sales target of 400 billion yen or more is approximately two times our current level, and we recognize that the target for overseas sales, which is to account for over one-quarter of this, will not be achievable without taking decisive measures that are without precedent.

As for concrete measures, we will persistently engage in new business creation, as I mentioned previously. This will pivot on whether or not there are prospects for generating earnings in new fields and on the success of collaborations and M&A with promising companies in Japan and overseas. Regarding new business creation, as of the present we are involved in themes related to energy, water and resources, mobility, digital, and others, and they are all in alignment with our intention to advance urban, transportation, and environmental infrastructure as stated in our long-term vision. We will earnestly work under our next medium-term management to give concrete form to a business domain that will constitute a new pillar for the ShinMaywa Group in the Reiwa era.

Alongside this, we will also need to take inventory of existing businesses in order to make effective use of limited management resources. During the period of the SG-2023 plan, the Board of Directors shared information and held discussions on the current position and future potential of our major products. Going forward, we will closely study the future value of each business and product with a focus on global markets and also consider reshuffling our business portfolio based on this.

The goal of being a corporate group that is always needed by society

It has been one year since the ShinMaywa Group issued its first Integrated Report. With publication of the inaugural report, we noticed areas where the daily management cycle was not being implemented as depicted in the value creation process and found areas related to coordinating individual initiatives to meet targets that were in need of revision—there were many points that warranted critical reflection, but I acutely feel that incorporating the major content of management into the value creation process and implementing management based on this over the course of this year will be pivotal when seeking to gain the understanding of stakeholders regarding the certainty of the Group's sustainable growth.

Japan has many 100-year companies that started before World War II, but there are very few companies with unique businesses that support social infrastructure that have been continued in multiple fields over many years. This is where the *raison d'être* of the Group lies.

Those of us working today look back on the over 100 years of history with the desire to be a corporate group that continues to value relationships with customers, continues to strive to enhance technological capabilities, and changes society and lifestyles so that they are safer, more convenient, and smoother.

We hope that stakeholders will continue their interest in the activities of the Group and provide us with guidance and support.



Long-Term Management Plan/Medium-Term Management Plan

To maintain sustainable growth beyond the 100th anniversary of its founding, the ShinMaywa Group has set forth a long-term vision as its future outlook with 2030 as the target year, based on its management philosophy.

Long-term management plan Sustainable Growth with Vision 2030 (SG-Vision 2030)

- Sustainable growth through value creation -



For more details, visit: <https://www.shinmaywa.co.jp/ir/plan.html>

Basic policy

Realize the economic value and social value indicated in the long-term vision and SG-Vision 2030 through the implementation of long-term business strategies and strengthening of management foundations

Long-term business strategies

Aggressive strategies to enhance and expand existing businesses and to create new businesses

Strengthening of management foundations

Defensive strategies to support the execution of long-term business strategies through structural reforms

Value-creation targets: FY2030

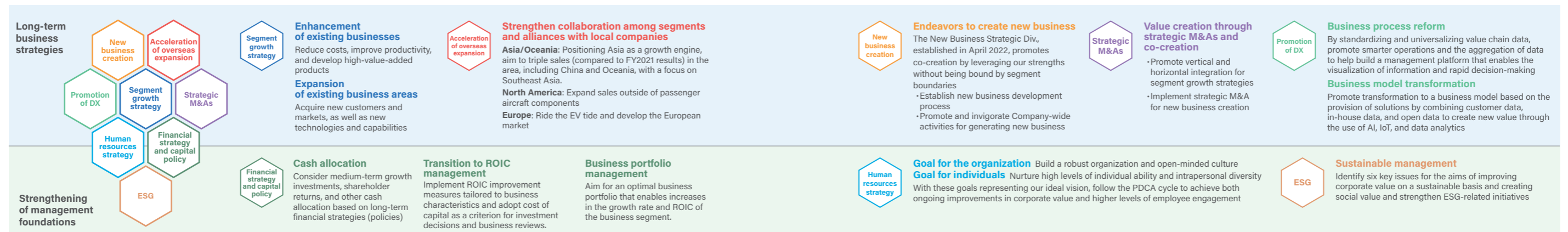
Economic value

Management indicators	Target level
Net sales	400 billion yen or more
Overseas sales	100 billion yen or more
ROE	12% or more
ROIC	10% or more

Social value

Main key issues (materiality)	
Environment	Preventing global warming
	Contributing to a recycling-based society
Society	Promoting diversity and inclusion
	Establishing comfortable workplace environments
Governance	Enhancing corporate governance systems
	Establishing and strengthening risk management systems

SG-Vision 2030 strategy: Priority items



Medium-term Management Plan Sustainable Growth 2023 ([SG-2023])



Target management indicators: FY2023

Management indicators	SG-2023 target level	Fiscal year ending March 31, 2024 (forecast)*1
Net sales	250 billion yen	270 billion yen
Operating profit	15 billion yen	12 billion yen
Overseas sales	45 billion yen	60 billion yen
ROE	10% or more	7.2%
ROIC	7% or more	5.2%

Cash allocation	SG-2023 target level
Growth investment	30 to 40 billion yen (Cumulative total for FY2021 to 2023)
Dividend payout ratio	Implement with 40-50% as the basis
Purchase of treasury stock	Implement flexibly depending on stock price levels, etc.

*1 The figures for the fiscal year ending March 31, 2024 (forecast), are forecasts as of August 1, 2023.

Policies and challenges by segment

(The figures for net sales and operating profit are FY2023 forecasts as of August 1, 2023)

Segment	Policies and challenges	Net sales	Operating profit
Special Purpose Truck	<ul style="list-style-type: none"> Deepen connections with users and create new value by expanding SSC*1 Expand sales routes for key components of special purpose trucks in the Asia/Oceania region 	106.8 billion yen	2.9 billion yen
Parking Systems	<ul style="list-style-type: none"> Mechanical Car Parking Systems: Develop and expand sales of parking systems to accommodate the spread of electric vehicles, and expand business in Southeast Asia Aircraft Passenger Boarding Bridges: Make active proposals on fully automated docking systems and win orders in airport construction projects in Asia, which are on the rise 	43.6 billion yen	3.1 billion yen
Industrial Machinery & Environmental Systems	<ul style="list-style-type: none"> Mechatronics: Expand market share of vacuum products in secondary battery markets in Europe and the United States Environmental Systems: Establish brand and expand revenues in the wastewater treatment business in China 	47.5 billion yen	3.7 billion yen
Fluid	<ul style="list-style-type: none"> Win orders in Japan by proactively addressing flooding countermeasures, the progress in expansion of municipalities and collaboration among them, and stock management projects Strengthen sales synergies with TurboMAX and expand overseas orders by utilizing the Thai Plant 	24.2 billion yen	3.3 billion yen
Aircraft	<ul style="list-style-type: none"> Develop fixed-wing unmanned aircraft and plan new businesses through alliances Expand comprehensive repair business toward the launch of PBL*2 business and develop the successor to the US-2 STOL search and rescue amphibian 	31.3 billion yen	1.7 billion yen
Others*3		16.6 billion yen	0.8 billion yen
Adjustment		-	(3.5 billion yen)
Total		270 billion yen	12 billion yen

*1 ShinMaywa Smart Connect: A communication tool to monitor the operational status of special purpose trucks.

*2 Performance Based Logistics: Contracting of a private company (ShinMaywa Industries) for the maintenance and servicing of US-2 STOL search and rescue amphibian supply parts, etc., conventionally performed by the Japan Self-Defense Forces.

*3 The Others business segment is not included in the reported segments and includes construction, real estate, software, and other businesses.

Message from the Officer in Charge of Finance

With a focus on key management indicators, we will practice management that enables us to be highly valued financially as well

Director, Member of the Board
Managing Executive Officer
General Manager of Finance &
Accounting Dept.

Toshiki Kume

Operating profit declined in our main segments due to procurement difficulties and soaring raw material prices, but orders set a new record high, and final profit increased

The fiscal year ended March 31, 2023 was the middle year in our medium-term management plan SG-2023 (hereinafter, "SG-2023"). In the fiscal year ended March 31, 2022, the first year of the plan, we were affected by the COVID-19 pandemic, and last fiscal year, the military invasion of Ukraine by Russia in February 2022 impacted business activities in various ways, creating a situation that led to profit deterioration in our main businesses.

Specifically, the Special Purpose Truck segment, which had posted operating profit of over 5.0 billion yen in recent years, suffered a substantial decline in profit as two factors combined to put downward pressure on earnings. The first factor was an inability to secure the necessary number of chassis, which are indispensable to production, because of a semiconductor shortage and other factors. Segment orders fared well, but there was not enough supply to meet them, so revenue fell compared to the previous year. The second factor is soaring raw material prices.

Special purpose trucks use a lot of steel. Steel prices have been rising in recent years, but last fiscal year there was a substantial increase helped by the increase in energy costs and the price remained high, which was a factor that worsened earnings.

In addition, the Parking Systems segment, which posted the next highest sales after the Special Purpose Truck segment, was hit by shortages of electric and electronic components, which are used for maintenance and renovations, a revenue source, and there were many cases of having to postpone plans. This business also uses a lot of iron, so the increase in steel prices was an additional blow.

While at the same time, in the Industrial Machinery & Environmental Systems segment and Fluid segment, orders were strong and there were increased overseas sales as a result of M&A. Moreover, the Aircraft segment returned to the black for the first time in three years owing to cost decreases and yen depreciation.

As a result of the above, orders received set a new record high while operating profit came in below the previous year. Final profit was above the previous year thanks to improvement in extraordinary income (losses) and a decrease in tax expense.

I stated this in the report published last year as well, but this year too I perceive the strength of having multiple segments centered on social infrastructure. In addition, in the overseas business as well, which we are focused on, thanks to the effects of M&A we achieved the target of SG-2023 (overseas sales of 45.0 billion yen in the fiscal year ending March 31, 2024) a year ahead of the plan (generating sales of 46.3 billion yen in the fiscal year ended March 31, 2023).

At the same time, on the financial front, interest-bearing debt was flat and equity rose slightly while operating profit declined, so return on equity (ROE) and return on invested capital (ROIC) both worsened compared to the previous fiscal year. This fiscal year, the final year of SG-2023, we will not meet the initial target level, but to come as close as possible we will work to improve capital efficiency while keeping a close eye on profit increases and the appropriate capital structure (interest-bearing debt + equity). On the other hand, because of an increasing need to



improve the efficiency of our main business sites and make investments to address aging facilities, even if target indicators worsen temporarily, we will make planned capital investments with consideration given to investment value and the recovery period while eliciting the understanding of shareholders and investors.

Summary of financial results for the fiscal year ended March 31, 2023 (consolidated)

(Million yen)

	Fiscal year ended March 31, 2023 [A]	Fiscal year ended March 31, 2022 [B]	Difference [A] - [B]
Orders	267,159	263,163	3,995
Net sales	225,175	216,823	8,351
Operating profit	9,293	10,569	(1,276)
Ordinary profit	9,902	11,821	(1,919)
Profit attributable to owners of parent	7,313	6,907	406
Overseas sales	46,382	31,022	15,359
Order backlog	255,859	210,338	45,521
ROE	7.6(%)	7.7(%)	(0.1) (pt)
ROIC	4.4(%)	5.1(%)	(0.7) (pt)

Segment	Net sales		Operating profit	
	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022
Special Purpose Truck	91,311	97,190	707	5,354
Parking Systems	38,627	38,099	2,686	3,066
Industrial Machinery & Environmental Systems	33,425	25,560	2,923	1,724
Fluid	24,485	20,787	3,916	3,151
Aircraft	23,136	19,137	1,397	(875)
Other	14,188	16,047	739	955
Adjustment			(3,078)	(2,808)
Total	225,175	216,823	9,293	10,569

Themes of interest to institutional investors Valuing opinions received in interviews

A total of 80 interviews were held with institutional investors in FY2022. President Isogawa has attended an increasing number of these interviews with the intention to hear directly from investors.

Individual interviews account for the majority, but last fiscal year in one business there were several opportunities to present information to multiple investors.

The questions were mainly related to the following:

- Trends in the Special Purpose Truck segment (forecasts for the fiscal year ending March 31, 2024 and beyond)
- Trends in the Aircraft segment (the status of the recovery in commercial aircraft parts manufacturing and forecasts for the defense-related business)
- The scale of sales, profitability, strengths, and market outlook, etc. for a merged and acquired company KOREA VACUUM LIMITED (hereinafter "Korea Vacuum"), which is driving growth in the Industrial Machinery & Environmental Systems segment
- The scale of sales, strengths, and profitability, etc. of TurboMAX Co., Ltd. (hereinafter, "TurboMAX"), which is in the Fluid segment
- Future business portfolio
- Thoughts on shareholder returns
- Review and discussion of the disclosure of CSR information through the Company's website and Integrated Reports, etc.

We have presented our long-term management plan SG-Vision 2030 (hereinafter, "SG-Vision 2030"), which has a target year of 2030, but attaining our goals through three medium-term management plans is still a way off in the future, so everyone seems to be interested in whether we can achieve our immediate goals in the first phase.

I will now touch on the outlook for the fiscal year ending March 31, 2024. While their markets differ, both the Special Purpose Truck segment and Parking Systems segment are coming out of the worst of procurement difficulties, and in the Aircraft segment as well, production volume for commercial aircraft is returning. At the same time, in the Industrial Machinery & Environmental Systems segment, growth is expected centering on Korea Vacuum, which joined the Group in 2018, and in the Fluid segment, which was recently separated off, the addition of TurboMAX, which joined the Group in FY2021, is adding firmness to the segment's traditional stability, and overall the outlook is positive. This trend is present in orders and the order backlog as well. Although procurement difficulties and high material and energy costs will remain, for necessary costs we are taking measures such as revising prices with the understanding of customers and are working to restore profit figures in absolute terms and profitability.

The Group's five businesses mainly involve dedicated companies, and we have received opinions and advice from investors on narrowing down the allocation targets for management resources. To express the view of the

company on this, as of last year we have begun considering how we want the business portfolio to be from a long-term standpoint. To have investors truly perceive the "expansion" that is the theme of the second phase medium-term management plan, we will rigorously select targets for management resource allocation and express a stance on making considerable investment in the development of new businesses with future potential.

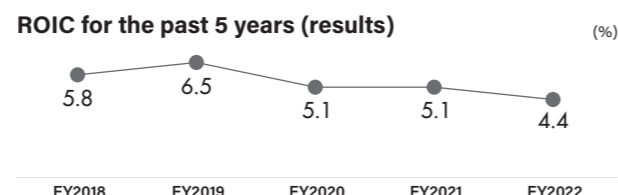
On shareholder returns, divided broadly, we have received two opinions. The first opinion would have us maintain the dividend payout ratio we have targeted and avoid lowering the dividend. The second opinion values the dividend payout ratio but sees the importance of growth investment and calls on us to execute shareholder returns while maintaining a balance between the two. Both opinions are valid, and while keeping both in mind, we will not simply go by an indicator; we will value the process of expressing our thinking on shareholder returns each time and eliciting understanding.

Investors have also advised us to take initiatives to raise recognition of the Group and appeal more to the market regarding businesses that have changed or grown in recent years. To therefore increase opportunities for overseas investors, with whom we have little contact, to learn about the Group, we contracted Shared Research Inc., a research company that communicates corporate information to a global audience, and disclosed reports in Japanese and English that summarize basic information on the Group and our recent business results. Going forward, we will disclose the reports quarterly and increase opportunities to become aware of the Group.

Promotion of ROIC management

In SG-Vision 2030, ROE and ROIC are included in the targets, so the plan takes into account both profit and capital efficiency. Both indicators fell short of the previous year in the fiscal year ended March 31, 2023, the middle year of the medium-term management plan, but ROIC has room to improve and increase with the steady efforts of direct and indirect divisions, so last year we calculated ROIC by business and product to grasp the current situation. Going forward, we will discuss the future potential and strengths of each market based on this and visualize the Group's future business portfolio.

In addition, ROIC is affected by improvements and innovations in daily work so we will have employees understand that they are involved in this indicator. To do this, we put a feature on ROIC in our internal newsletter explaining the concept and showing it with an inverted tree structure. We are working to raise awareness internally through these activities.



The ShinMaywa Group's capital policy

Cash allocation under SG-2023 is as follows.

Cash allocation	SG-2023 Target level
Growth investment (capital investment, M&A)	30.0-40.0 billion yen (cumulative)
Dividend payout ratio	40-50%
Purchase of treasury stock	Implement flexibly depending on stock price levels

We have made growth investment thus far of around 14.0 billion yen, and partly because operating cash flow, the source of these funds, has been decreasing, the rate of progress against the target is a little slow, but with the second and third phase medium-term management plans to come, we will rigorously select necessary investment targets and make investments to generate sustainable growth and create value into the future while also considering the assumptions, such as the COVID-19 pandemic and surging materials costs.

As for our investment policy going forward, we expect it to be centered on the following three items:

- Conduct M&A to expand the scale of sales in promising markets
- Create new businesses that bring real increases in revenue and profit distinguished from existing businesses
- Upgrade production bases in the main businesses that support the Group's management foundation (addressing the aging of facilities and raising production efficiency)

At the same time, regarding management initiatives that are aware of capital costs and the stock price, which are strongly required by the Tokyo Stock Exchange, the Group's price to book ratio (PBR) and ROE are below the levels required by the exchange (1x and 8%, respectively). Exceeding the dissolution value and achieving the level that overseas investors are interested in is a necessity for companies listed on the Prime Market, and alongside this, we will present measures for raising corporate value oriented to the long term and work to gain an understanding of the Group's vision.

Financial management in management with a long-term orientation

Under SG-Vision 2030, we are targeting net sales of over 400.0 billion yen, and this includes major growth in overseas sales. As working capital will increase with the expansion in business scale, we are focused on cash flow more than before.

In addition, with the increase in overseas transactions, foreign exchange rates in various countries will have an

increased impact on earnings, and debt recovery risk will also increase, so we will work to rein in such financial risks before they can materialize.

Formulating the next medium-term management plan

Under the next medium-term management plan, which is the core of SG-Vision 2030, we will take various measures derived from backcasting from the final targets. In business activities, which tend to emphasize profit and loss, we will focus on incorporating measures to improve and raise ROE and ROIC.

Also, when drawing up the future business portfolio, we will work to ensure it is structured to convey to investors investment returns and sustainable growth.

It has been one year since we issued the Integrated Report 2022. Since the COVID-19 pandemic, negative factors from the perspective of corporate management have emerged in succession, including geopolitical risks and soaring prices for energy and materials, and there have been many situations that make one perceive the difficulty of managing from a long-term perspective. While at the same time, it was also a year of reaffirming the significance of the long-term vision, which puts into words what we aspire to be, while engaging for the first time in a long-term management plan that spans ten years.

We will continue to practice management oriented to the long term while responding to the various changes in society. It would be highly appreciated if you could take an interest in the disclosures of the ShinMaywa Group and share your opinions. Thank you very much for your continuing support.



Special Purpose Truck Business

- The origin of the business is a contract to repair US military vehicles shortly after World War II. It has since expanded to include construction vehicles as well as special purpose trucks for environmental maintenance and logistics, becoming ShinMaywa Industries' core business.
- It serves an important role in the social infrastructure business necessary to develop and maintain infrastructure and enrich the living environment.



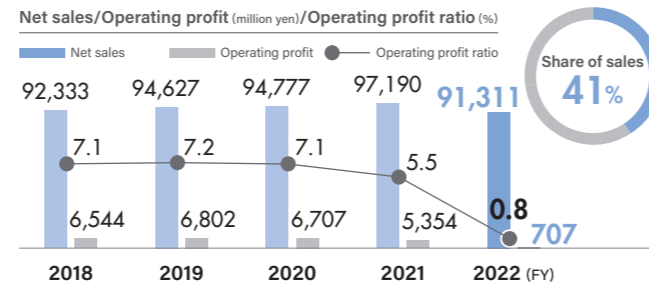
Parking Systems Business

- The business has contributed to the resolution of motorization-induced urban parking shortages and to the globalization-driven development of airport infrastructure around the world.
- It has formed trust with society through the provision of products including mechanical car parking systems and aircraft passenger boarding bridges for nearly 60 years.
- The business focuses not only on product delivery and installation, but also on post-installation after-sales service.
- It will continue to contribute to the advancement of urban and transportation infrastructures, which the ShinMaywa Group is aiming for.



Business overview

The slowdown in production activities due in part to delays in procurement of key components, which affected our business in FY2022, is expected to continue to some extent in FY2023. In addition, steel and other raw material prices continue to rise, and we have implemented the second price revision in April 2023. However, as we still have a large order backlog (for this business segment as a whole) at the old prices, we expect business performance to gradually recover from the second half of FY2023 or later.



Social issues to be solved

- Stable supply of special purpose vehicles and services that help solve environmental problems
- Development of products and services in response to labor shortage due to population decline, falling birthrate, and population aging
- Contribution to mitigation of and early recovery from natural disasters, which have been on the rise in recent years (in forestry, construction, and logistics sectors)

Strengths

- Ability to access abundant market information due to the high market share of its core products
- Capability to develop not only truck bodies, but also functional components that are optimal for bodywork
- One of the largest service networks in the industry in Japan (approximately 700 service stations)
- Ability to design a wide variety of products and make proposals based on production experience, developed by giving shape to products that meet user needs, while complying with vehicle regulations and chassis manufacturer standards

Business opportunities

- Construction demand based on government-promoted disaster countermeasures
- Demand for new construction and maintenance/renewal of social infrastructure
- New demand for special purpose trucks that can be easily and safely operated by anyone
- In the overseas market, local truck body builders use our key components when mounting truck bodies onto chassis manufactured locally
- Provision of products and services adapted to the electrification of vehicles, etc.

Strategic action

- Strengthen product development and services by building close relationships with users
- Develop special purpose trucks and services adapted to connected, autonomous, shared, and electric (CASE) mobility
- Strengthen overseas expansion by leveraging development capabilities in key components

Our products and services

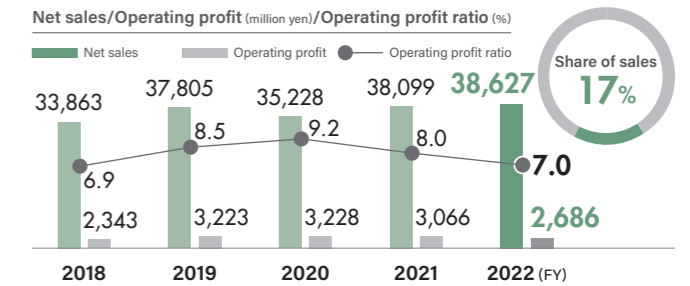
- **G-SUB**
G-SUB (registered trademark) is the first subscription service in the special purpose truck industry. Launched in FY2020, G-SUB has been supported by next-generation business owners with repeated orders. Major fast-food companies and municipalities find the contract term options and periodic maintenance included in the contract reassuring. Following this trend, we have added detachable container systems to the subscription service along with refuse compactors. We pursue new types of customer-oriented services by offering an all-inclusive package, which includes vehicle inspection fees and other expenses.
G-SUB will continue to evolve to connect with customers and deliver impressive service to them.



Press Type Refuse Compactor G-PX

Business overview

For mainstay mechanical car parking systems, soaring raw material prices and other factors could reduce the profitability of product sales, but maintenance projects are expected to remain strong. Orders for aircraft passenger boarding bridges, which account for a portion of sales of this business, are expected to increase due to the resumption of airport construction and expansion projects especially in Asia backed by a recovery in global passenger demand following the receding of the COVID-19 pandemic.



Social issues to be solved

- Response to the motorized society of the future by creating a parking solution business adapted to changes in mobility (electrification, automation, etc.)
- Provision of products and services that contribute to the expansion of logistics markets and labor shortages
- Response to the need for new construction and expansion of airports in line with global growth in the number of passengers
- Response to the motorization and urbanization of Southeast Asian countries

Strengths

- One of the industry's leading maintenance organizations with approximately 400 service technicians in 49 locations across Japan
- Seismic design technology that integrates architecture and machinery, heavy-lift transport technology, safety design technology for people, vehicles, and aircraft, and maintenance service technology
- Ability to develop products and services using sensing, IoT, and AI technologies
- One-stop support system encompassing sales, development, design, manufacturing, and service
- Flexible global manufacturing capabilities enabling local production for local consumption

Business opportunities

Mechanical Car Parking Systems

- Growing needs for new systems in anticipation of automobile electrification and automated driving, and for parking lots for luxury vehicles that provide secure parking
- Growth of the parking systems market in Southeast Asia
- Expansion of logistics markets benefiting from heavy-lift transport technology and nationwide service network

Aircraft Passenger Boarding Bridge

- Increase in the number of aircraft operated and plans for new construction expansion of airports in line with global growth in the number of passengers
- Growing demand for automation and unmanned operations due to labor shortages in airport operations and promotion of smarter operations

Strategic action

Mechanical Car Parking Systems

- Develop mechanical car parking systems in anticipation of the spread of electric vehicles and self-driving vehicles
- Provide new services that enhance user convenience
- Provide parking systems to meet new needs, such as parking for luxury cars
- Propose business model for the provision of planning to operation and management, in addition to facilities
- Expand parking system business in Thailand and Taiwan, and promote marketing activities in Southeast Asian countries

Aircraft Passenger Boarding Bridge

- Develop products that contribute to rationalization and labor saving in airport operations while pursuing user safety and comfort
- Expand strategic sales regions (Middle East, North America, Europe, etc.)
- Apply fully-automated boarding bridge system functions to airport ground handling operations

Our products and services

- **Mechanical Car Parking Systems**
We are working to increase the number of car models compatible with electric vehicle charging in parking lots and developing new charging systems. Spasa (ShinMaywa Parking Support App) is a tool to support operations of mechanical car parking systems using image recognition AI. It provides a smart parking experience such as booking a parking spot and checking whether a vehicle can enter/exit a parking facility. We will expand and diversify the business by offering sophisticated maintenance services to meet a wide range of customer needs and provide them with security and comfort.
- **Airport Passenger Boarding Bridge**
We will pursue our efforts to develop unmanned and automated systems, thereby contributing to the advancement of airport facilities.



Spasa app screen (image)

Industrial Machinery & Environmental Systems Business

Mechatronics-related business

The mechatronics-related business, whose main products are automatic electric wire processing systems, vacuum systems, and direct drive motors, provides production equipment needed by related industries such as automobile and semiconductor manufacturing systems on a global basis in collaboration with Group companies overseas. We also strengthen and expand our service system in major markets to contribute to our customers' business development in their countries.



Industrial Machinery & Environmental Systems Business

Environment-related business

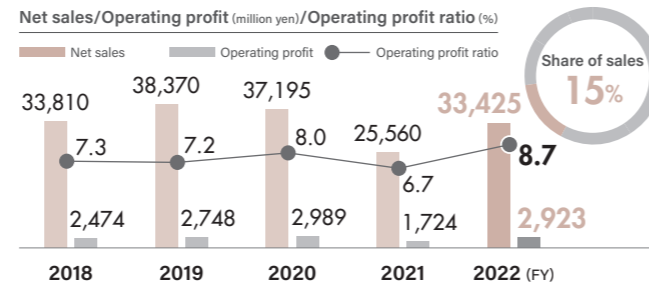
In the environment-related business, which mainly involves the construction and operation of environmental facilities (refuse transfer station system and refuse resources recycling centre), we contribute to society by building a recycling-based society and reducing CO₂ emissions.



Business overview

The business is recovering in line with the recovery of the automotive industry's intention to invest. In particular, our consolidated subsidiary in South Korea, which manufactures and sells vacuum drying system for lithium-ion secondary batteries for EVs, is seeing an increase in the number of inquiries.

With the development of automotive megatrends CASE, demand for wire harnesses is also increasing and our automatic electrical wire processing systems are widely used in the market.



*Figures until FY2020 are the sum of Mechatronics-related Business, Environment-related Business, and Fluid Business. Figures from FY2021 onward are the sum of Mechatronics-related Business and Environment-related Business.

Social issues to be solved

- Contribution to CASE in the automotive industry
- Development of new production facilities, particularly in line with next-generation technology innovations such as the shift to electric vehicles (EVs) and automated driving
- Contribution to carbon neutrality by providing secondary battery facilities

Strengths

- Comprehensive lineup of vacuum systems, including vacuum drying systems for secondary batteries and vacuum deposition systems (evaporation systems) for lamps, primarily for the automotive industry, and vacuum equipment and component products for the power semiconductor market
- Highly competitive automatic electrical wire processing systems in the automotive wire harness industry with our detailed technical response to customer-specific specifications, excellent production capability, and processing quality
- Global service network covering regions with auto-related production facilities
Vacuum systems: 31 locations in 12 countries (including 18 distributors)
Automatic electrical wire processing systems: 29 locations in 16 countries (including 13 distributors)

Business opportunities

- Global deployment of equipment with enhanced productivity and reliability to meet the rapidly growing demand for secondary batteries due to the promotion of the shift to EVs
- Increased demand for wire harnesses and the diversification and increased adoption of special electric wires for EVs, self-driving vehicles, etc.
- Expansion of sales of special motor products to the diversifying electrification industries (hydroelectric power generation systems, semiconductor manufacturing systems, aerospace, etc.)
- Increasing new demands and service requests due to changes in customers' production bases in a rapidly changing global situation
- Ongoing demand for labor savings driven by global labor shortages and rising labor costs

Strategic action

- Develop a new type of vacuum drying system utilizing vacuum and automation technologies to meet the diversifying needs of secondary battery manufacturers
- Establish a production system to meet the rapidly increasing demand in the secondary battery market
- Develop processing systems for special electric wires used in EVs and self-driving vehicles
- Promote initiatives applying IoT and AI as appropriate for each overseas region

Our products and services

- **Vacuum drying system for lithium-ion secondary batteries for EVs (photo on the right)**
We offer a broad lineup of vacuum drying systems from batch type to in-line type with improved productivity depending on the production line for secondary batteries. Sales are expanding mainly in the US and Europe, where the shift to EVs is accelerating.
- **Expansion of after-sales service bases**
We have established after-sales service bases for vacuum systems in Hungary and the US. Currently, we are enhancing our service system for automatic electrical wire processing systems for markets with growth potential: Europe, North Africa, and Latin America.



In-line vacuum drying system

Business overview

Demand for new construction and renewal of environmental plant facilities (refuse transfer station system and refuse resources recycling centre), our core business, remains strong.

Due in part to the effects of the DBO contracts*, which undertake the entire process from construction to maintenance, operation, and management of facilities, the number of facilities we operate is 24 as of FY2023, and is expected to increase by 2 to 3 facilities from FY2024 onward.

Earnings deteriorated in FY2022 due to soaring costs of construction and materials for facilities, but we expect the impact on earnings to be minimized through various measures in FY2023.

*DBO: Design, Build, and Operate

Social issues to be solved

- Provision of facilities for wide-area treatment and aggregation of refuse in line with the decreasing amount of refuse generated due to population decline
- Provision of facilities and technologies to compensate for aging population and labor shortages for the stable operation of environmental facilities as social infrastructure
- Provision of safe and highly efficient facilities and equipment by proposing renovations to extend facility life and reduce environmental impact, and applying digital technologies such as automated equipment and AI amid a growing number of aging environmental facilities
- Tightening of environmental regulations in China

Strengths

- Track record of continuously carrying out construction, maintenance, and management of social infrastructure related to refuse treatment
- An expanded stock business achieved by undertaking the entire process from construction to operation of environmental facilities (refuse transfer station system and refuse resources recycling centre) with our proprietary technologies and extensive track record (number of facilities operated as of April 2023: 24)
- Development of new business in China, from designing and manufacturing to operating organic wastewater treatment systems for environmental facilities (refuse transfer station systems, landfill sites, etc.) and plants

Business opportunities

- Surging demand for new construction of refuse transfer station systems to accommodate wide-area refuse collection and transport
- Increased demand for renewal of environmental facilities (refuse transfer station system and refuse resources recycling centre) to address the aging of facilities and wide-area refuse collection and transport
- Increased demand for facility renovation to respond to changes in refuse collection patterns and prevent fires at facilities caused by batteries
- Growing demand for advanced wastewater treatment technology in China due to tighter environmental regulations

Strategic action

- Provide automation and labor-saving systems that make full use of AI and IoT in environmental facilities
- Construct systems to supplement stable operation of related facilities through remote monitoring technology
- Improve reliability by applying digital technology in maintenance and facility operation know-how
- Expand sales in China of our proprietary systems that enable difficult wastewater treatment

Our products and services

- **Environmental plant facilities (refuse transfer station system and refuse resources recycling centre)**

Currently, municipalities across Japan are promoting wide-area refuse collection and transport and consolidation of refuse treatment facilities under the leadership of the Ministry of the Environment to ensure sustainable, proper waste management into the future. Efficient waste transportation is essential to promote wide-area refuse collection and transport while reducing greenhouse gas emissions. Refuse transfer station systems, our primary area of expertise, play an important role in developing social infrastructure, and we cater to various needs of municipalities across Japan.



Fluid Business

- The business originated from the commercialization of self-priming pumps developed with motorcycle engines as the underlying technology.
- It has contributed to social infrastructure development over many years through involvement in the sewerage business.
- ShinMaywa's submersible pumps for transporting sewage to sewage treatment plants have been used since the early days of infrastructure development in Japan, and have contributed to increased sewerage system coverage.



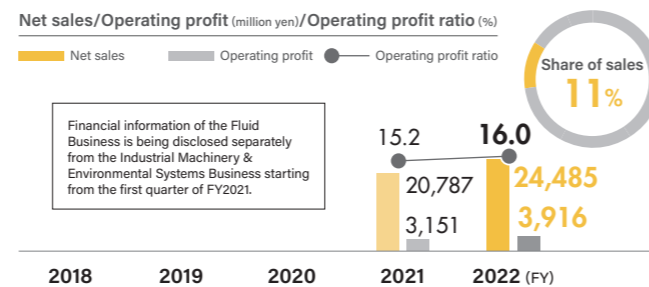
Aircraft Business

- Even today, 100 years after the founding of its predecessor company Kawanishi Aircraft Company, the Aircraft Business is one of ShinMaywa Industries' core businesses.
- The business strives to maintain the air transportation and aviation infrastructure through the development, design, manufacture, maintenance, and operational support of aircraft, including US-2 STOL search and rescue amphibian, thereby contributing to the development of an affluent society.
- With the defense business at its core, it will contribute to society by expanding into new areas, such as civil aircraft, advanced technology research, and the application of aircraft technology to other products.



Business overview

Domestic public sector demand is expected to continue to grow in the field of flooding countermeasures due to measures such as the Plan for National Resilience and in the field of renewals and servicing due to the wide-area expansion and joint operation of sewerage facilities and the promotion of stock management. In the domestic private sector, interest in energy-saving products is high, and demand is expected to increase mainly for turbo blowers manufactured by a wholly-owned subsidiary TurboMAX Co., Ltd. Overseas demand is also expected to be firm.



Social issues to be solved

- Flooding countermeasures for torrential rain and typhoons, which have increased in recent years
- Maintenance and inspection services for saving energy and labor in maintaining sewerage and other facilities

Strengths

- Track record of continuously carrying out construction, maintenance, and management of social infrastructure such as sewerage treatment facilities
- Capability to provide sewerage businesses with services ranging from design and manufacturing of fluid products such as pumps to after-sales service, all within the Group
- High-mix low-volume production of products with special specifications for sewerage businesses

Business opportunities

- Increasing demand for submersible pump technology for increased water resistance as flooding countermeasures in sewerage facilities
- Increasing demand for high-efficiency equipment to reduce energy consumed in sewerage treatment
- Utilization of AI and IoT technologies for the maintenance, management, and service life extension of sewerage facilities

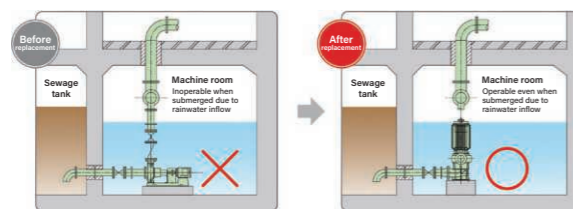
Strategic action

- Provide equipment and system products and services in line with the Fundamental Plan for National Resilience and sewerage stock management plans
- Establish an integrated manufacturing, sales, and service system for products for infrastructure development in various overseas regions
- Provide services that make full use of AI and IoT

Our products and services

• Water-resistant pumps (for continuous operation in air)

Equipped with a motor that has a cooling function, these amphibious pumps can withstand long-time continuous operation while exposed to the air. These pumps are used as measures against flooding disasters, contributing to increased water resistance of sewerage facilities.



Example of replacement of a horizontal surface pump with a vertical wet/dry pit type (water-resistant) pump

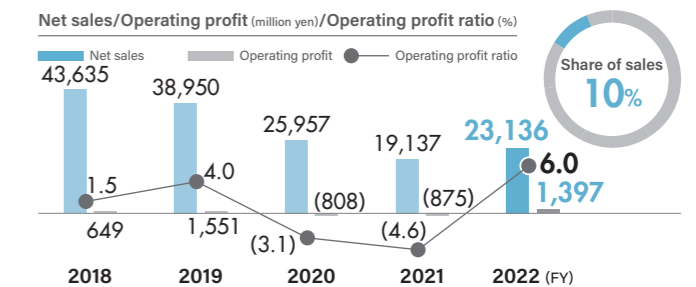


Vertical wet/dry pit type (water-resistant) pump (cross-sectional view)

Business overview

In the defense-related business, capacity utilization is expected to increase as the work on US-2 STOL search and rescue amphibian (No.9) begins in earnest. In addition, operations for defense-related products are expected to increase due to future increases in the defense budget.

Private-sector demand for aircraft is on a recovery trend as the airline passenger demand, which was heavily affected by the COVID-19 pandemic and declined, is expected to recover.



Social issues to be solved

- Contribution to the achievement of a low-carbon society through weight reduction technology
- Establishment of unmanned and labor-saving technologies and maintenance of business foundations related to defense projects as measures to address the declining birthrate and aging population
- Utilization of STOL amphibians and unmanned aircraft, improvement of manufacturing efficiency, and promotion of recycling to curb global warming

Strengths

- Development and design technology for special aircraft such as the US-2 STOL search and rescue amphibian
- Mass production technologies for design, processing, quality assurance (non-destructive testing), and other processes related to weight reduction technology (utilization of carbon fiber reinforced plastics)
- Development and design personnel with extensive experience, and a corporate culture of striving for high goals
- Organization capable of meeting the high quality demands of the aircraft industry and improvement activities to maintain and increase cost competitiveness

Business opportunities

- Increased defense budget due to rising geopolitical risks and ongoing efforts by the government to foster Japan's defense industry (private sector)
- Proposal to expand the use of high-performance STOL amphibians to cope with the increase in large-scale disasters caused by global warming
- Growing need for fixed-wing unmanned aircraft (drones) and flying cars, and the trend toward deregulation

Strategic action

- Continuously introduce completed aircraft models to the market and expand maintenance, repair, and overhaul (MRO) business
- Expand the use of STOL amphibians and coordinate with related organizations for use in transporting people and goods and for firefighting
- Promote commercialization of business aircraft maintenance, parking, and commissioned flight operation utilizing existing infrastructure (people, equipment, and experience)
- Promote activities to win orders for composite material components in new fields and markets (lower cost, general consumer products, use in flying cars, etc.) by establishing mass production technology
- Promote R&D for social implementation of fixed-wing unmanned aircraft and commercialization through collaboration with other companies

Our products and services

Services using fixed-wing unmanned aircraft

- Products** Fixed-wing unmanned aircraft (unmanned STOL amphibian) with autonomous control flight and route flight capabilities
- Services (market development underway)**
 - Services in a wide range of fields including observation, monitoring, and communications
 - Undersea resource and energy research service; goods transportation service to remote islands
- Features and future plans** This STOL amphibian is designed and manufactured in-house with the open-sea landing technology cultivated through the development of US-2 STOL search and rescue amphibian and the autonomous flight technology for unmanned aircraft we developed. It allows for easy reloading of mission equipment, antennas, etc., and easy remodeling of aircraft according to the customer's intended use. We are working to develop larger, more versatile products to meet expected future demand.



Unmanned STOL amphibian XU-M

Key ESG Issues (Materiality)

The ShinMaywa Group has identified material issues based on ESG perspectives in order to implement sustainability management and realize its long-term vision. Sustainability management will support our long-term business strategies for accelerating profit growth, and it aims to improve business sustainability through consideration of environmental, economic, and social sustainability.

Going forward, we will work to sustainably enhance our corporate value by promoting the resolution of these issues.

Key ESG issues (Materiality)	Crucial themes	Key KPIs and Targets	FY2022 results	FY2023 targets	Future directions, etc.
Preventing global warming	Reducing greenhouse gas emissions from production activities (Scope 1, 2)	<ul style="list-style-type: none"> Total CO₂ emissions from energy use¹ Reduce total CO₂ emissions by 38% in FY2030 (compared to FY2017) 42,720 t (FY2017 result) ⇒ 26,486 t (-16,234 t FY2030 target) 	27,412 t-CO ₂	35,228 t-CO ₂	In FY2022, our CO ₂ emissions dropped temporarily as the impact of external factors stemming from the COVID-19 pandemic, conflict in Ukraine, and other developments slowed our business-expansion efforts. Page 41 >
	Providing products and services with less environmental impact	Develop and sell energy-saving and low-carbon products and provide low-carbon services and businesses	-	-	See: Long-Term Management Plan/Medium-Term Management Plan, Pages 17-18 > See: Business Strategies, Pages 23-28 >
		Conduct scenario analysis for climate change based on TCFD recommendations	-	-	See: TCFD, Page 43 >
Contributing to a recycling-based society	Reducing waste	<ul style="list-style-type: none"> Total waste generated¹ FY2030 target: Reduce by 10% (compared to FY2020) Total waste in FY2020 (actual): 8,111 t FY2030 total waste (target): 7,300 t (811 t reduction) 	6,654t	7,868t	In FY2022, our total waste generated dropped temporarily as the impact of external factors stemming from the COVID-19 pandemic, conflict in Ukraine, and other developments slowed our business-expansion efforts. Page 42 >
Promoting diversity and inclusion	<ul style="list-style-type: none"> ●Nurturing an organizational culture that respects and supports diversity (heterogeneity) Build systems, raise awareness, improve environment ●Acquiring diversity inherent in individuals Engage in human resources training, human resources development, and recruitment of diverse human resources ●Creating opportunities for individuals to make use of their diversity and "Will" Improve business competitiveness (strengthen management foundations) and integrate with long-term business strategies 	<ul style="list-style-type: none"> ●Number of female managers (%: number of female managers/total number of managers)² FY2023 target: 30 (2%); FY2030 target: 60 (3%) 	33 (2%)	30 (2%)	The FY2023 target was reached ahead of schedule. Discussions of new targets are in progress. Page 45 >
		<ul style="list-style-type: none"> ●Number of women in assistant manager position or above (%: number of women in assistant manager position or above/total number of people in assistant manager position or above)² FY2023 target: 100 (4%); FY2030 target: 230 (6%) 	106 (4%)	100 (4%)	The FY2023 target was reached ahead of schedule. Discussions of new targets are in progress.
		<ul style="list-style-type: none"> ●Proportion of non-Japanese managers (%: number of non-Japanese managers/total number of managers)² FY2023 target: 10% or more; FY2030 target: 10% or more 	9%	10% or more	
		<ul style="list-style-type: none"> ●Proportion of managers who are mid-career hires (%: number of managers hired mid-career/total number of managers)² FY2023 target: 28% or more; FY2030 target: 28% or more 	30%	28% or more	The FY2023 target was reached ahead of schedule. Discussions of new targets are in progress.
		<ul style="list-style-type: none"> ●Human capital investment amount (investment per person) Work to maintain/expand on FY2022 levels 	210,000 yen (investment per person)	-	We are working to maintain/expand on FY2022 levels. Pages 31-32 >
		<ul style="list-style-type: none"> ●DX human resources portfolio (per 100 FY2022 internal employees) · Key capabilities³ FY2026 target: 140% relative to FY2022; FY2030 target: 170% relative to FY2022 · All-around capabilities⁴ FY2026 target: 130% relative to FY2022; FY2030 target: 150% relative to FY2022 	Defined targets for FY2026 and FY2030 based on results for FY2022	-	· Key capabilities ³ FY2026 target: 140% relative to FY2022 FY2030 target: 170% relative to FY2022 · All-around capabilities⁴ FY2026 target: 130% relative to FY2022 FY2030 target: 150% relative to FY2022
		<ul style="list-style-type: none"> ●Engagement survey score · Highly positive responses⁵ FY2026 target: 15 points; FY2030 target: 30 points · Positive responses⁶ FY2026 target: 70 points; FY2030 target: 80 points 	<ul style="list-style-type: none"> · Highly positive responses 11 points · Positive responses 61 points 	-	· Highly positive responses ⁵ FY2026 target: 15 points FY2030 target: 30 points · Positive responses⁶ FY2026 target: 70 points FY2030 target: 80 points
		Conduct employee survey (issue identification)	Finished identifying issues	-	
Establishing comfortable workplace environments	Implement human rights due diligence based on Human Rights Policy	Conduct "harassment training" for management-level employees	<ul style="list-style-type: none"> · Clarify processes · Identify and evaluate human rights risks · Take corrective action to address human rights risks 		
	Acquire certification as a Health & Productivity Management Organization	Certified in March 2023	-	Page 47 >	
	Acquire national "Eruboshi" certification	Set targets for evaluation items	Take approaches to achieve targets for evaluation items		
Enhancing corporate governance systems	Strengthening the supervisory function of the Board of Directors	Clarify the skills and experience required of members of the Board of Directors	Began operation of the skills matrix	-	Page 38 >
		Ensure the systematic development and diversity of management personnel	Began operation of the succession plan	-	
	Ensuring legitimacy in execution of duties	<ul style="list-style-type: none"> Instill awareness of compliance among executives and employees Develop a control environment that includes Group companies 	<ul style="list-style-type: none"> Regular implementation of awareness-raising activities and awareness surveys (once a year) Establishment of a set of corporate regulations that also apply to Group companies 	<ul style="list-style-type: none"> Regular implementation of awareness-raising activities and awareness surveys (once a year) Establishment of a set of corporate regulations that also apply to Group companies 	Page 40 > Page 40 >
Establishing and strengthening risk management systems	Establishing and strengthening company-wide risk management systems	Develop a risk management system that includes Group companies and monitor important risks	Periodic reporting to the Executive Committee and Board of Directors (twice a year)	Periodic reporting to the Executive Committee and Board of Directors (twice a year)	Page 39 >
		Develop business continuity plans (BCPs) for natural disasters, infectious diseases, etc.	Training and review based on the results of implementation (once a year)	Training and review based on the results of implementation (once a year)	Page 39 >
	Strengthening electronic information management systems	Review wide area networks (WANs), reform security regulations, and strengthen incident responses	Created networks at major bases to achieve secure, stable connections to the external environment	Establish an incident-response framework, help response training take root on a company-wide basis, and take quick action on generative AI and other new technologies	
	Ensuring quality and safety	Understand and support the status of quality control and product safety risk information, including Group companies	Continued to release the latest information* and work to raise awareness	Continue to release the latest information and work to raise awareness	*Information on legal revisions, product safety, product accidents, etc.
Promoting CSR procurement	Formulate CSR requirements and build systems to execute CSR procurement rationally/effectively/continuously	<ul style="list-style-type: none"> · At policy briefings, etc., raised awareness of guidelines issued for 291 major business partners · Provided educational programs on CSR/sustainable procurement for 108 persons in charge of procurement 	Conducted a supplier CSR survey via the portal site (in development) for suppliers (Survey scope: 100 major companies)	Page 48 >	

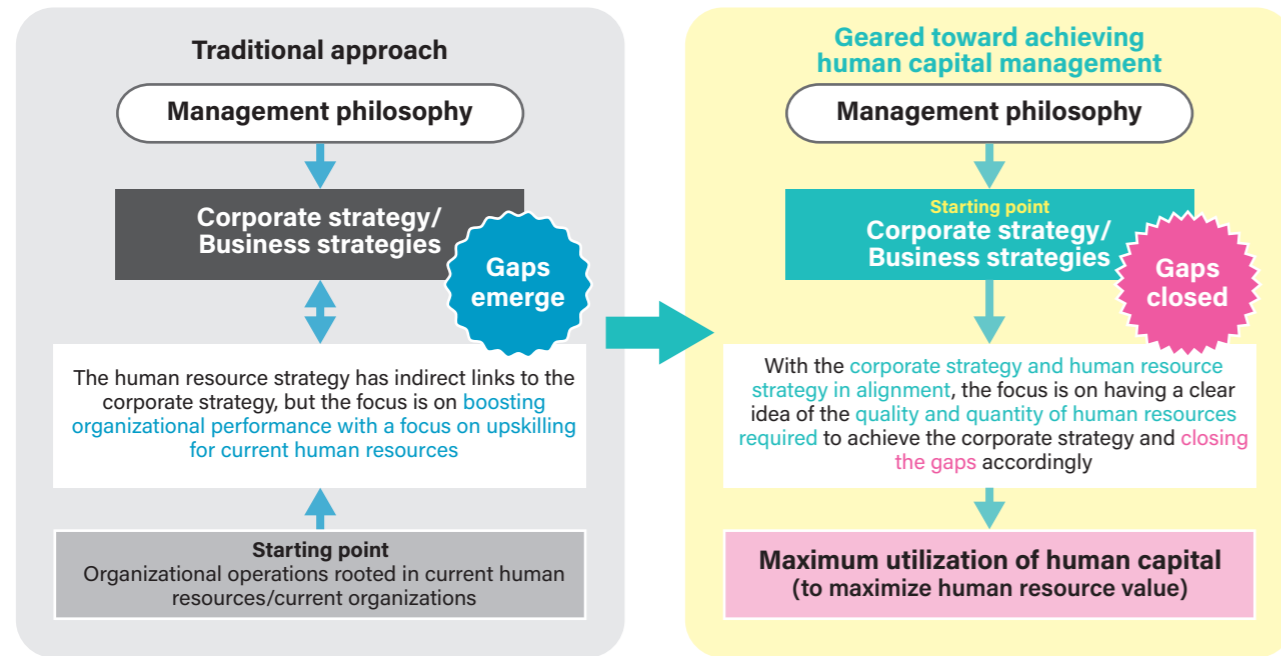
*1: Non-consolidated figures; *2: Figures for the Group as a whole; *3-6: See [Pages 31-32](#)

Bringing human capital management to fruition

A transition in the human resources strategy

ShinMaywa Industries is working to propel progress toward the realization of human capital management by embarking on a significant shift, a transition that aims to maximize human resource value. That process will entail breaking away from the traditional approach of organizational operations rooted in current human resources and organizations and

starting from the corporate strategy and business strategies rooted in the management philosophy. Based on the human resources strategy aligned with those core strategies, we will ascertain the quality and quantity of human resources required to bring the corporate strategy to fruition and close the gap with the current conditions.



Keys to pursuing human capital management at ShinMaywa Industries

01 We will work to identify the quality and quantity of human resources required to achieve the corporate strategy, and we will take a variety of measures to ensure that we have that necessary foundation.

02 Diversity among individual human resources is essential to our growth as a company. Recognizing that need, we will implement D&I initiatives with a focus on inclusion to help us maximize the benefits of diversity.

Linking the corporate strategy and the human resources strategy

Enhancing employee engagement

As we do so, we will also further the DX strategy—a vital component of the corporate strategy—by setting targets for securing and developing DX human resources and conducting corresponding operations in line with the DX Strategy Basic Policy.

The following are main pillars to achieve 01 and 02.

1. Clarifying the concept of human capital investment and making planned investments accordingly
2. Managing our DX human resources portfolio
3. Aligning career development (reskilling) with business strategies
4. Fostering a comfortable, open workplace environment and nurturing a culture where employees share values across rank lines

With the above main pillars, we will put into practice specific human resources strategy.

Efforts, indicators, and targets to tackle issues in achieving human capital management

Based on our direction toward realizing human capital management, our efforts to bring the corporate strategy and human resources strategy into optimal alignment will focus on three core objectives.

- Clarifying the concept of human capital investment and making planned investments accordingly
- Managing our DX human resources portfolio and aligning career development (reskilling) with business strategies
- Fostering a comfortable, open workplace environment and nurturing a culture where employees share values across rank lines

We will implement the human resources strategy and support the execution of the corporate strategy, using KPIs and targets to guide the way.

(a) Human capital investment

Our human capital investment amounts for FY2022 were as follows. From FY2023 onward, we will work to maintain and expand on the FY2022 per-person human capital investment amounts.

Main purpose	FY2022 results (per person)
Developing human resources	152,000 yen
Improving internal environments	58,000 yen
Total	210,000 yen

(b) DX human resources portfolio

Defining DX human resources

At ShinMaywa Industries, "DX human resources" are "human resources who have capabilities for any of the five human-resource types in the 'Digital Skill Standards for DX Promotion' published by the Ministry of Economy, Trade and Industry in December 2022." To "have" one of the capabilities stipulated in the Standards, a human resource must satisfy the requirements of "Level 4"^{*1} or "Level 3"^{*2} in the "Level definitions" of the "Skill Standards for IT Professionals" published by the Ministry of Economy, Trade and Industry in 2002.

Setting KPIs and targets for the DX human resources portfolio

For the five human-resource types, we first set our KPIs and targets for two categories: KPIs for the bolstering capabilities in the priority human-resource types of "business architects" and "data scientists" ("key" capabilities), and KPIs for improvements in capabilities applicable to all five types ("all-around" capabilities). We then set numerical targets, which we expressed in terms of human resources per 100 FY2022 internal employees.

	KPI	FY2022	FY2026	FY2030
Capabilities of DX human resources	Key	100%	140%	170%
	All-around	100%	130%	150%

^{*1} Able to leverage specialized skills and lead the way in identifying and developing solutions to issues
^{*2} Able to carry out assigned tasks independently

(c) Engagement survey score

Configuring the engagement survey score

After selecting ten items from the July 2022 D&I Survey that either had direct connections to "improving engagement" or correlations with those items, we looked at the responses for each survey question^{*3} and separated them into categories. Those that reflected "ideal conditions" were categorized as "highly positive responses," while those considered "affirmative" were categorized as "positive responses." We then used the average percentages of the responses in the two categories, relative to the total number of responses, as the points for our engagement survey score.

KPIs and targets for the engagement survey score

KPI	FY2022	FY2026	FY2030 (final year of the long-term vision)
Highly positive responses	11 points	15 points	20 points
Positive responses	61 points	70 points	80 points

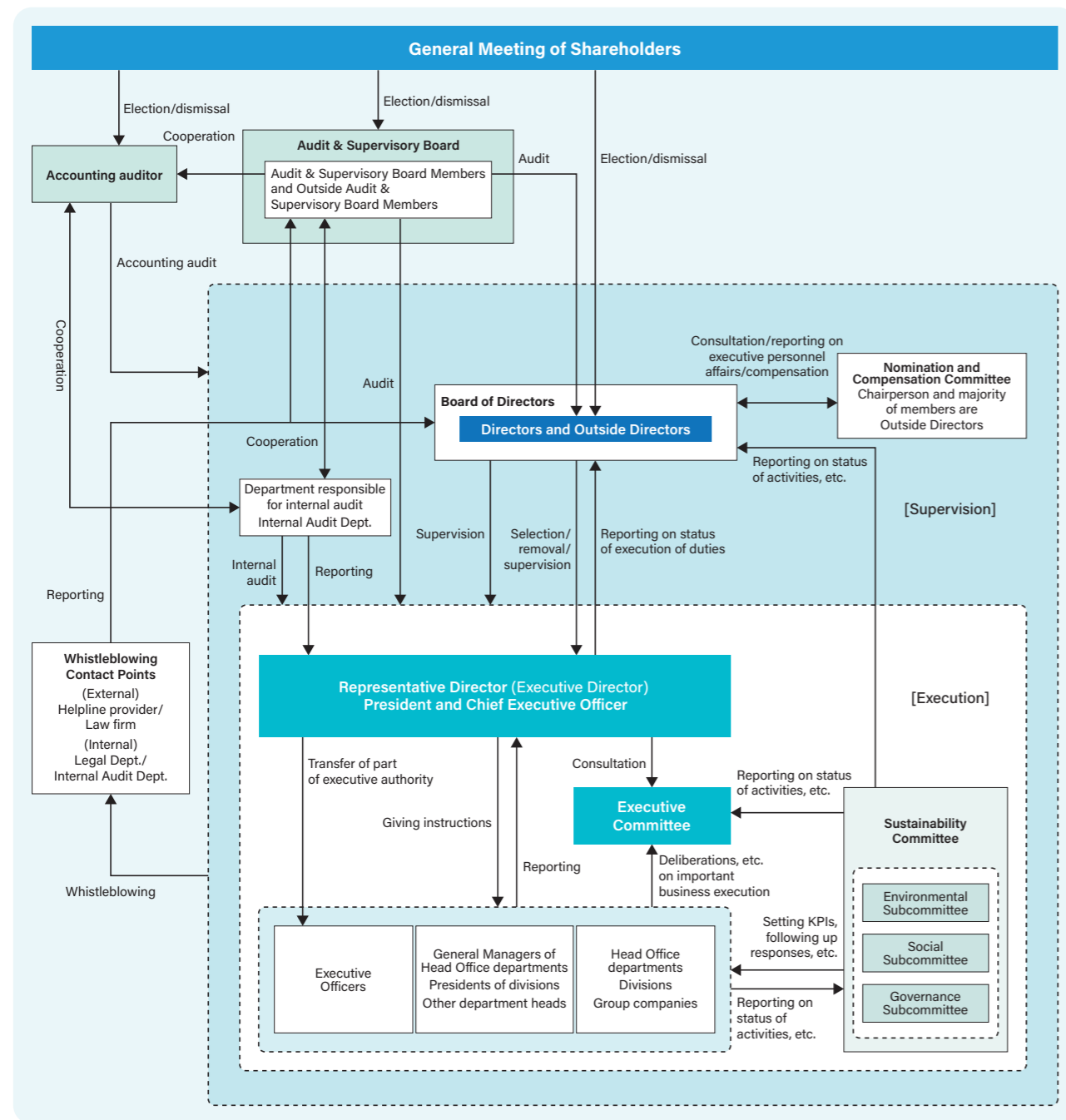
^{*3} Respondents were asked to select the response that best reflects the current conditions from four choices.

Basic policy

The ShinMaywa Group conducts corporate activities in accordance with relevant laws and regulations, as well as with social norms and common sense, and also ensures transparency and rationality in its management in order to sustainably

increase its corporate value. In doing so, we believe that it is vital to create and operate a corporate governance system and also to continuously review and improve that system.

Corporate governance system



Governance system timeline

	1994	2000	2010	2020	(FY)
Management structure			Introduced executive officer system		
			Established the Management Personnel Committee		
				Renamed Management Personnel Committee to Nomination and Compensation Committee	
			Established the Internal Audit Office (Currently: Internal Audit Dept.)		
			Established the Corporate Ethics Helpline, a whistleblowing system		
				Added an external contact point to the Corporate Ethics Helpline	
Directors			Appointed one outside director		
			Appointed two outside directors		
				Appointed three outside directors, resulting in a system in which one-third (3 out of 9) of the directors are outside directors	
				Appointed one female outside director	
				Abolished the retirement benefit system for directors and Audit & Supervisory Board members	
Officer compensation				Introduced a transfer-restricted stock compensation plan (RS)*	
				Introduced a performance share unit plan (PSU)*	
Audit & Supervisory Board members			Appointed two Outside Audit & Supervisory Board members, resulting in half (two out of four) of the Audit & Supervisory Board members being Outside Audit & Supervisory Board members		
				Appointed three Outside Audit & Supervisory Board members, resulting in a system in which Outside Audit & Supervisory Board members constitute the majority (three out of five members)	
				Appointed one female Outside Audit & Supervisory Board member	

*Outside directors and Audit & Supervisory Board members are not eligible.

Management and execution structure

As part of its institutional design based on the Companies Act, ShinMaywa Industries has adopted the Company with a Board of Company Auditors system. It has introduced an executive officer system subsequent to establishment of the General Meeting of Shareholders, Board of Directors, Audit & Supervisory Board, and accounting auditor.

The Company has adopted an executive officer system intended to strengthen management functions by transferring authority over individual business operations to executive officers in order to speed up decision-making processes and clarify executives' responsibilities while freeing up the Board members (Board of Directors) to focus on evaluating individual businesses, making decisions about the allocation of management resources, and exercising supervision over business operations from a company-wide perspective. Through this executive officer system, the Company aims to enhance its corporate governance and realize higher operational efficiency.

In addition, from the perspective of building an effective governance structure, we have established an Executive Committee, a Sustainability Committee, and an Internal Audit Dept.

Board of Directors

The Company currently has eight directors, of which about one-third (three) are outside directors.

The Board of Directors' meetings are held once a month, in principle, to discuss and consider important management issues based on the medium- and long-term management plan and to monitor the execution of duties by Board members as appropriate.

The outside directors are mainly expected to monitor management of the Company from an objective position that is independent of the management personnel, provide advice on management and provide broad and diverse perspectives for realizing increasing corporate value and sustainable growth over the medium to long term. They are selected from among persons who have management experience and other diverse experience, skills, and expertise and are effectively independent of the Company.

Audit & Supervisory Board

The Company has five Audit & Supervisory Board members, three of whom are outside Audit & Supervisory Board members. Each Audit & Supervisory Board member attends the meetings of the Board of Directors and other important meetings to hear reports on the Company's operations from officers and employees, and audits the status of the execution of duties by directors. They also confirm the appropriateness of the auditing methods and audit results of the accounting auditor.

Applying their varied experience and backgrounds, Outside Audit & Supervisory Board members help to ensure neutrality and effectiveness of auditing by expressing their opinions on the execution of duties by directors, mainly from the perspectives of expertise in their specialized fields.

The Audit & Supervisory Board meets regularly with the president and chief executive officer to receive reports on the status of management and operations, and to exchange opinions based on the status and findings of the audit conducted by the Audit & Supervisory Board members. In addition, information and opinions are exchanged between Audit & Supervisory Board members and outside directors for the purpose of enhancing discussions at the meetings of the Board of Directors.

Nomination and Compensation Committee

The Company has voluntarily established a Nomination and Compensation Committee with a view to further improving the transparency and appropriateness of personnel affairs and compensation programs. The Committee is consulted in advance when selecting candidates for executive positions and determining executive compensation and bonuses.

The majority of the Committee members and the chairperson are outside directors, and this ensures the independence and fairness of the Committee.

Executive Committee

The Company has established the Executive Committee as an advisory body to the president, and it meets several times a month for the purpose of discussing medium- to long-term management plans, formulating Company-wide management strategies, and deliberating and reporting on important matters related to business execution.

Accounting auditor

Grant Thornton Taiyo LLC has been appointed as the accounting auditor in accordance with the Companies Act and the Financial Instruments and Exchange Act.

Officer compensation

Directors' compensation consists of monthly compensation (fixed compensation), bonuses (performance-linked compensation), and stock compensation (non-monetary compensation). In addition, the compensation level is designed to serve as motivation for medium- to long-term performance improvement and the sustainable enhancement of corporate value based on our management philosophy and long-term vision, as well as an incentive to attract and retain excellent management personnel.

Stock compensation consists of a **transfer-restricted stock compensation plan (RS)**, under which transfer restrictions are lifted upon retirement from the position of director, and a **performance share unit plan (PSU)**, under which the payment rate is determined in the range of 0% to 200% based on the achievement rate of numerical targets during a certain performance evaluation period.

Sustainability Committee

The Company has established a Sustainability Committee with the aim of promoting sustainability management that takes environmental (E), social (S), and governance (G) factors into account to sustainably enhance corporate value and create social value. The Committee is chaired by the executive officer in charge of sustainability and is composed of members including executive officers in charge of *monozukuri* and of human resources and legal affairs. The Committee determines materiality and sets KPIs related to the ESG factors, and reports and makes proposals to the Board of Directors and the Executive Committee regarding the results of monitoring on the progress of related measures and other actions.

Review and discuss management policies, issues, indicators, etc. related to CSR
Review, discuss, and decide on matters to be discussed at the meetings of the Executive Committee and the Board of Directors
Monitor the status of issue resolution and achievement of indicators, and make recommendations
Report and express opinions to the Executive Committee and the Board of Directors on the status of achievement and improvements made, etc.
Review and discuss the disclosure of CSR information through the Company's website and Integrated Reports, etc.

Internal Audit Dept.

The Internal Audit Dept. is in charge of internal audits in the ShinMaywa Group and consists of 12 members. Based on the annual audit plan, the Internal Audit Dept. verifies whether the internal control functions of the Company and its Group companies are functioning effectively, and makes proposals for improvement and streamlining based on the results. The results of internal audits are compiled into an audit report, which is presented to the Board of Directors.

Audit & Supervisory Board members, the accounting auditor, and the Internal Audit Dept. work together and coordinate with each other to conduct efficient audits.

Appointment of officers

The Company clearly defines the experience, skills, and expertise that members of the Board of Directors should possess, and selects candidates for the Board of Directors from among those who possess such qualifications.

In addition, in order to make the evaluation and responsibilities of the management team clear, the term of office of directors and executive officers is set at one year, and a Nomination and Compensation Committee has been established to further improve the transparency and appropriateness of related personnel affairs and compensation programs.

On the other hand, outside directors and Audit & Supervisory Board members are paid only a monthly compensation (fixed compensation) in light of their role in supervising the Company's management from an independent and objective standpoint.

In order to enhance the transparency and appropriateness of compensation, the Nomination and Compensation Committee, the majority of whose members are outside Directors, has been established, and in determining the compensation of officers, the Committee is consulted in advance. The Board of Directors adopts a resolution based on the Committee's report.

(Note) The performance share unit plan (PSU) was introduced in June 2022.

Composition of compensation (FY2023)

Basic compensation	Performance-linked compensation			
	Fixed compensation	Annual bonus	RS	PSU
60%		25%	8%	7%

(Note) The share indicated for each compensation is for a standard model case (average of eligible officers) calculated based on the standard amount for when performance targets are achieved.

Composition of compensation (FY2022)

Officer category	Total compensation (million yen)	Total compensation by type (million yen)				Number of officers eligible
		Basic compensation	Performance-linked compensation		Transfer-restricted stock compensation	
			Bonus	Stock compensation		
Directors (of which, outside directors)	324(28)	206(28)	75(-)	7(-)	36(-)	11(4)
Audit & Supervisory Board members (of which, outside Audit & Supervisory Board members)	54(18)	54(18)	-(-)	-(-)	-(-)	5(3)

Officers (internal directors' compensation system)

Officers' compensation of the Company is comprised of the following items, and the composition ratio of compensation paid varies for each fiscal year because the amount of bonus (performance-linked compensation) paid differs each year and the amount of performance share unit (non-monetary compensation) paid differs based on each medium-term management plan.

01 Monthly compensation The levels for each job rank are deliberated in reference to the levels in society.	+	02 Bonus We calculate the level of President and Chief Executive Officer based on profit for the fiscal year, and then set the levels of other directors by multiplying the level of President by factors for each job rank. Finally, individual amounts are determined taking into consideration operating profit of the division in charge, an increase or decrease in ROIC, and medium- to long-term elements that have been worked on during the fiscal year toward realization of the medium- to long-term strategies.	+	03 Performance share unit The Board of Directors determines the amounts according to the job ranks, years of service, and the degree of achievement of performance targets during the period of the relevant medium-term management plan within the upper limit of the number of shares in common stock of the Company (up to 600,000 shares per year) issued by paying in all the amount of the monetary claims (up to 400 million yen per year) determined based on a resolution of the Ordinary General Meeting of Shareholders.	+	04 Transfer-restricted stock compensation The Board of Directors determines the amounts in consideration of the job ranks and the levels in society, within the upper limits of monetary claims (up to 50 million yen per year) and the number of shares (up to 75,000 shares per year) determined based on a resolution of the Ordinary General Meeting of Shareholders.
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Details of the Board of Directors effectiveness evaluation and questionnaire survey

Every year, the Company commissions an outside organization to conduct a questionnaire survey (which uses both a 5-point scale evaluation style and a free writing style) regarding the effectiveness evaluation of the Board of Directors.

Given that the majority of opinions heard through the survey was on the positive side, we have judged that the directors and Audit & Supervisory Board members believe that the effectiveness of the Company's Board of Directors is ensured.

In the free comments sections of the questionnaire surveys, respondents have actively expressed their opinions regarding themes such as (i) strengthening of monitoring of the progress of the medium-term management plan and (ii) deepening of discussion on such matters as effective use of management resources including growth investments and business portfolio management, from the

perspective of strengthening of the supervisory function of the Board of Directors on execution of duties that is required by corporate governance code, etc.

Based on these opinions, the Company intends to implement measures to further improve the effectiveness of the Board of Directors by, for example, reviewing the schedules set for major agendas of the Board of Directors and Executive Committee and materials created therefor, in order to ensure that deliberations at Board of Directors meetings and the internal discussions that form the premise for such deliberations are conducted in a well-planned and fulfilling manner.

Directors and Audit & Supervisory Board Members



01 President & CEO
Tatsuyuki Isogawa

05 Director, Member of the Board
Managing Executive Officer
(Sales, International Business and Digital Transformation Management)
Takashi Kunihara

09 Full-Time Audit & Supervisory Board Member
Koji Nishida

12 Outside Audit & Supervisory Board Member
Eri Sugiyama

02 Director, Member of the Board
Deputy Chief Executive Officer
(Research & Development, Sustainability, and Monozukuri [Manufacturing/procurement/production technology/quality assurance] Management)
Kanji Ishimaru

06 Outside Director, Member of the Board
Yoshifumi Kanda

10 Full-Time Audit & Supervisory Board Member
Tadahiro Shimasaka

13 Outside Audit & Supervisory Board Member
Fumihiko Kimura

03 Director, Member of the Board
Senior Managing Executive Officer
(Legal Affairs, Human Resources & General Affairs, and Human Resource & Development)
Akira Nishioka

07 Outside Director, Member of the Board
Seiko Nagai

11 Outside Audit & Supervisory Board Member
Tomosaburo Kinda

04 Director, Member of the Board
Managing Executive Officer
Toshiki Kume

08 Outside Director, Member of the Board
Toshiyuki Umehara



Skills matrix for directors and Audit & Supervisory Board members

	Management experience	Experience in multiple businesses	Finance (Accounting/Capital policy)	Legal affairs (Compliance/Risk management)	Corporate strategy (Corporate planning)	Human Resources (Labor affairs/Human resource development)	Monozukuri (Manufacturing/procurement/production technology/quality assurance)	Sales (CS/service/marketing)	Engineering (R&D)	International experience	Sustainability (ESG)	Digital transformation (ICT)
Tatsuyuki Isogawa	●	●			●				●			
Kanji Ishimaru	●	●		●	●		●		●	●	●	●
Akira Nishioka	●	●		●	●	●					●	
Toshiki Kume	●	●	●		●							
Takashi Kunihara								●	●	●	●	●
Yoshifumi Kanda	●	●			●			●		●		●
Seiko Nagai						●		●		●		
Toshiyuki Umehara	●	●			●		●	●	●	●		●
Koji Nishida			●	●								
Tadahiro Shimasaka	●	●			●			●				
Tomosaburo Kinda	●	●	●	●	●	●					●	
Eri Sugiyama				●								
Fumihiko Kimura			●	●								

Risk Management

Basic approach

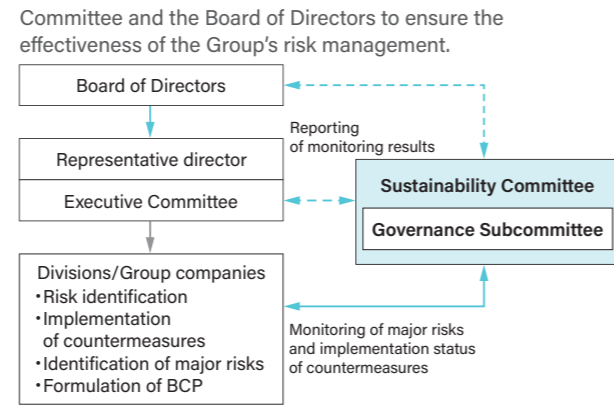
With the aim of maintaining and enhancing corporate value, the ShinMaywa Group has established rules and regulations regarding risk management based on the Basic Policy on Creation of Internal Control Systems to appropriately manage various risks associated with corporate activities and to

minimize damage in the event that risks materialize. In addition, the section on business and other risks in the Annual Securities Report describes risks that have been evaluated as particularly important.

Promotion framework

With regard to risks associated with business execution, we have established the ShinMaywa Group Risk Management Regulations, and each business division and Group company proactively creates a risk management system adapted to the characteristics of its business. Meanwhile, the Head Office monitors the status of risk management at each division and Group company, while also establishing a risk management framework by implementing company-wide measures to address risks including disaster-related and financial risks.

In addition, the Sustainability Committee checks the status and activities of the ShinMaywa Group's risk management framework based on information reported from the Head Office and business divisions, and also identifies major company-wide risks in light of their impact on business operations. The Committee reports such information regularly to the Executive



Business continuity plan (BCP)

When large-scale natural disasters occur, business activities are greatly affected. In the event of a disaster, we will immediately set up a disaster response headquarters to protect the lives of our employees and to fulfill our mission of continuously providing products to our customers by working to quickly resume operation should production activities be interrupted, minimizing the impact on product supply based on the business continuity plan prepared by each production site.

We have also introduced a Safety Confirmation System, which allows us to centrally manage the safety of employees and their families, as well as the status of damages to facilities. For employees, each year we conduct a disaster prevention

(evacuation) drill and multiple Safety Confirmation System operation drills together with Disaster Response Headquarters setup drills.

Furthermore, as a measure to prevent the spread of COVID-19, we conducted the workplace vaccination of our employees, their families, and partner company employees. In addition, as measures to reduce contact between people in workplaces, we are promoting remote work (setting targets for telecommuting rates by department), actively using web conferencing tools, promoting the use of flextime to avoid the commuter rush, and ensuring spaced seating, staggered meal times, and silent eating in cafeterias.

(Note) Rules for spaced seating, staggered meal times, etc. in cafeterias were lifted on May 8, 2023.

Information security

Based on our code of conduct, which is grounded in our management philosophy, we have defined our basic approach to information security and the items requiring compliance. We will continue to be a company trusted by society and all stakeholders by fostering governance and a corporate culture that enables all members of the ShinMaywa Group to recognize the importance of information security and act accordingly.

- 1 ShinMaywa Industries will comply with all laws, regulations, and contractual requirements related to information security.
- 2 ShinMaywa Industries will establish an information security management framework to ensure information security.
- 3 ShinMaywa Industries will establish rules, manuals, and other guidelines for information security in accordance with this Basic Policy.

- 4 ShinMaywa Industries will appropriately protect information systems and information assets from threats such as leakage, theft, loss, alteration, and destruction.
- 5 ShinMaywa Industries will provide regular information security training to those applicable as a means of raising their awareness and technical level.
- 6 In the event of an information security incident, ShinMaywa Industries will promptly address the incident and work toward recovery so as to minimize its impact, and also strive to prevent recurrence.
- 7 ShinMaywa Industries will periodically evaluate its information security measures in order to continuously improve its information security activities in response to changes in the environment and technology.
- 8 ShinMaywa Industries will disclose information related to information security measures in normal times and in the event of an information security incident.

Compliance

Basic approach

The ShinMaywa Group stipulates in its action guidelines and code of conduct that each officer and employee must comply with laws and regulations, and also act with high ethical standards and a sense of responsibility. The action guidelines

and code of conduct are included in the ShinMaywa Group Philosophy book and distributed and communicated to all officers and employees, who put them to practice in their daily work to ensure thorough compliance.

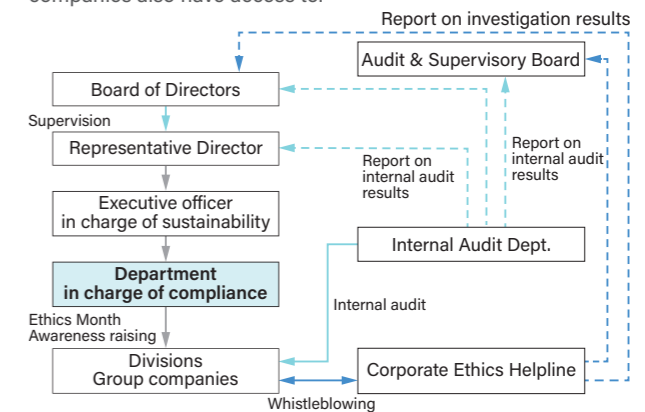
Promotion framework

We have established corporate principles, a management philosophy, code of conduct, and action guidelines as principles for all employees, including those of the Group companies, to act in accordance with laws and regulations, social norms, and common sense, and we share these with Group companies. In addition, we have designated a ShinMaywa Corporate Ethics Day and Corporate Ethics Month to promote efforts to raise compliance awareness and enable various compliance systems to take root within the organization.

In addition to the above, we have appointed an executive officer in charge of sustainability for the purpose of clarifying responsibilities related to corporate social responsibility (CSR) and expediting the execution of operations.

The Company also requires employees to execute their duties in accordance with laws and regulations, the Articles of Incorporation, and internal rules, including the Requests for Decision Rules and the Division of Duties Rules, and conducts internal audits based in the Internal Audit Dept. to verify compliance with these requirements. As well as aiming for early

detection and elimination of compliance risks, the Company strives to detect problematic events widely through such means as use of its whistleblowing contact points, which our Group companies also have access to.



Whistleblowing system

We have established and are operating a Corporate Ethics Helpline, a whistleblowing contact point, for the purpose of early detection of compliance-related problems and elimination of risks through a self-cleansing process. In addition to the internal contact point, an external contact point (lawyers and helpline provider) independent of the management team has been established for whistleblowing, and officers and employees (including fixed-term employees, contract employees, temporary staff, part-timers, etc.) of the Company and Group companies may report incidents without revealing personally identifiable information.

In addition to the Corporate Ethics Helpline, we have established and operate an Employee Help Site (for consultation on employment management and evaluation systems) and a Harassment Consultation Desk as consultation and reporting contact points for specific purposes.

Harassment Consultation Desk

Contact points set up in each business division for the purpose of promoting the creation of a comfortable workplace. Consultation on various types of harassment, including power harassment and sexual harassment, is available.

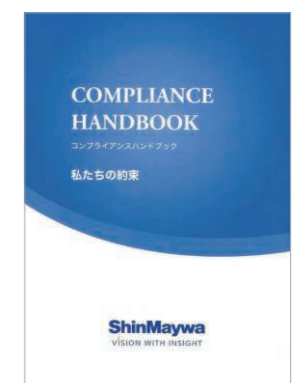
Employee Help Site

A contact point set up in each business division for the purpose of revitalizing the workplace. The Help Site can be consulted on the proper management of overtime work, evaluation systems, and other labor-related issues.

Compliance Handbook

In March 2023, the Company distributed a Compliance Handbook to all officers and employees of Group companies in Japan. This Handbook discusses representative cases of particular note and provides plain explanations regarding respect for human rights, prohibition of offering bribe, etc. to government employees (anti-corruption), elimination of anti-social forces, and other compliance-related themes. The officers and employees can review this book from time to time, discuss compliance issues with colleagues and supervisors based on the cases addressed in this book, etc. In these ways, this Handbook is expected to contribute to raising of the compliance awareness among officers and employees of the Group and the development of a healthy organizational climate.

The Company plans to create translated versions of this Handbook and distribute them to overseas Group companies.



All figures on non-consolidated basis

Basic Philosophy and Action Guidelines regarding Environmental Protection

In April 2022, the ShinMaywa Group newly established its Basic Philosophy regarding Environmental Protection and revised its Environmental Protection Action Guidelines. Going forward, all employees will join forces to further strengthen our commitment to the environment based on the Philosophy and Guidelines, and strive for environmentally friendly corporate activities.

For more details, visit: <https://www.shinmaywa.co.jp/sustainability/esg/environment/>

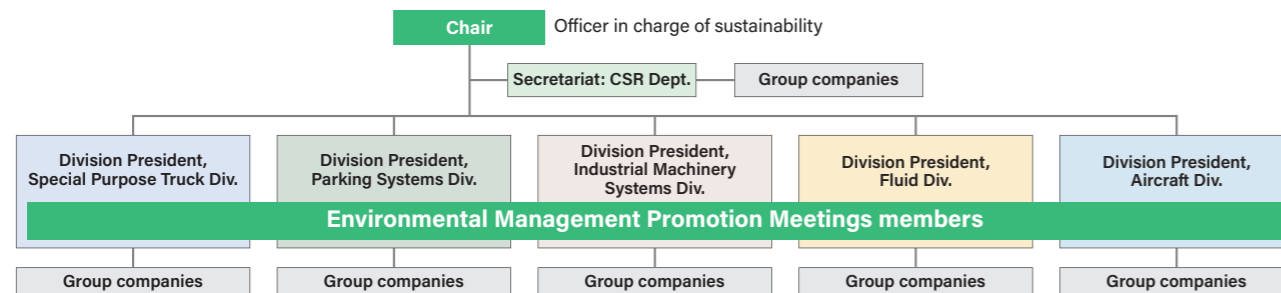


Environmental Management System

Environmental Management Promotion Meetings

We have established the Environmental Management Promotion Meetings as a cross-organizational function for reducing the environmental impact caused by our business activities through such efforts as the promotion of energy conservation, reduction of total waste emissions, and conversion of waste to resources with value. The Meetings set Group-wide goals, and continue to promote efforts such as monitoring and improvement throughout our business activities.

Environmental Management Promotion Meetings Organization Chart



Environmental management system

The Group is promoting the acquisition of ISO 14001 certification, an international standard for environmental management systems (EMS), and we are working to continuously improve our environmental protection efforts through operations based on the standard. Each of our business sites that has acquired ISO 14001

certification promotes initiatives to address social issues including energy conservation and waste reduction, and shares the details of these efforts through the Environmental Management Promotion Meetings.

Environmental protection activities

The Group continuously monitors CO₂ emissions, energy consumption, and other factors as it works to facilitate the reduction of its environmental burden.

Measures to reduce the environmental burden and combat climate change

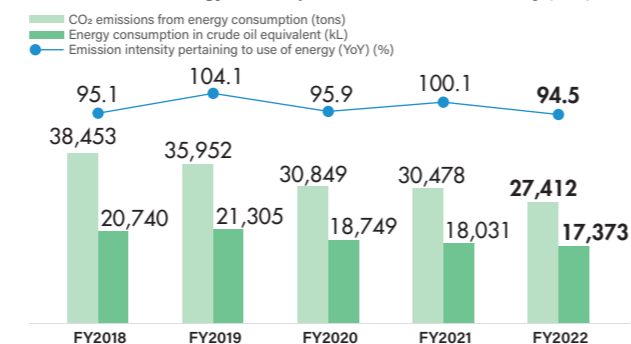
Since the 1980s, we have been working for many years to prevent global warming by making effective use of fossil fuels (natural resources) mainly at our plants.

In 2012, the Company was designated as a specified business operator under the revised Act on Rationalizing Energy Use, and we have been engaged in Company-wide efforts to further conserve energy.

Activities in FY2022

In FY2022, the Konan Plant, which accounts for more than 40% of the Company's energy use on a non-consolidated basis, commenced activities that aim for Just-In-Time (JIT) production of energy as part of its energy-saving activities covering all divisions. In addition, about 10% of the electric power consumed at the Takarazuka Plant, Ono Plant, and the Konan Plant, which are the major production sites, are electricity generated from

CO₂ emissions/Energy consumption and emission intensity (YoY)



renewable energy. On top of that, it is our plan that the large submersible pump operation and inspection facilities of the Ono Plant, which are slated to commence operation in FY2024, will supply electric power generated using the photovoltaic panels mounted on their roof, which will contribute to reduction of CO₂ emissions of 52 t-CO₂/year at the production site.

Waste reduction

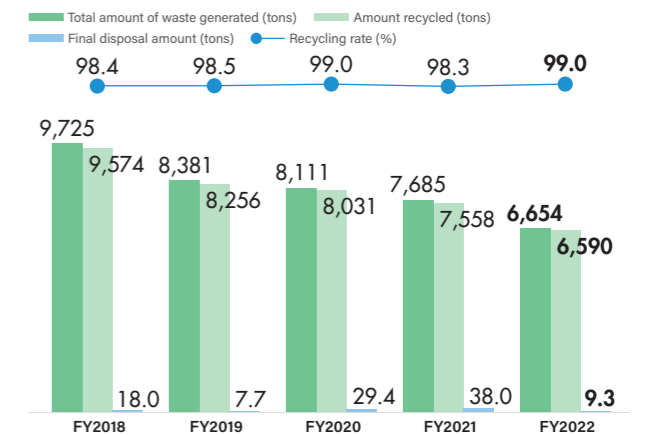
The Company is committed to reducing waste and recycling through the 3Rs (Reduce, Reuse, Recycle) as well as Refuse (not accepting things that will end up as garbage). In our efforts to realize a recycling-based society, we have also set new targets in FY2022 of reducing total waste emissions by 10%^{*1} by FY2030 and achieving a recycling rate^{*2} of 99% or more.

*1 Compared to FY2020 *2 Recycling rate: Amount of waste recycled/ Total amount of waste generated × 100 (%)

Activities in FY2022

We are working on reduction of the amount of materials purchased which are the source of the waste and further conversion of industrial waste into valuable resources through further improvement of yield and quality in our production activities.

Waste generation



Protecting water resources and reducing water use

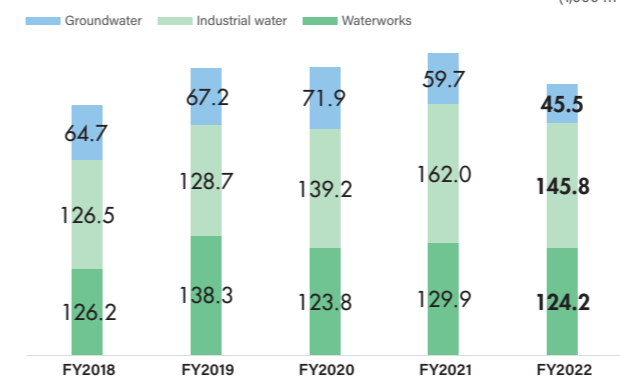
Saving water, a limited and precious resource, also leads to energy savings in the water purification process. Our plants are thus committed to proper management of both its water consumption and wastewater discharge.

Reducing emissions of pollutants

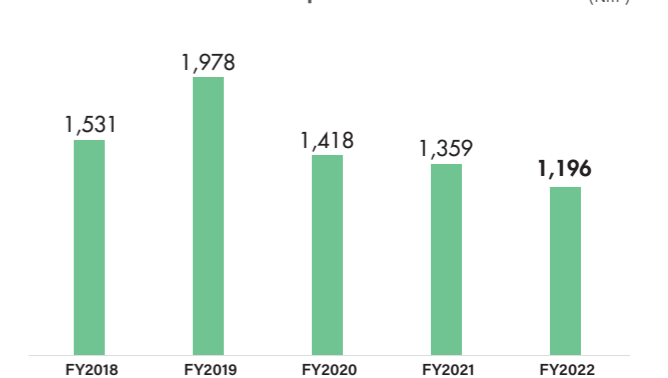
For substances discharged from our plants into the atmosphere and water, we set voluntary emission limits that are stricter than legal regulations^{*3} in our efforts to reduce our environmental impact.

*3 (Examples) NOx: Approximately 30-70% of the legal limit; BOD: 50% of the legal limit (Aircraft Division Konan Plant).

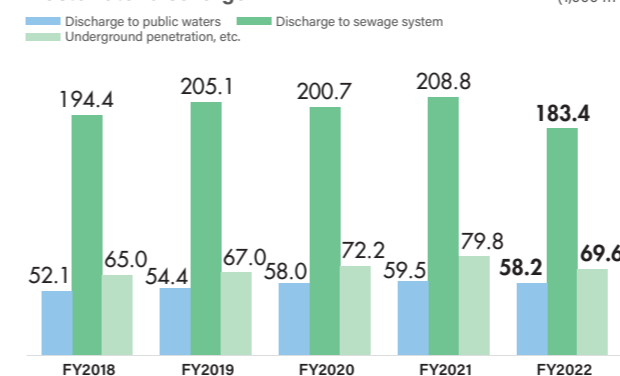
Water use



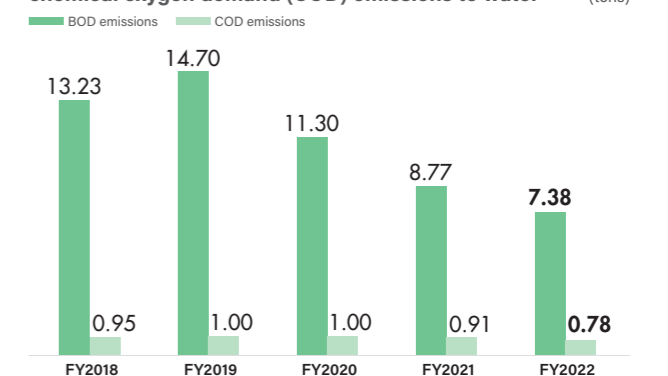
NOx Emissions to the atmosphere



Wastewater discharge



Biological oxygen demand (BOD)/ chemical oxygen demand (COD) emissions to water



Endorsement of TCFD recommendations and related information disclosure



In support of the purpose of the TCFD recommendations to proactively disclose financial information related to climate change, ShinMaywa Industries disclosed information based on the recommendations in January 2023.

Going forward, we will continue to utilize the framework of the TCFD recommendations to enhance the quality and quantity of information disclosure, and at the same time, contribute to the realization of sustainable society by further promoting initiatives toward climate change.

Governance

The Board of Directors chaired by President & CEO is responsible for the supervision and deliberation of climate-related risks and opportunities, considering them as important issues and themes related to corporate management. The Board of Directors' meetings of the Company are held once a month, in principle, to discuss and consider important management issues including climate change based on the medium-term management plan and to monitor the execution of duties by Board members and executive officers.

The Company has established a Sustainability Committee for the purposes of managing its business from a long-term perspective and coping with various ESG (Environment, Social, Governance) issues in its corporate management. The

Committee, chaired by Director, Member of the Board, Deputy Chief Executive Officer (in charge of sustainability), is to identify key issues (materiality), set KPIs, follow up and supervise the progress of discussions, etc. on each ESG elements by the Subcommittees (Environmental Subcommittee, Social Subcommittee, and Governance Subcommittee), verifies the status of achievement of KPIs, and review plans. In addition, it reports the circumstances of the foregoing to the Board of Directors (twice a year, in principle).

Going forward, climate-related risks and opportunities will be addressed within this framework as one of the key issues and the Committee will monitor developments of such risks and opportunities.

Strategies

In light of the significance of the potential impacts of climate change on business of the Company and the associated long-term uncertainties, we conduct scenario analysis as part of the process to identify and assess climate-related risks and opportunities related to business of the Company.

In scenario analysis carried out in FY2022, among our five business divisions, two businesses, namely the Special Purpose Truck business and the Fluid business, were analyzed. We first chose these two business divisions for the analysis because the Special Purpose Truck business was our mainstay business,

which accounts for about half of consolidated net sales of the Company, and the Fluid business was highly relevant to climate-related opportunities.

We have identified climate-related risks and opportunities of the two businesses by assuming a worldview with two scenarios, namely the 1.5/2.0°C scenario (a scenario in which net zero is achieved by 2050 globally) and the 4.0°C scenario (a scenario in which priority is placed on economic activities, and as a result, climate change progresses and extreme weather and disasters intensifies, among other things).

<Result of scenario analysis>

Scenario	Changes in external environment	Result of scenario analysis		Emergence timing	
1.5°C/2.0°C scenario	<ul style="list-style-type: none"> Tightening of regulations for GHG emissions Transition to low-carbon technologies Changes in market structure 	Risks	Common	<ul style="list-style-type: none"> Increases in production and procurement costs due to carbon tax, etc. Increases in expenses due to purchase of renewable energy 	Medium to long term
			Special Purpose Truck	<ul style="list-style-type: none"> Loss of sales opportunities in the case of inability to respond to customer requests and provide technical support in a timely manner due to changes in specifications of electric vehicles and vehicles using alternative fuels (fuel cells, hydrogen, etc.) Increases in costs of research and development for new production technologies and for higher productivity to transition to lower carbon technologies or decarbonization 	Medium to long term
			Fluid	<ul style="list-style-type: none"> Loss of sales opportunities in the case of inability to shift to lower-carbon technologies for existing products (making them more efficient or enabling their longer life) Decreases in sales of products due to a delay in transitioning to low carbon technologies and a circular economy related to the entire manufacturing process (including supply chains) 	Medium to long term
		Opportunities	Special Purpose Truck	<ul style="list-style-type: none"> Increases in sales opportunities owing to high added value in terms of technology and early response to customer requests Increases in sales opportunities due to improved competitiveness, as reliable products with longer life are selected because of heightened awareness of CO₂ reduction, and the importance of maintenance increases 	Medium to long term
			Fluid	<ul style="list-style-type: none"> Increases in sales opportunities for construction as well as maintenance and inspection services to boost product efficiency and energy/labor saving Increases in sales opportunities for equipment, construction, and services due to renewal of existing facilities in line with national policy, including measures to maintain functions at the time of flooding and countermeasures against aging 	Medium to long term
				Fluid	<ul style="list-style-type: none"> Increases in sales opportunities for equipment, construction, and services due to renewal of existing facilities in line with national policy, including measures to maintain functions at the time of flooding and countermeasures against aging

Scenario	Changes in external environment	Result of scenario analysis			Emergence timing
4.0°C scenario	<ul style="list-style-type: none"> Intensification of meteorological disasters such as torrential rains, flooding, and typhoons Rise in the annual average temperature and changes in precipitation over the long term 	Risks	Common	<ul style="list-style-type: none"> Increases in the frequency of delayed or slow-moving parts supplies and delay in deliveries due to disruptions in supply chains caused by disasters Rise in costs of air conditioning systems, lower productivity, and increases in health hazards to employees due to outdoor work 	Long term
			Special Purpose Truck	<ul style="list-style-type: none"> Increases in sales opportunities due to strengthening of sale of special purpose trucks required for infrastructure development under the Fundamental Plan for National Resilience 	Short to long term
		Fluid	<ul style="list-style-type: none"> Increases in demand for development of infrastructure such as rainwater drainage systems in preparation for increases in natural disasters such as typhoons and torrential rains 	Medium to long term	

*(Definitions of terms) Short term: by 2023; medium term: by 2030; long term: by 2050
 *(Scenarios used) 1.5°C/2.0°C scenario: IEA Energy Outlook and the 2.0°C scenario (RCP2.6) of the IPCC Fifth Assessment Report;
 4.0°C scenario: IPCC Sixth Assessment Report and the 4.0°C scenario (RCP8.5) of the IPCC Fifth Assessment Report

Risk management

With regard to risks associated with business execution, we have established the ShinMaywa Group Risk Management Regulations, and each business division and Group company proactively creates a risk management system adapted to the characteristics of its business. Meanwhile, the Head Office monitors the status of each division's risk management while also establishing a risk management framework by implementing company-wide measures to address risks including disaster-related and financial risks.

In addition, the Sustainability Committee checks the status and activities of the ShinMaywa Group's risk management framework based on information reported from the Head Office and business divisions, and also identifies major company-wide risks in light of their impact on business operations. The

Committee reports such information regularly to the Executive Committee and the Board of Directors to ensure the effectiveness of the Group's risk management.

For climate change, in light of the significance of the potential impacts of climate change on business of the Company and its long-term uncertainties, in FY2022, we conduct scenario analysis for our two businesses for the first time, as part of the process to identify and assess climate-related risks and opportunities related to business of the Company. Among the climate-related risks and opportunities identified in this scenario analysis, those that are particularly significant will be managed as major risks in the future, within the aforementioned company-wide risk management framework.

Indicators and targets

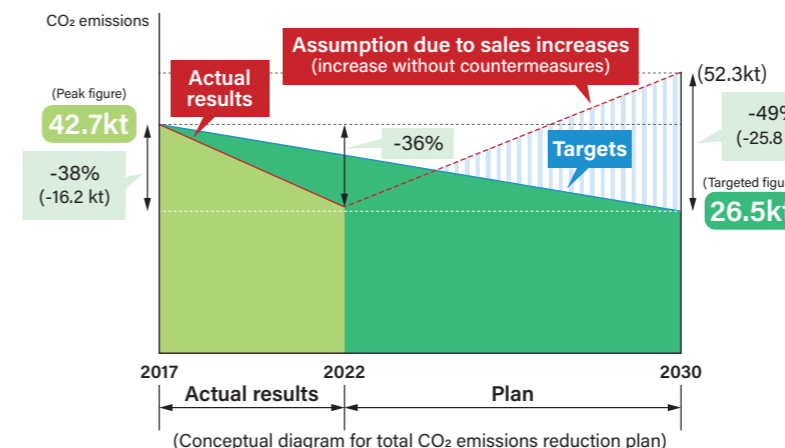
As a medium-term greenhouse gas reduction target through 2030, the Company is currently working to achieve the target of "reducing total CO₂ emissions from energy use by 38% in FY2030 (compared to FY2017)." This means that the Company will reduce CO₂ emissions from energy use from 42,720 t-CO₂e

in FY2017 to 26,486 t-CO₂e in FY2030 on an actual result basis. Actual results of Scopes 1 and 2 emissions in the past are as shown in the table below. Going forward, we will work to calculate and disclose Scope 3 emissions as well.

Management indicator	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Scope 1	11,754	11,513	12,059	10,528	9,796	9,494
Scope 2	30,966	26,940	23,893	20,321	20,682	17,918
Total for Scopes 1 and 2	42,720	38,453	35,952	30,849	30,478	27,412

(t-CO₂e)
 *Aggregate figures of ShinMaywa Industries on a non-consolidated basis

Total CO₂ emissions reduction plan



The actual results of CO₂ emissions have continued to meet targets since FY2017. However, one of the reasons for the recent achievement of the target is the temporary decrease in CO₂ emissions due to a slowdown in the expansion of business activities which was caused by the COVID-19 pandemic for the past several years and the Ukraine situation, among other things.

Our business is expected to recover and expand in accordance with the long-term management plan in the future, and CO₂ emissions tend to increase as a result. Accordingly, the Company plans to work on various initiatives to reduce emissions.

*1: Non-consolidated figures, *2: Figures for the Group as a whole

For more details, visit: <https://www.shinmaywa.co.jp/sustainability/esg/society/>



Diversity & inclusion: Utilizing diverse human resources

The three pillars of ShinMaywa Group Basic Policy on Human Resources

The ShinMaywa Group has established a Basic Policy on Human Resources consisting of three key themes, namely (1) fostering awareness; (2) respecting human rights and establishing internal environments; and (3) developing human resources, to realize our management philosophy.

(1) Fostering awareness

The Company has set forth a long-term vision of what the Group aims to be in 2030 based on its management philosophy. Realizing this vision will depend on promoting diversity and inclusion while fostering the diversity of individuals who sustain innovation. We will need diverse human resources who can work actively facing the same direction and with a sense of

unity. We are working to foster awareness by clearly defining the type of the human resources we seek and carrying out our evaluations based on this.

*For more details on expectations for human resources and personnel evaluation, visit: [\[Link\]](#)



(2) Respecting human rights and establishing internal environments

Based on our recognition that respect for human rights is an important corporate social responsibility, and as a company that aims to maintain sustainable corporate growth with an eye on the global market, the Group sets forth a human rights policy to uphold the International Bill of Human Rights adopted by the United Nations and expressly show our stance toward respecting human rights based on international standards.

In addition, the Group will recruit and assign diverse human

resources regardless of factors such as gender, age, nationality, religion, disability, educational background, and sexual orientation, and advance efforts to promote the creation of an organizational culture that draws on diversity.

*For more details on the initiatives for respecting human rights, visit: [\[Link\]](#)

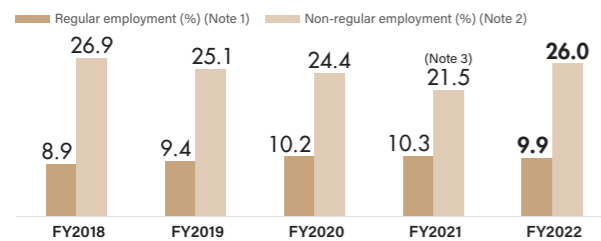


Establishing internal environments

Promoting the active participation of women

The Group believes that promoting the active participation of women is an important element of diversity. To this end, we have established various systems that allow employees to continue to work after life events such as childbirth and childcare, and we support both male and female employees in balancing work and family responsibilities.

Proportion of female employees (%)^{*2}

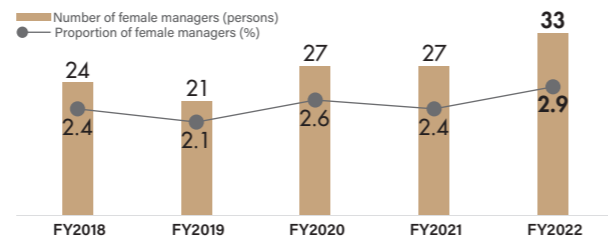


(Note 1) Full-time employees
(Note 2) Directly employed workers such as part-time workers, contract workers, and rehired retirees. Dispatched staff are excluded.
(Note 3) The decline is due to a decrease in the number of female employees (non-regular), and an increase in the number of non-regular employees joining the Group through M&As.

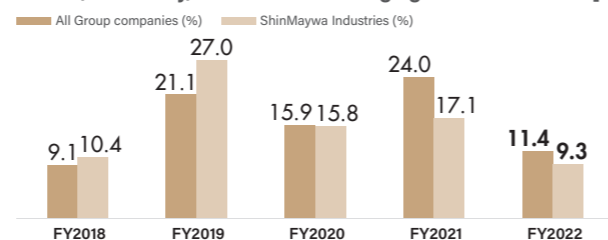
Promoting the hiring of people with disabilities

The Group is committed to establishing an inclusive society, where anyone who wants to work and has the ability to do so can take part in society through their work, regardless of disabilities.

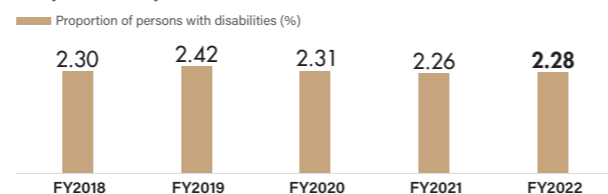
Number and proportion of female managers^{*2}



Proportion of female new graduate hires [Number of graduate school, university, and technical college graduates/females]



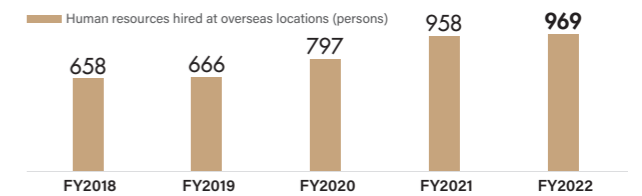
Proportion of persons with disabilities^{*2}



Hiring human resources at overseas locations

The Group believes that expanding its presence in overseas markets is essential for enhancing existing businesses and expanding our business domains. We have set a target of 100 billion yen in overseas sales in FY2030. In recent years, we have been working to gear up our overseas expansion by, for example, proactively pursuing M&As of overseas companies.

Human resources hired at overseas locations^{*2}



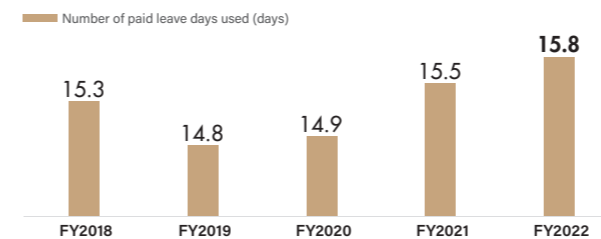
Developing systems to allow for diverse working styles

To enable our employees to balance work with their personal lives, we are enhancing our systems so that we can create a work environment that is comfortable for our diverse workforce.

Initiatives for preventing long working hours and for promoting the use of paid leave

As well as strengthening management of work hours in line with the establishment of legal limits on overtime hours, the Company has put in place various measures for reducing overtime work. To reduce long working hours, for example, we have set a company-wide day on which everyone leaves the office at the close of business hours. We are also working to promote the use of paid leave through introduction of a planned leave system.

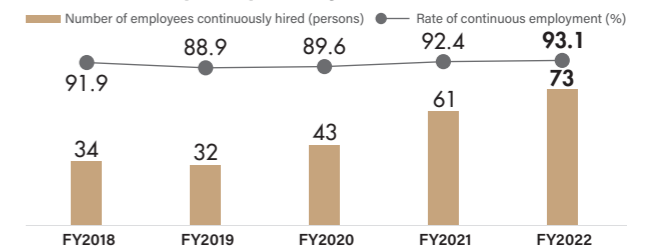
Number of paid leave days used (average per employee)



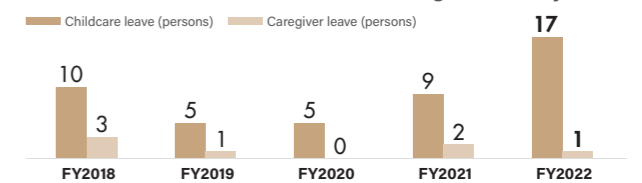
Promoting the employment of older people

In FY2003, we introduced and promoted a system for hiring older workers, who have a wide range of know-how gained through practical experience. The purpose of the system is to fully utilize the strengths of older human resources and to make work more fulfilling for them while supporting the growth of the Company. From FY2022, we raised the retirement age to 65.

Status of active participation by older workers^{*1}



Number of users of the childcare and caregiver leave systems



Various systems for childcare and caregiving

We have introduced childcare and caregiver leave systems and a shortened working hour system for employees with childcare and caregiving responsibilities. Using these systems, employees can take care of their children and family members without having to resign.

(3) Developing human resources

At the Company, we aim to maximize our employees' individual abilities and expertise with the aim of building relationships that drive the sustainable growth of the Company. To this end, we are implementing various measures to enhance employee engagement and strengthen business competitiveness.

Human resources portfolio

By visualizing our human resources composition by type based on the roles played, we are building a strategic human resources structure. In addition, we aim to maximize effectiveness by appropriately allocating human resources in accordance with our long-term business strategies. As we manage our human resources portfolio, we analyze the overall composition in quantitative and qualitative terms, and respond flexibly according to each business strategy.

Next-Generation Executive Development Program

Amid dramatic changes in our business environment, we are systematically training employees that exhibit high potential as future business leaders. At an early stage, we select employees who can be expected to take charge of management from a medium- to long-term perspective, and enable them to develop the basic skills needed to transform our business.

Other initiatives for developing human resources

- Training program up to the third year with the Company
- Self-development support system
- In-house skills competition and maintenance skills competition

*For more details on the initiatives for developing human resources, visit: [\[Link\]](#)



Health management

Health management declaration

The ShinMaywa Group is committed to practicing its corporate principles of Clean, Sincere, Steady, Enterprising, and believes that its mission is to realize the management philosophy to "contribute to the overall well-being of humanity, bringing unstinting innovation for a stable society and positive living environment."

With the aim of creating an environment to accomplish these missions, we are committed to creating a healthy and safe work environment and further raising health awareness so that each employee can continue working in good health of mind and body, cheerfully and energetically.

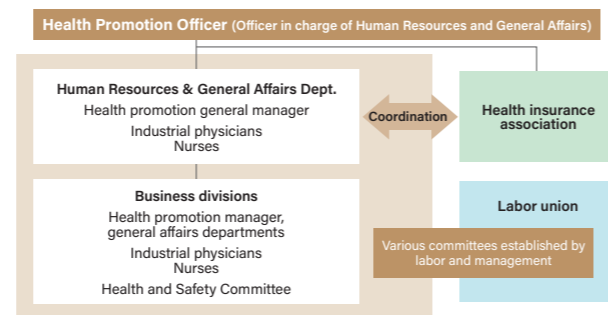
Certified Health & Productivity Management Outstanding Organizations

On March 8, 2023, the Company obtained certification in the large enterprise category under the 2023 Certified Health & Productivity Management Outstanding Organizations Recognition Program led by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi. We will further promote health management and push forward with initiatives set forth in our health management declaration.



Health management promotion system

We carry out initiatives for maintaining and promoting good health. These initiatives are led by the officer in charge of Human Resources and General Affairs, who is responsible for health management, with the Human Resources & General Affairs Dept. as the primary coordinator, in coordination with the General Affairs departments of each business division and also with the health insurance association. In addition, the Health and Safety Committee and various committees established by labor and management will take up relevant health management issues as agenda items in a timely manner, and will coordinate with labor and management to promote health management.



Occupational health and safety

Basic principles of occupational health and safety

The Group acts in accordance with its basic principles of occupational health and safety, which state that safety and health take precedence over everything else. We are working to build a safe working environment and to achieve zero accidents.

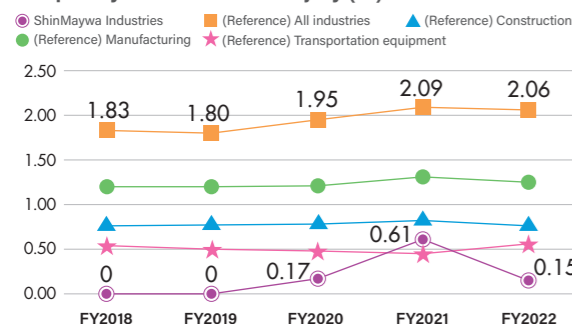
Health and safety action guidelines (Company-wide key safety themes)

Each fiscal year, we define a Company-wide key safety theme, and set ourselves a goal as a means of preventing industrial accidents among our employees. We are joining forces to engage in health and safety activities to create a safe and secure working environment.

Company-wide key safety theme for FY2023

"Let's foster a culture of safety through reporting, fairness, flexibility, and learning!"

Frequency rate of lost time injury (%)¹⁾



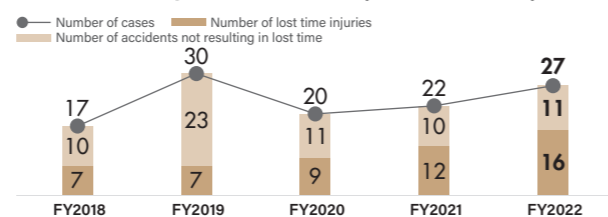
Source: Ministry of Health, Labour and Welfare, Results of Survey on Industrial Accidents

Specific initiatives in occupational health and safety

The ShinMaywa Group has appointed persons in charge of health and safety in each division and at each Group company, with the aim of preventing occupational accidents among employees. We have formulated health and safety policies and prepared action plans based on these policies. We are working to improve safety measures in both tangible and intangible ways, with the Health and Safety Committee serving as a central body to establish, operate, and improve risk assessment systems and at the same time utilize IT and digital technologies to prevent accidents.

In addition, we are also focusing on health and safety training for employees. Through various measures, we are working to establish a training system that is tailored to each organization and business contents. For example, we hold safety conferences to share the results of health and safety activities in each business division and at each Group company, provide special training to new employees and to those changing workplaces, and offer thorough guidance through on-site training and safety and health patrols during on-the-job training.

Number of occupational accidents (number of cases)²⁾



For more details, visit: <https://www.shinmaywa.co.jp/sustainability/esg/society/hygiene.html>



CSR/Sustainable procurement

The Group works closely with its business partners in a fair and sound environment to create a sustainable society together.

For more details, visit: <https://www.shinmaywa.co.jp/sustainability/esg/society/procurement.html>



New supplier evaluation procedures

(1) Potential business partners

New business partners are asked to submit such necessary documents as a supplier survey form and a request form concerning receipt of transaction proceeds, indicating their company name, business address, main customers, suppliers, and other information.

(2) Credit check/judgment

After we receive the required documents, we conduct a credit review, which includes a review regarding association with antisocial forces.

(3) Signing of basic contract/survey form registration/new account opening procedures

After confirming that a "transaction possible" decision has been reached after review, a contract is signed, the contents of the survey form are registered in our system, and the procedures are taken to open a trading account.

(4) Management assessment

We check for any dangerous signs related to people, things, or money, and monitor these aspects.

(5) Evaluation of CSR activities

Business partners are requested to answer questions such as those regarding their efforts on human rights and other social issues, as well as on environmental protection. If the content of responses does not exceed a certain level, a further survey will be conducted. (For CSR, we plan to update our survey form based on new procurement guidelines to be established in the future.)

(6) Input of management items/judgment

We register in our system information such as the business partner's quality control system and whether the Subcontract Act applies. A further survey will be conducted for any insufficient information.

(7) Start of transactions/information disclosure

After these procedures, a trading account is opened, a supplier code is created, and the supplier is registered in the procurement system, which will allow procurement personnel to handle the system and begin transactions.

CSR/results of sustainable procurement activities

Activities in FY2022

As part of concrete initiatives for CSR and sustainable procurement in and after FY2023 to aim for creation of a sustainable society together with our business partners, the Company provides the members of materials procurement divisions with CSR education on an on-going basis and enhance their awareness and knowledge.

Policy distribution

The Company distributed the ShinMaywa CSR Procurement Guidelines, which were published on its website on April 1, 2022, to major business partners of each business division, and asked for their cooperation in promotion of CSR/sustainable procurement.

CSR education

Following the education provided to representatives from procurement departments of each business division so far, we have provided individual education for persons in charge. It is important that persons in charge of procurement, who are in touch with suppliers, act with deep understanding of CSR/sustainable procurement.

All 108 members of procurement departments of each business division received education through viewing of a video titled "CSR/Sustainable Procurement" created by the Procurement Dept.

Awareness raising

In FY2022 as well, we posted messages on "Corporate Social Responsibility (CSR)/Sustainable Procurement" on the digital bulletin board for all employees.

Issuance of buyer education materials and handbooks

In order to enhance skills of persons in charge of procurement, we created various manufacturing knowledge handbooks to boost manufacturing knowledge required for quotation and assessment as well as price negotiations, and a trade practice handbook to accurately manage import and export, respectively, and have distributed them to procurement departments of each business division.

Quality and product safety

Approach to quality assurance activities

Based on our management philosophy, long-term vision, action guidelines, and code of conduct established in April 2020, the Group have put in place Quality Policy and Quality Assurance Activity Guideline, and will meet customer expectations and trust by delivering safe and high-quality products and services.

ShinMaywa Group Quality Policy

Based on our management philosophy, action guidelines, and code of conduct, the Group will comply with applicable laws, regulations, etc., and deliver safe and high-quality products and services that meet customer expectations and trust. In addition, all employees engaging in sales, design, manufacturing, and services strive to take actions with the highest ethical standards as well as priority placed

on the perspective of whether these actions are good or evil rather than advantageous or disadvantageous, and support society with a sense of security and pleasant lives through practice of ShinMaywa Quality and appropriate operation and management of the quality management system.

For more details, visit: <https://www.shinmaywa.co.jp/sustainability/esg/society/quality.html>



Tripartite Discussion among Directors



Outside Director,
Member of the Board
Yoshifumi Kanda

President & CEO
Tatsuyuki Isogawa

Director, Member of the Board
Managing Executive Officer
Vice President of
New Business Strategic Div.
Takashi Kuniyama

Entering the final year of the medium-term management plan SG-2023 with its theme of “transformation”

Major progress toward the long-term vision, passing the baton to the next medium-term management plan with its theme of “expansion”

The ShinMaywa Group has set forth a long-term vision with a target year of FY2030. Under the long-term management plan SG-Vision 2030, which is our action plan, we are seeking substantial growth through three medium-term management plans.

Achieving the targets will require decisive initiatives, including the launch of new businesses that are distinguished from existing ones. At the same time, strengthening the foundations that will support this growth is also an important challenge.

In this tripartite discussion, President Isogawa, Mr. Kuniyama, who plays a central role in new business creation, and Mr. Kanda, who was appointed outside director at the same time Mr. Isogawa was appointed president, exchange opinions on changes in the ShinMaywa Group in recent years and challenges for substantial growth.

Long-term perspective indispensable even to a medium-term management plan

Isogawa Our previous medium-term management plan (CFG2020) was formulated in 2018 in my second year as president. Sales had been increasing, but operating profit had been declining since its peak in FY2015, so there was a sense of crisis, and for this reason, CFG2020 put special emphasis on profit. Also, around the same time, some investors expressed the opinion that our management did not put adequate emphasis on capital efficiency, and we were giving serious thought at the time to how to best structure the balance sheet. We estimated what our ideal equity ratio would be and based on this carried out unprecedented financial measures that included increasing our dividend to mark our 100th anniversary and buying back shares on the scale of 40.0 billion yen. The series of initiatives during this period, which included adding ROE to target indicators, prompted a major transition in our thinking, which had centered on revenue.

We made relatively steady progress under CFG2020 until the second year. The spread of the

COVID-19 pandemic dealt a major blow to the Aircraft segment as commercial airline production was suspended, and as a result, we did not meet our targets in the final fiscal year of the plan. At this time I acutely perceived the frightening nature of a business environment changing all of a sudden and the difficulty of achieving a short-term plan.

On the occasion of our 100th anniversary in February 2020, we made the decision to change to management with a long-term orientation and established our management philosophy and long-term vision (what we wish to be in 2030 put into words) to provide the foundation for this. In addition, with regard to management plans, it is extremely difficult to predict what's going to happen and we considered extending CFG2020 by one year. However, based in part on advice received from Director Kanda, who felt we should lay out a new growth strategy as soon as possible precisely because the times are unclear, we established SG-Vision 2030 as a long-term (10-year) management plan to embody our long-term vision despite there were some areas we did not adequately consider. We then set forth a format for promoting it through three medium-term management plans. The medium-term management plan we are currently promoting as the first phase is SG-2023.

Kanda I clearly remember when we formulated CFG2020. We had been receiving some critical opinions about setting a stretch net sales target. President Isogawa made the decision to depart from our conventional stable orientation and steer management significantly toward a growth orientation, which CFG2020 was established to do. Putting forth a lofty sales target in pursuit of further growth, rather than the conventional accumulation method, and newly adding ROE to our management targets out of an awareness of shareholders and investors was the turning point for significantly changing the direction of the company's management. Because of the pandemic, final targets were not met, but progress was being made that exceeded plans until the second year, so I looked on with great confidence.

During these six years, under the leadership of President Isogawa, two medium-term management plans have been formulated and the management philosophy, long-term vision, action guidelines, and code of conduct have been established in rapid succession to systematize our corporate identity, as management reforms have been actively promoted under strong leadership. I personally am grateful for having participated in management during this period as an outside director.

Kuniyama During this time, I was the president of the Fluid Division. The division presidents had the opportunity to meet and be regularly briefed on policy by the president. I sensed a change in the company from the contents of the briefing. I most felt this in the fact that the dividend payout ratio had been included in management targets; I felt that the company's awareness had changed with

regard to stakeholders. In SG-2023, ESG-related items and initiatives have also been added as the company has come to be aware that it has a mission to meet societal requirements.

Isogawa It has been since FY2020 that we have truly put emphasis on the long term in our consideration of various matters. This is because we felt a strong sense of crisis about the inability to create new businesses with a short- to medium-term orientation, the conventional orientation of management.

The targets of SG-Vision 2030 have been set at levels that cannot be reached just by progressing normally from the current state of affairs, so immediately after they were announced, there was an uproar within the company, but I explained that the gap has meaning. The larger the gap, the more backcasting is required when thinking about what needs to be done to meet the targets. However, forecasting for solidifying foundations must also not be neglected. Through the three medium-term management plans that make up SG-Vision 2030, we want to achieve high-level targets that may be seen as impossible. The plan I am putting the most emphasis on is the next medium-term management plan starting in FY2024. Growth during this period is the key to achieving the targets.

Practice of management to meet society's expectations and requirements

Kanda The transition to the Prime Market in April of last year means building a more advanced governance system and being oriented to sustainable growth through constructive dialogue with investors, including overseas investors. In particular, along with conventional financial information, actively and specifically communicating non-financial information such as climate change initiatives is important because it enables investors to evaluate our resilience of management strategy and also provides the opportunity to differentiate us from other companies.

Going forward, on the Board of Directors as well, I will be actively involved in discussions on initiatives related to non-financial information and intend to promote communication of it.

Isogawa The requirements of companies listed on the Prime Market continue to increase. A price to book ratio (PBR) of 1x or higher as required by the Tokyo Stock Exchange is likely going to be an absolute condition. Our PBR has been lower than 1x for some time, so we will need to raise it so that it is 1x or over permanently.

Just as with the promotion of sustainability management, regarding the “E” and “S” in ESG, it will be important to practice CSV (creating shared value) management to create economic value at the same time as social value and be in a position to continue to generate profits. Sharing this perspective, I think we will be able to have constructive dialogue with investors.

Kunihara Regarding disclosure, information on the Fluid segment has been disclosed separately since FY2022, but looking at other companies' disclosure, they have been enhancing non-financial information year after year and not only financial information. When I was affiliated with the business divisions, we could not have been called proactive when it came to disclosure, but recently my thinking has changed; I believe active disclosure should be conducted in order to have the company understood. At internal meetings as well, I feel there has been more discussion that is aware of information disclosure. I too will work to participate in the Board of Directors from this perspective.



Isogawa Everyone must think of active information disclosure as something that is obviously done. It is important to be able to talk about a series of processes as a single story. We put forth a long-term vision expressing how we want to be in the future, we have the SG-Vision 2030 to realize the vision, and this will be made possible through medium-term management plans that have been backcasted from this starting point.

Measures to expand revenues and measures to strengthen management foundations both support sustainability management

Main themes are new business creation, DX, globalization, and human resources strategy

New business creation

Kunihara Regarding new business creation, the New Business Strategic Div. was established in 2022 as a special task force for creating new businesses through co-creation with others without being bound by business division demarcations. I serve as the division's head. It is an organization separated from actual business. We currently have two focuses: activities that explore new fields and establishing workflows for carefully examining new business potential from out of the numerous ideas.

As a way to gather new business potential, in FY2023 we are promoting the "Be Enterprising!! 0 to 1 Challenge," a new business creation initiative. This initiative, which is being conducted with the full support of President Isogawa, is currently (as of the time of this discussion) conducting the first stage of screening, and we have received many ideas. We plan to narrow them down through multiple screenings, but all the themes for which applications were submitted this time are being collected by my division and will be used in future activities.

With regard to exploratory activities, we are working on multiple themes in collaboration with start-up companies, including water environment improvement and participation in the hydrogen business, and are also exploring new themes alongside this.

Isogawa In new business creation as well, we are putting emphasis on ideas derived from a backcasting approach. Society has limitations that simply cannot be eliminated. Climate change is an example. Measures considered from a forecasting approach tend strongly toward enforcing perseverance. The backcasting approach, however, which looks at how to make society better while accepting certain limitations as an assumption, is more likely to produce novel ideas not overly fixated on limitations.

Kanda A new business is not something you think up off the top of your head. Previously, at a lecture on new business creation at an outside institution, I explained the importance of the backcasting approach. First, you imagine how society will be 5 to 10 years into the future. What kind of intangibles will that society need? And what business will be able to provide new value that meets those needs? What is important when going through this process is your own company's core competencies. There are various ways of looking at this, products, technologies, business models, etc., but ShinMaywa has unlimited potential to create new businesses that leverage its core competencies in the fields of urban, transportation, and the environment. New businesses based on core competencies that have supported growth thus far are relatively easy to couch in a narrative and stand a good chance of succeeding. I have high expectations for the activities of the New Business Strategic Div. going forward.

Isogawa In talking the other day with department managers in charge of overseas business, I heard the following: "Being in constant contact with customers, we can acquire beneficial information such as the market outlook and the customer's needs and we gain a lot of hints for what kind of intangibles will become necessary in the future." This is a strength one might say because our products have such an overwhelming market share.

Kanda This is evidence that the future will be more about intangibles than tangibles. The technologies underpinning intangibles are important of course, but what we are aiming for going forward is a new business model in which the Group handles a core part of an ecosystem. For this, the existence of partners will also be essential. It will be difficult to create new intangibles on our own, so we are focused on recruiting partners who are experts in the field.

DX
Kanda Regarding DX, while it is being incorporated into new business, digitalization is a race against time, so we will take an agile approach to development which involves first trying something and then going back and trying again if it doesn't work. This I think will require a change from ShinMaywa's conventional emphasis on steadiness.

The foundation of DX is data. It would be difficult to create a new business with only the amount of data that we possess, so with respect to data as well, we will find good partners and go through a process of trial and error in co-creation.



Isogawa Regarding DX, we will broadly conduct basic education to increase employees who understand DX, and, in terms of business activities, we will select projects with the strong potential to be able to create innovative business models ahead of the industry and focus management resources on them. In order to take a step toward "transformation," we will draw on the strength of outside resources just as advised by Director Kanda. We will first create DX successes internally as soon as possible and share them.

Kanda The refuse compactor subscription business engaged in by the Special Purpose Truck segment is a good example of truly aspiring for a business of intangibles. A compressor manufacturer in Germany changed its focus from a business selling compressor equipment to a business selling "compressed air" and it is growing

significantly. We will pursue the essence of intangibles that are ultimately needed by customers, and if we can turn them into a business using DX, there is adequate potential for the emergence of new markets even from within ShinMaywa's existing businesses.

Globalization

Isogawa Alongside new business creation and DX, globalization is a theme that is indispensable to sustainable growth. Both the Aircraft segment, which manufactures parts for commercial aircraft, and the Industrial Machinery & Environmental Systems segment, which features a rapidly growing Korean company acquired through M&A, have globalized to a certain extent. What we want to particularly focus on going forward are the Special Purpose Truck and Fluid segments. M&A is one means of substantially growing these segments. It is extremely important that we draw on past successes and establish a period of time for building trust through transactions, which is why we need to quickly find and contact partner companies.

On the other hand, M&A led by the head office is also a possibility. Various cases are conceivable, whether the development of a domain that will directly contribute to revenue generation or a domain that will result in helping to expand the scale of a specific business division, but specifically for businesses that are hard to expand via existing routes, the time has come to make a move while closely considering investment targets.

Kunihara M&A was included in both the CFG2020 and SG-2023 medium-term management plans, and during the time I served as the president of the Fluid Div., we welcomed TurboMAX Co., Ltd., a Korean company that handles turbo blowers, to the Group. In recent years, M&A deals have been increasing in other business divisions as well, and through this experience, know-how and results are being cultivated.

Human resources strategy

Isogawa From another perspective, human resources are a major challenge. We want to increase employees as we grow, but struggle with recruiting. With lifetime employment no longer the normal state of affairs in society, the challenges related to human resources are various. They include the training of DX personnel and how to approach the generation that assumes when they are hired that they will change jobs in the future. It is expected that human resources will grow more fluid on a global scale, so key challenges for human capital management are how we attract human resources and how individual employees can experience growth while working at the ShinMaywa Group.

Kanda In recent years, purpose-driven management (management that emphasizes a company's raison d'être and social value) has drawn attention, and as a result, there has been a major change in the relationship between a company and its employees. Before, the company would unilaterally choose employees, but both parties now choose and are chosen by one another. The moment an employee thinks they can no longer grow at a company or in a department, that employee has been lost. In order to prevent such mismatches in advance, the key is for the company to actively create and communicate a human resources development plan. Human resources that have joined the company want to fulfill a dream for themselves while they are here. This dream used to be centered on *monozukuri*, on designing and manufacturing tangible things, but recently increasing numbers of young people have a dream related to intangibles; they want to contribute to society through business. Having mechanisms to support the growth of individuals, giving concrete form to an approach to human capital investment, and promoting that approach are very important. Investment in human capital management is an important theme that should be repeatedly discussed by the Board of Directors as well.

Kunihara The declining population in Japan is a major challenge facing society. For this reason, it is becoming increasingly necessary to actively hire human resources from global markets. Having the ShinMaywa Group recognized in a global society and having people who want to work here is important; we want to be a corporate group included in this. Thus the importance of communicating information to an overseas audience is increasing.

Kanda When recruiting as well, the Group should be conveyed not just as a company that makes tangible things for social infrastructure but one that provides intangibles. We want to increase the specific examples of this.

Isogawa In my conversations with new employees, the strong aspirations of the employees are conveyed. Many want to contribute to the advancement of social infrastructure through business. We need to respect such intentions and be able to clearly explain the raison d'être of the Group. Based on our management philosophy, which puts our raison d'être into writing, we create customers and exist in order to have relationships with them over the long term. It is important that we share this essential raison d'être of the Group with all employees and have everyone feel that they are moving in the same direction in line with the long-term vision.

Practice of management rooted in the management philosophy and long-term vision

Isogawa In FY2021, over the course of the year, I myself explained the management philosophy and long-term vision to all managers, and I explained principles and important company initiatives through internal communications media. As one part of this, activities for new business creation are ramping up, and it has been reported to me that many business ideas are being submitted to "Be Enterprising!! 0 to 1 Challenge," a participatory employee program that started in March of this year. I am very pleased to hear this and sense that the purpose of our activities has been conveyed to younger employees, that it has been worth our while.

As the COVID-19 pandemic is settling, I will visit our branch offices and sales offices and encourage our sales division by telling them that they are the source of sales of intangibles because they meet with customers daily. At the same time, I will also explain the true significance of the management philosophy and what we aspire to be as extolled in the long-term vision.

Going forward, as the company's lead communicator, I will actively convey my thoughts internally and externally.



Kunihara When creating the application requirements for "Be Enterprising!! 0 to 1 Challenge," we put importance on a phrase from the long-term vision, "advances urban, transportation and environmental infrastructure," to keep us all going in the same direction.

I myself always keep with me the ShinMaywa Group Philosophy book, which summarizes the Group's philosophy, and make reference at every opportunity to the action guidelines and code of conduct.

Kanda It is very beneficial to practice thinking about challenges from time to time in light of the management philosophy and long-term vision. In

addition, while these principles have continuity and lastingness, it is important that opportunities for review be created for the specific contents of initiatives for long-term business strategies and strengthening of management foundations based on them to determine once every three years whether such initiatives are in line with the current times. During these past three years, a number of events occurred that surpassed our imagination. Taking this as a lesson, while upholding the philosophy, I think it is necessary to check for any gaps with management strategies.

From SG-2023 with its theme of "transformation" to the next medium-term management plan with the theme of "expansion"

Isogawa At the start of SG-2023, affected by the COVID-19 pandemic, it seemed fairly difficult progress would be made. However, given the full-year results forecasts as of the present, I am happy to see that we are delivering strong results even in a market environment with significant turmoil.

On reflection, our next medium-term management plan is in the extremely important position of determining the company's future. Under SG-2023, with "transformation" as its theme, we laid a foundation that is the start of realizing our long-term management plan, but under the next medium-term management plan, it will be important that we assuredly take up where we left off and step up to the track of "expansion." If we can achieve our targets as a result, it will create momentum for the third phase medium-term management plan, which is positioned as

"advancement" and allow us to absolutely reach the final targets of SG-Vision 2030. To this end, it will be important to promptly consider a business portfolio for the future and clearly present to stakeholders the targets of priority management resource allocations, including for new business creation and globalization.

Kunihara At the New Business Strategic Div., we will quickly determine the "seeds" to put into practice from among the many presented and grow them into "trees" with future prospects. At the same time, we will carefully go through the large volume of business ideas submitted to "Be Enterprising!! 0 to 1 Challenge" and tie this to establishing a culture that accepts taking action without fear of failure.

Isogawa ShinMaywa currently practices ROIC management. It is a fact that we have been affected in recent years by unanticipated events, but the high-cost structure is a major challenge and one that we will need to solve quickly. Going forward, we will execute a plan to upgrade factory buildings and facilities, but to ensure this investment does not end up increasing costs, we will take the opportunity to thoroughly work to increase production efficiency fundamentally. In addition, we will improve the debt recovery period and inventory turnover rate and otherwise take every possible measure to secure profit as we aim to be a corporate group with an ROIC of 10% or more by FY2030.

Under the next medium-term management plan as well, with a constant awareness of ROIC, we will endeavor to manage the company so that we are valued highly by the stock market.



Financial Summary (Consolidated)

Financial indicators

(FY)	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Management results											
Net sales (Millions of yen)	150,918	174,010	193,131	203,917	201,204	207,335	217,297	227,231	209,226	216,823	225,175
Operating profit (Millions of yen)	5,840	10,872	13,635	15,260	13,067	10,594	10,708	12,836	10,479	10,569	9,293
Operating profit ratio (%)	3.9	6.2	7.1	7.5	6.5	5.1	4.9	5.6	5.0	4.9	4.1
Profit attributable to owners of parent (Millions of yen)	11,372	7,444	9,159	10,281	8,954	7,086	6,996	7,378	5,487	6,907	7,313
Ratio of profit to net sales (%)	7.5	4.3	4.7	5.0	4.5	3.4	3.2	3.2	2.6	3.2	3.2
Return on equity (ROE) (%)	13.6	8.1	9.1	9.4	7.7	5.8	6.8	8.9	6.4	7.7	7.6
Return on invested capital (ROIC) (%)	3.9	6.8	8.3	9.1	7.7	6.0	5.8	6.5	5.1	5.1	4.4
Financial situation											
Total assets (Millions of yen)	155,248	167,460	182,167	186,780	188,632	190,001	209,195	214,157	212,060	221,206	226,907
Total assets turnover (times)	1.04	1.08	1.10	1.11	1.07	1.10	1.09	1.07	0.98	1.00	1.00
Equity (Millions of yen)	88,941	95,130	105,865	112,993	118,268	124,893	82,340	82,946	87,945	92,465	98,747
Equity ratio (%)	57.3	56.8	58.1	60.5	62.7	65.7	39.4	38.7	41.5	41.8	43.5
Interest-bearing debt (Millions of yen)	8,000	6,000	4,188	2,000	150	90	49,893	57,568	54,539	52,254	52,417
Net D/E ratio (times)	(0.08)	(0.07)	(0.08)	(0.13)	(0.16)	(0.15)	0.32	0.46	0.36	0.28	0.30
Cash flows											
Cash flows from operating activities (Millions of yen)	11,758	6,477	9,485	14,767	14,342	8,699	13,452	8,509	18,120	15,998	6,404
Cash flows from investing activities (Millions of yen)	(6,502)	(5,554)	(5,817)	(6,458)	(6,039)	(7,076)	(9,693)	(12,408)	(9,133)	(7,221)	(7,164)
Cash flows from financing activities (Millions of yen)	(10,364)	(3,390)	(3,503)	(4,023)	(6,619)	(1,647)	(526)	1,419	(5,972)	(5,203)	(4,108)
Cash and cash equivalents at end of period (Millions of yen)	14,790	12,550	12,920	17,085	18,772	18,750	21,952	19,342	22,667	26,549	22,535
Others											
Dividends per share (Yen)	10	12	14	14	14	23	45	87	38	42	45
Dividend payout ratio (%)	8.8	16.1	15.2	13.6	15.0	31.0	58.9	76.9	45.5	40.0	40.5
Earnings per share (Yen)	114.04	74.67	91.88	103.15	93.17	74.23	76.41	113.11	83.47	104.96	111.00
Capital investments (Millions of yen)	5,117	5,834	4,408	5,657	6,854	6,525	6,442	7,100	9,205	4,782	4,465
Depreciation (Millions of yen)	3,609	3,978	4,093	4,362	4,763	5,025	5,064	5,442	5,768	5,564	5,321
Research and development expenses (Millions of yen)	2,118	2,313	2,789	2,845	2,717	2,836	2,575	2,401	2,356	2,282	2,476
Number of employees (people)	4,507	4,588	4,612	4,700	4,726	4,773	5,037	5,075	5,288	5,783	5,932
Overseas sales (Millions of yen)	30,452	36,039	45,608	48,142	43,076	42,556	42,899	43,250	27,108	31,022	46,382
Overseas sales ratio (%)	20.2	20.7	23.6	23.6	21.4	20.5	19.7	19.0	13.0	14.3	20.6

*Note: ROIC calculation
ROIC = operating profit x (1 - effective tax rate) / average of invested capital (= interest-bearing debt + equity) at the beginning and end of the period

Company Profile

Company Profile (As of March 31, 2023)

Date of establishment	November 5, 1949
Share capital	15,981,967,991 yen
Number of employees	3,002
Number of employees (consolidated)	5,932

Directors, Members of the Board and Audit & Supervisory Board Members (As of June 27, 2023)

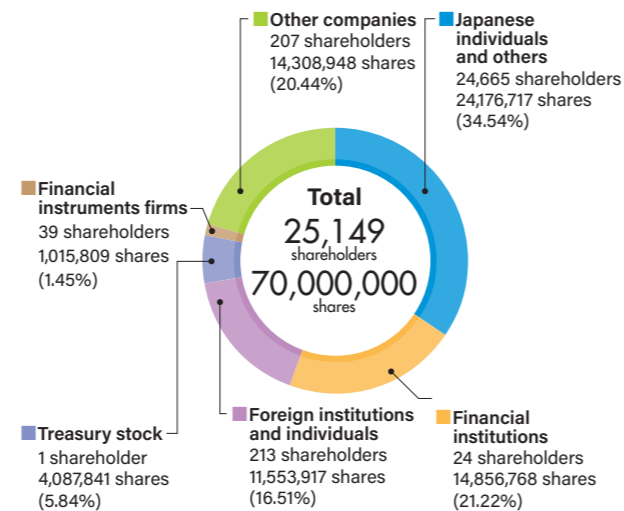
President & CEO	Tatsuyuki Isogawa
Director, Member of the Board, Deputy Chief Executive Officer	Kanji Ishimaru
Director, Member of the Board, Senior Managing Executive Officer	Akira Nishioka
Director, Member of the Board, Managing Executive Officer	Toshiki Kume
Director, Member of the Board, Managing Executive Officer	Takashi Kuniyama
Outside Director, Member of the Board	Yoshifumi Kanda
Outside Director, Member of the Board	Seiko Nagai
Outside Director, Member of the Board	Toshiyuki Umehara
Full-Time Audit & Supervisory Board Member	Koji Nishida
Full-Time Audit & Supervisory Board Member	Tadahiro Shimasaka
Outside Audit & Supervisory Board Member	Tomosaburo Kinda
Outside Audit & Supervisory Board Member	Eri Sugiyama
Outside Audit & Supervisory Board Member	Fumihiko Kimura

Status of shares (As of March 31, 2023)

- (1) Total number of authorized shares..... 300,000,000 shares
- (2) Total number of shares issued..... 70,000,000 shares
- (3) Number of shareholders..... 25,149
- (4) Major shareholders

Shareholder name	Number of shares held	Shareholding ratio
	Shares	%
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,584,400	13.02
SANSHIN CO., LTD.	7,385,065	11.20
Custody Bank of Japan, Ltd. (Trust Account)	4,105,200	6.22
ShinMaywa Employees' Stock Ownership	3,049,072	4.62
Sumitomo Realty & Development Co., Ltd.	1,837,800	2.78
TOYO BLDG. MAINTENANCE CO., LTD.	1,391,300	2.11
STATE STREET BANK WEST CLIENT - TREATY 505234	924,400	1.40
ShinMaywa Suppliers' Stock Ownership	811,286	1.23
BNP PARIBAS LUXEMBOURG/2S/JASDEC/JANUS HENDERSON HORIZON FUND	798,100	1.21
JP MORGAN CHASE BANK 385781	732,217	1.11

(5) Distribution of shares (As of March 31, 2023)



Our website

Various information on ShinMaywa Group is available at our official website. Please refer to it alongside this report.

<https://www.shinmaywa.co.jp/english/index.html>

ShinMaywa Search

