FY2021

Consolidated Financial Statements
&
Notes to the Consolidated Financial Statements

Sumitomo Heavy Industries, Ltd.

Consolidated Financial Statements

1 Methods for Preparing the Consolidated Financial Statements

The consolidated financial statements of Sumitomo Heavy Industries, Ltd. (SHI) have been prepared in accordance with the "Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Order No. 28 of 1976; hereinafter the "Consolidated Financial Statements Regulation").

2 Audit Certification

The consolidated financial statements of SHI for the current consolidated fiscal year (from April 1, 2021 to March 31, 2022) have been audited by KPMG AZSA LLC pursuant to the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act.

Consolidated Balance Sheets

Millions of yen

	March 31, 2021	March 31, 2022
ASSETS		
Current assets		
Cash and deposits	¥ 99,518	¥ 88,782
Notes and accounts receivable — trade	282,928	—
Notes and accounts receivable — trade, and contract assets	—	*1 294,771
Finished goods	80,272	89,262
Work in process	*3 77,721	*3 83,536
Raw materials and supplies	42,163	59,342
Others	34,276	35,897
Allowance for doubtful accounts	(3,258)	(3,487)
Total current assets	613,620	648,102
Non-current assets		
Property, plant and equipment		
Buildings and structures	183,375	201,472
Accumulated depreciation	(118,975)	(124,122)
Buildings and structures, net	*2 64,400	*2 77,350
Machinery, equipment and vehicles	221,183	240,170
Accumulated depreciation	(155,723)	(168,768)
Machinery, equipment and vehicles, net	*2 65,461	71,402
Land	*2,*4 108,305	*4 109,438
Construction in progress	13,825	18,278
Others	69,111	73,379
Accumulated depreciation	(45,298)	(48,832)
Others, net	23,813	24,547
Total property, plant and equipment	275,804	301,014
Intangible assets		
Goodwill	29,364	31,054
Others	47,432	46,500
Total intangible assets	76,796	77,554
Investments and other assets		
Investment securities	*5 22,812	*5 21,913
Long-term loans receivable	2,658	3,057
Deferred tax assets	25,456	25,870
Defined benefit asset	4,591	8,836
Others	*5 12,505	*5 11,937
Allowance for doubtful accounts	(3,556)	(3,354)
Total investments and other assets	64,465	68,260
Total non-current assets	417,064	446,828
Total assets	¥1,030,684	¥1,094,930

3 Efforts to Ensure the Adequacy of the Consolidated Financial Statements

SHI has been making efforts to ensure the adequacy of the consolidated financial statements. More concretely, SHI joined the Financial Accounting Standards Foundation and attends seminars in order to enhance its understanding of the accounting standards and develop a system that enables it to adapt to changes in accounting standards.

Millions of yen

	March 31, 2021	March 31, 2022
LIABILITIES		
Current liabilities		
Notes and accounts payable — trade	¥ 160,260	¥ 172,615
Short-term loans payable	31,698	19,198
Current portion of bonds payable	—	10,000
Current portion of long-term loans payable	*2 3,270	*2 7,745
Commercial papers	—	6,000
Income taxes payable	6,615	8,008
Advances received	57,676	—
Contract liabilities	—	55,952
Provision for construction warranties	18,192	15,267
Provision for loss on construction contracts	*3 2,857	*3 2,714
Others	60,595	69,324
Total current liabilities	341,162	366,823
Non-current liabilities		
Bonds payable	50,000	40,000
Long-term loans payable	*2 39,471	*2 28,307
Defined benefit liability	51,662	46,911
Deferred tax liabilities for land revaluation	*4 20,437	*4 20,479
Other provisions	151	153
Others	22,873	25,414
Total non-current liabilities	184,594	161,265
Total liabilities	525,756	528,087
NET ASSETS		
Shareholders' equity		
Share capital	30,872	30,872
Capital surplus	26,071	26,071
Retained earnings	390,336	423,104
Treasury shares	(1,100)	(1,123)
Total shareholders' equity	446,179	478,923
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,030	4,763
Deferred gains or losses on hedges	(834)	(1,363)
Revaluation reserve for land	*4 40,342	*4 40,442
Foreign currency translation adjustments	1,016	23,601
Remeasurements of defined benefit plans	(1,035)	5,022
Total accumulated other comprehensive income	44,518	72,464
Non-controlling interests	14,230	15,456
Total net assets	504,928	566,843
Total liabilities and net assets	¥1,030,684	¥1,094,930

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Net sales	¥849,065	*1 ¥943,979
Cost of sales	*2,*3 663,616	*2,*3 732,022
Gross profit	185,449	211,957
Selling, general and administrative expenses	*3,*4 134,106	*3,*4 146,279
Operating profit	51,342	65,678
Non-operating income		
Interest income	899	787
Dividend income	640	431
Foreign exchange profit	—	1,155
Others	3,371	3,088
Total non-operating income	4,910	5,461
Non-operating expenses		
Interest expenses	954	748
Foreign exchange losses	575	—
Patent related expenses	1,012	1,232
Expenses for remediation of soil pollution	—	1,138
Others	4,167	3,175
Total non-operating expenses	6,708	6,293
Ordinary profit	49,544	64,847
Extraordinary losses		
Impairment loss	*5 5,769	*5 2,494
Total extraordinary losses	5,769	2,494
Profit before income taxes	43,775	62,353
Income taxes — current	16,399	17,660
Income taxes — deferred	(1,265)	(555)
Total income taxes	15,133	17,105
Profit	28,642	45,248
Profit attributable to non-controlling interests	1,877	1,195
Profit attributable to owners of parent	¥ 26,764	¥ 44,053

Consolidated Statements of Comprehensive Income

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Profit	¥28,642	¥45,248
Other comprehensive income		
Valuation difference on available-for-sale securities	2,617	(264)
Deferred gains or losses on hedges	(306)	(532)
Foreign currency translation adjustments	(3,806)	23,523
Remeasurements of defined benefit plans	5,004	6,034
Share of other comprehensive income of entities accounted for using equity method	10	16
Total other comprehensive income	*1 3,520	*1 28,776
Comprehensive income	32,162	74,024
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	30,201	71,899
Comprehensive income attributable to non-controlling interests	¥ 1,961	¥ 2,125

Consolidated Statements of Changes in Equity

For the year ended March 31, 2021

Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	¥30,872	¥26,070	¥367,229	¥(1,080)	¥423,091
Changes during period					
Dividends of surplus			(5,391)		(5,391)
Profit attributable to owners of parent			26,764		26,764
Purchase of treasury shares				(21)	(21)
Disposal of treasury shares			(0)	1	1
Reversal of revaluation reserve for land			284		284
Change in ownership interest of parent due to transactions with non-controlling interests		0			0
Change in scope of consolidation			1,450		1,450
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	0	23,107	(20)	23,088
Balance at the end of the period	¥30,872	¥26,071	¥390,336	¥(1,100)	¥446,179

Millions of yen

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remea-surements of defined benefit plans	Total accumulated other com-prehensive income	Non-controlling interests	Total net assets
Balance at the beginning of the period	¥2,410	¥(532)	¥40,626	¥4,911	¥(6,049)	¥41,366	¥13,191	¥477,648
Changes during period								
Dividends of surplus								(5,391)
Profit attributable to owners of parent								26,764
Purchase of treasury shares								(21)
Disposal of treasury shares								1
Reversal of revaluation reserve for land								284
Change in ownership interest of parent due to transactions with non-controlling interests								0
Change in scope of consolidation								1,450
Net changes of items other than shareholders' equity	2,620	(303)	(284)	(3,895)	5,014	3,152	1,040	4,192
Total changes of items during the period	2,620	(303)	(284)	(3,895)	5,014	3,152	1,040	27,280
Balance at the end of the period	¥5,030	¥(834)	¥40,342	¥1,016	¥(1,035)	¥44,518	¥14,230	¥504,928

For the year ended March 31, 2022

Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	¥30,872	¥26,071	¥390,336	¥(1,100)	¥446,179
Cumulative effects of changes in accounting policies			(38)		(38)
Restated balance at the beginning of the period	30,872	26,071	390,298	(1,100)	446,141
Changes during period					
Dividends of surplus			(11,148)		(11,148)
Profit attributable to owners of parent			44,053		44,053
Purchase of treasury shares				(25)	(25)
Disposal of treasury shares		0		1	1
Reversal of revaluation reserve for land			(99)		(99)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	0	32,806	(23)	32,782
Balance at the end of the period	¥30,872	¥26,071	¥423,104	¥(1,123)	¥478,923

Millions of yen

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of the period	¥5,030	¥ (834)	¥40,342	¥1,016	¥(1,035)	¥44,518	¥14,230	¥504,928
Cumulative effects of changes in accounting policies								(38)
Restated balance at the beginning of the period	5,030	(834)	40,342	1,016	(1,035)	44,518	14,230	504,889
Changes during period								
Dividends of surplus								(11,148)
Profit attributable to owners of parent								44,053
Purchase of treasury shares								(25)
Disposal of treasury shares								1
Reversal of revaluation reserve for land								(99)
Net changes of items other than shareholders' equity	(267)	(529)	99	22,585	6,057	27,946	1,225	29,171
Total changes of items during the period	(267)	(529)	99	22,585	6,057	27,946	1,225	61,953
Balance at the end of the period	¥4,763	¥(1,363)	¥40,442	¥23,601	¥ 5,022	¥72,464	¥15,456	¥566,843

Consolidated Statements of Cash Flows

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Cash flows from operating activities		
Profit before income taxes	¥ 43,775	¥ 62,353
Depreciation	29,746	30,930
Impairment loss	5,769	2,494
Interest and dividend income	(1,539)	(1,218)
Interest expenses	954	748
Increase (decrease) in provision	3,096	(3,843)
Decrease (increase) in notes and accounts receivable — trade	(10,942)	—
Decrease (increase) in notes and accounts receivable — trade, and contract assets	—	(2,017)
Decrease (increase) in inventories	(4,093)	(26,413)
Increase (decrease) in notes and accounts payable — trade	966	4,174
Others	11,343	11,315
Subtotal	79,077	78,523
Interest and dividend income received	1,557	1,380
Interest expenses paid	(969)	(754)
Income taxes paid	(15,534)	(17,471)
Net cash provided by (used in) operating activities	64,131	61,679
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(39,841)	(45,637)
Proceeds from sale of property, plant and equipment and intangible assets	490	559
Purchase of shares of subsidiaries and investments in capital resulting in change in the scope of consolidation	(2,112)	(2,588)
Purchase of shares of subsidiaries and associates	(18)	(162)
Proceeds from sale of shares of subsidiaries and associates	—	66
Proceeds from sale of investment securities	864	845
Net decrease (increase) in short-term loans receivable	96	38
Payments of loans receivable	(944)	(1,218)
Collection of loans receivable	509	918
Contingent consideration paid for acquisition of shares of subsidiaries	—	(1,563)
Payments for acquisition of businesses	(2,300)	—
Others	(474)	(936)
Net cash provided by (used in) investing activities	(43,729)	(49,678)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,410	(14,042)
Net increase (decrease) in commercial papers	(35,000)	6,000
Proceeds from long-term loans payable	16,067	1,737
Repayments of long-term loans payable	(5,291)	(8,993)
Proceeds from issuance of bonds	20,000	—
Cash dividends paid	(5,403)	(11,144)
Dividends paid to non-controlling interests	(921)	(900)
Others	(821)	(764)
Net cash provided by (used in) financing activities	(7,959)	(28,106)
Effect of exchange rate change on cash and cash equivalents	(734)	4,856
Net increase (decrease) in cash and cash equivalents	11,709	(11,250)
Cash and cash equivalents at the beginning of the period	83,630	96,242
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	903	—
Cash and cash equivalents at the end of the period	*1 ¥ 96,242	*1 ¥ 84,992

Notes to the Consolidated Financial Statements

(Basis of Preparation)

1 Basis of presenting consolidated financial statements

(1) Basis of accounting

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain aspects in terms of application and disclosure requirements of International Financial Reporting Standards.

The accounts of foreign consolidated subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. However, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements," issued by Practical Issues Task Force No.18 of the Accounting Standards Board of Japan (ASBJ) requires making adjustments for the following five specific items, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) canceling revaluation model or fair value model of accounting for property, plant and equipment, and investment properties, as well as applying the cost model of accounting; and (e) subsequent changes in fair value of equity instruments presented as other comprehensive income.

The accompanying consolidated financial statements for Sumitomo Heavy Industries, Ltd. (SHI) and its subsidiaries (collectively, "the Company") have been reformatted and translated into English from the ones prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act.

(2) Transactions eliminated on consolidation

All significant intercompany accounts and transactions have been eliminated in consolidation. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of SHI's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

2 Scope of consolidation

(1) Number of consolidated subsidiaries — 146 companies

Major consolidated subsidiaries: Shin Nippon Machinery Co., Ltd.
Sumitomo Heavy Industries Gearbox Co., Ltd.
Sumitomo Construction Machinery Co., Ltd.
Sumitomo Construction Machinery Sales Co., Ltd.
Sumitomo Heavy Industries Ion Technology Co., Ltd.
Sumitomo Heavy Industries Environment Co., Ltd.
Sumitomo Heavy Industries PTC Sales Co., Ltd.
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.
Sumitomo Heavy Industries Process Equipment Co., Ltd.
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Nihon Spindle Manufacturing Co., Ltd.
Sumitomo Heavy Industries Construction Crane Co., Ltd.
LBCE Holdings, Inc.
PT Sumitomo S.H.I. Construction Machinery Indonesia
SCM (America), Inc.
Sumitomo Heavy Industries (Vietnam) Co., Ltd.
Sumitomo Industrias Pesadas do Brasil Ltda.
Sumitomo Machinery Corporation of America
Sumitomo (SHI) Cryogenics of America, Inc.
Sumitomo (SHI) Cyclo Drive Germany GmbH
Sumitomo (SHI) Demag Plastics Machinery GmbH
Sumitomo SHI FW Energie B.V.
Lafert S.p.A.
Invertek Drives Ltd.
Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.
Sumitomo Heavy Industries (China), Ltd.
Sumitomo Heavy Industries (Tangshan), Ltd.
Sumitomo (SHI) Cyclo Drive China, Ltd.

From the current fiscal year, Lafert North America Inc. and another company whose shares were newly acquired by SHI, Lafert Motores Electricos, S.L. whose shares were additionally acquired by SHI, and Sumitomo (SHI) Demag Plastics Machinery Czech spol. sr.o. that was newly established are included in the scope of consolidation.

(2) Name of major non-consolidated subsidiaries
Major non-consolidated subsidiary: Sumitomo (SHI) Cryogenics Taiwan Co., Ltd.
(Reason for exclusion from the scope of consolidation)
All of the non-consolidated subsidiaries are small-scale companies and their aggregated total assets, net sales, and profit or loss (amount commensurate with equity interests) and retained earnings (amount commensurate with equity interests) do not have a material effect on SHI's consolidated financial statements.

3 Application of the equity method

(1) Number of non-consolidated subsidiaries accounted for using the equity method: nil

(2) The number of affiliated companies accounted for using the equity method: 4
Name of the major company: Sumitomo NACCO Forklift Co., Ltd.
(Affiliated companies excluded from application of equity method)
From the current consolidated fiscal year, Lafert Motores Electricos, S.L. that has become a consolidated subsidiary of SHI and Lafert Electric Motors Ltd. whose shares were sold off are excluded from the scope of application of the equity method.

(3) The non-consolidated subsidiaries (including Sumitomo (SHI) Cryogenics Taiwan Co., Ltd.) and affiliated companies (including Krones-Izumi Processing Pte. Ltd.) not accounted for using the equity method are excluded from the scope of application of the equity method because these companies have an immaterial effect on SHI's consolidated financial statements and are insignificant as a whole in light of factors such as their respective profits or losses (amount commensurate with equity interests) and retained earnings (amount commensurate with equity interests).

4 Fiscal years of consolidated subsidiaries

Among the consolidated subsidiaries, the closing date of 105 overseas subsidiaries (other than Nihon Spindle Cooling Towers Sdn. Bhd. and one more company) is December 31, and their financial statements prepared as of December 31 or for the year ended December 31 are used for the preparation of SHI's consolidated financial statements.
Material transactions that arose during the period between their closing date and the closing date of SHI's consolidated financial statements have been adjusted as necessary for the purposes of the consolidated financial statements.
The closing date of other consolidated subsidiaries is March 31, which is consistent with SHI.

5 Accounting policies

(1) Basis of and methods for valuation of significant assets

(i) Securities
- (a) Bonds held to maturity
  Amortized cost method (straight-line depreciation method)
- (b) Available-for-sale securities
  Securities other than shares, etc. with no active market price
  Fair value method
  (Valuation difference is reported as a component of shareholders' equity, and the cost of sales is calculated using the moving-average method.)
  Shares, etc. with no active market price
  Cost method based on the moving-average method

(ii) Derivatives
Fair value method

(iii) Inventories
- (a) Works in process
  Mainly the cost method based on the specific identification method
  (Carrying amounts in the balance sheet are measured after the consideration of write-down to reflect decreased profitability.)

(b) Finished goods, raw materials and supplies
Mainly the cost method based on the weighted average method
(Carrying amounts in the balance sheet are measured after the consideration of write-down to reflect decreased profitability.)

(2) Methods for depreciation of significant depreciable assets

(i) Property, plant and equipment (excluding leased assets)

The straight-line method is used.

Depreciable lives of major assets are as follows:

Buildings and structures: 10 to 50 years

Machinery, equipment and vehicles: 5 to 12 years

(ii) Intangible assets (excluding leased assets)

The straight-line method is used.

Depreciable lives of in-house software are based on the useful life estimated by the Company (5 years).

(iii) Leased assets

The straight-line method is used for leased assets for financial lease transactions without the transfer of ownership, in which the lease period is considered the depreciable life and the residual value is zero.

(3) Basis of accounting for significant provisions

(i) Allowance for doubtful accounts

The allowance is provided based on historical bad debts losses from general accounts receivable. For doubtful accounts receivable, claims provable in bankruptcy, claims provable in rehabilitation and others, the required allowance is determined to be an amount estimated as uncollectible on an individual basis.

(ii) Provision for construction warranties

In order to provide for free repair work expenditures after the delivery of finished goods, the required allowance is provided for based on historical data.

(iii) Provision for loss on construction contracts

For undelivered construction works at the end of the consolidated fiscal year that are highly likely to generate losses subsequent to the fiscal year, if the losses can be reliably estimated, the estimated amount of those losses is recognized as provision for loss on construction contracts.

(4) Methods for accounting retirement benefits

(i) Method of attributing expected retirement benefits

With respect to retirement benefit obligations, the benefit formula basis is used to calculate the expected retirement benefits for the term that elapsed at the end of the consolidated fiscal year.

(ii) Method of amortization of actuarial difference and past service costs

Past service costs are amortized with the straight-line method over a period within the historical average remaining service period of employees when those costs are incurred.

Actuarial difference is amortized proportionally from the consolidated fiscal year following the incurrence of actuarial difference using the straight-line method over a period within the average remaining service period of employees when the actuarial difference was incurred.

(5) Method of significant hedge accounting

(i) Method of hedge accounting

The Company adopts deferred hedge accounting. However, for interest swap transactions that meet the requirements for simplified accounting treatment, the Company adopts such simplified accounting treatment.

If forward exchange contracts meet the requirements for allocation, the Company adopts the allocation accounting method.

(ii) Hedge instruments and hedged items

Forward exchange contracts:	Foreign currency-denominated accounts receivable, contract assets, foreign currency-denominated accounts payable and forecast transactions
Interest swap transactions:	Loans

(iii) Hedge policy
Under the "Market Risk Management Policy" stipulated by the Board of Directors, the Company's objective for hedging transactions is to mitigate foreign currency and interest rate fluctuation risks, and not to execute speculative transactions.

(iv) Method of assessing hedge effectiveness
The Company compares the aggregated fluctuation in the cash flow or market condition of the hedged items against the aggregated fluctuation in the cash flow or market condition of the hedged instruments every six months, and assesses hedge effectiveness based on the fluctuations. The Company, however, does not assess the hedge effectiveness of those interest swap transactions which are subject to simplified accounting treatment.

(6) Basis of recognition of material revenues and expenses
The Company has adopted Accounting Standards Board of Japan (ASBJ) Statement No. 29 "Accounting Standard for Revenue Recognition" (March 31, 2020) and other relevant standards, and details on main performance obligations in the major businesses of the Company and its ordinary point of time to recognize revenues are as follows.
The Company engages in the sale of, among others, gear reducers and transmissions, plastics machinery, hydraulic excavators, material handling machinery, ships and energy plant systems, and the provision of services relevant thereto.
For the sale of finished goods, the relevant performance obligation is principally determined to be satisfied at the time of delivery of the goods since it is the time when the customer assumes control over the goods. Accordingly, in an ordinary case, revenue is recognized at the time of goods delivery. For finished goods which the Company assumes no obligation to install, in cases where the period from the shipment of such finished goods to the time when control over those finished goods is transferred to the customer is an ordinary period of time, the revenue is recognized at the time of shipment. For the implementation of construction contracts and the provision of services, the relevant performance obligation is principally determined to be satisfied over a period of time, and accordingly the revenue is recognized through estimation of the progress of satisfaction of the performance obligation to provide the customer with the subject matter of construction or relevant service. The cost-to-cost method is mainly used for estimation of construction progress. In the application of the cost-to-cost method, the percentage of costs incurred for construction work to estimated total construction costs is used to determine the progress toward the completion of construction.

(7) Method and period of amortization of goodwill
Goodwill is amortized using the straight-line method over a period of up to 20 years. However, any insignificant amount of goodwill is amortized in full upon its recognition.

(8) Cash and cash equivalents in the consolidated statements of cash flows
Cash and cash equivalents consist of cash on hand, immediately available cash, and short-term investments that are highly liquid, have an insignificant risk of changes in value with maturities of three months or less.

(9) Other significant matters for preparation of consolidated financial statements
(i) Application of the consolidated tax payment system
SHI and some of its consolidated subsidiaries follow the consolidated tax payment system.

(ii) Application of tax effect accounting for the transition from the consolidated tax payment system to the group taxation system
For SHI and some of its domestic consolidated subsidiaries, the consolidated tax payment system is to be shifted to the group taxation system from the next consolidated fiscal year. However, regarding paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (Practical Issues Task Force (PITF) No.39, March 31, 2020), the provisions of paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) were not applied; instead, the calculation of deferred tax assets and liabilities related to the transition to the group taxation system newly established under the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020) and amendments to the single tax payment system under the same Act in connection with the transition was based on the pre-amended provisions.
From the beginning of the next consolidated fiscal year, Practical Solution No. 42 "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (August 12, 2021), which sets out the accounting and disclosure of corporate tax, local corporate tax and tax effect accounting application under the group taxation system, is to be applied.

(iii) Net assets
Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common share. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.
Under the Japanese Corporate Law ("the Law"), in case where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common share over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.
Under the Law, generally legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting.
Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.
The maximum amount allowed to be distributed as dividend is determined based on SHI's non-consolidated financial statements in accordance with the Japanese laws and regulations.

(iv) Research and development ("R&D") expense
R&D expenditures are expensed as incurred.

(Significant Accounting Estimates)

1 Valuation of goodwill

(1) Carrying amounts in the current fiscal year's financial statements

The Company recognized goodwill of ¥31,054 million in the consolidated balance sheets as of March 31, 2022, which includes the following balance of goodwill that was considered in order to find out whether to recognize any impairment at the end of the same fiscal year.

Millions of yen

	March 31, 2021	March 31, 2022
Goodwill of Sumitomo SHI FW Energie B.V.	¥10,670	¥10,303
Goodwill of Lafert S.p.A.	10,369	11,111

(2) Information that assists in understanding the nature of the estimates

The Company groups its assets into units for determination of whether to recognize and measure impairment losses on fixed assets on the basis of this grouping and determines whether to actually recognize impairment losses on assets or asset groups whenever there is an impairment indication. With respect to goodwill, each business unit to which goodwill belongs is tested for impairment. The impairment test is performed by comparing the total amount of undiscounted future cash flows of each business unit with the aggregated amount consisting of the carrying amount of asset groups related to the business unit and the carrying amount of goodwill. If the recognition of an impairment loss is deemed necessary, the carrying amount is reduced to a recoverable amount, and the resulted decrease in the carrying amount is recognized as an impairment loss.
As Sumitomo SHI FW Energie B.V. has faced significant changes in the market environment with capital investment in the market of boilers for power generation expected to be shifted from that for coal, which is conventionally the major fuel, to that for biomass and recyclable fuels, there are indications of impairment of goodwill. Accordingly, the Group performed impairment tests during the current fiscal year.
Also, as Lafert S.p.A. has recognized recurring operating losses after deducting amortization of goodwill for some consecutive years, there are indications of impairment of goodwill. Accordingly, the Group performed impairment tests.
As a result, it determined that the recognition of impairment losses was not necessary for each of those companies as its total amount of the undiscounted future cash flows exceeded its carrying amount of the asset group including goodwill.
The undiscounted future cash flows used for the impairment tests were estimated based on the business plans prepared by management, and the details of those plans are as follows.
For Sumitomo SHI FW Energie B.V., the strategical review of its business portfolio according to changes in the market environment was started, and the formulation of its business plan was based on, among other factors, external organizations' published data on the market of boilers for power generation and the energy storage market, which are highly relevant to its future business development, and its expected shares in those markets.
For Lafert S.p.A., the formulation of its business plan was based on external organizations' published data including the projected growth rate of the industrial motor market, its expected share in that market and other relevant factors.
Therefore, the relevant estimates may potentially be impacted by such factors as unforeseeable changes in the business environment in the future. Consequently, if the estimated future cash flows deteriorate, it may be necessary to recognize impairment losses in the consolidated financial statements for the subsequent fiscal year.

2 Estimate of total construction costs based on performance obligations to be satisfied over a period of time

(1) Carrying amounts in the current fiscal year's financial statements

The Company recognized net sales of ¥943,979 million in the Consolidated Statement of Income for the year ended March 31, 2022, which include the following construction revenue (sales) based on performance obligations to be satisfied over a period of time.

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Construction revenue (sales) using the percentage-of-completion method	¥165,481	¥ —
Construction revenue (sales) based on performance obligations to be satisfied over a period of time	—	158,233

(2) Information that assists in understanding the nature of the estimates

For performance obligations to be satisfied over a period of time in each segment of "Industrial Machinery," "Logistics & Construction" and "Energy & Lifelines," the Company has estimated the progress of satisfaction of such performance obligations and recognized the relevant revenue over a period of time according to such progress. For the method of estimating the progress of satisfaction of performance obligations, the cost-to-cost method is mainly used. In the application of the cost-to-cost method, the percentage of costs incurred for construction work to estimated total construction costs is used to determine the progress toward the completion of construction. The preparation and revision of a project budget, which provides the basis for estimating total construction costs, involves estimation uncertainty since construction works are significantly different in nature depending on their contracts. Specifically, the determination of whether all the work necessary to complete a specific construction contract is identified and estimated costs are included in its project budget, and whether various factors, such as unexpected changes in the economic environment, actual costs exceeding the initially estimated costs due to design or process disruption and any penalty payment resulting from problems with any product function or delivery date, are reflected within the project budget in a timely and appropriate manner, has a significant effect on the estimation of total construction costs. For that reason, estimated total construction costs constitute a significant accounting estimate, which is reviewed, in principle, quarterly. Nonetheless, if there is a revision in the estimate of total construction cost due to an event that affects the Company's judgments, such as those events mentioned above, it may have an impact on the amount of construction revenue (sales) to be recognized for the subsequent consolidated fiscal year.

(Changes in Accounting Policies)

(Adoption of the Accounting Standard for Revenue Recognition)

The Company has adopted ASBJ Statement No. 29 "Accounting Standard for Revenue Recognition" (March 31, 2020; hereinafter the "Revenue Recognition Accounting Standard") and other relevant standards, and therefore revenue is recognized when control over the promised goods or service is transferred to the customer and in the amount expected to be received in exchange for the goods or service.

This adoption has changed the method of recognition of sales promotion premiums and delay damages incurred in connection with contract implementation, which were previously recognized as the cost of sales, selling, general and administrative expenses or non-operating expenses, such that those sales promotion premiums and delay damages are now treated as variable considerations or considerations to be paid to customers in light of the reality of transactions and are deducted from sales.

Furthermore, conventionally, the percentage-of-completion method was adopted for construction works for which the realization of a completed portion was assured, and the completed-contract method was adopted for other construction works. However, the method of recognition of revenue has been changed in relation to performance obligations to be satisfied over a period of time such that the progress of satisfaction of performance obligations is estimated and the relevant revenue is recognized over a period of time according to such progress. In cases where a performance obligation is not to be satisfied over a period of time, the relevant revenue is recognized when the performance obligation is satisfied in full as a performance obligation to be satisfied at a point of time.

With respect to the adoption of the Revenue Recognition Accounting Standard, etc., the transitional treatment specified in the proviso of paragraph 84 of the Revenue Recognition Accounting Standard was followed, and the cumulative effects generated by retroactive application of the new accounting policy from before the beginning of the current consolidated fiscal year are added or deducted to/from retained earnings at the beginning of the period, and the new accounting policy has been applied from the balances at the beginning of the current consolidated fiscal year. However, as the method specified in paragraph 86 of the Revenue Recognition Accounting Standard was adopted, the new accounting policy was not retroactively applied to those contracts whose amounts of revenue were almost entirely recognized before the beginning

of the current consolidated fiscal year in accordance with the previous treatment.
Consequently, there is only a minor impact on the profit or loss for the current consolidated fiscal year and on the retained earnings at the beginning of the period concerned.
Following the adoption of the Revenue Recognition Accounting Standard, etc., "Notes and accounts receivable — trade" presented under "Current assets" in the consolidated balance sheets for the consolidated fiscal year ended March 31, 2021 is included in "Notes and accounts receivable — trade, and contract assets" from the current consolidated fiscal year; likewise, "Advances received" previously presented under "Current liabilities" is newly included in "Contract liabilities."
Furthermore, "Decrease (increase) in notes and accounts receivable — trade" presented under "Cash flows from operating activities" in consolidated statements of cash flows is included in "Decrease (increase) in notes and accounts receivable — trade, and contract assets" from the current consolidated fiscal year.
In accordance with the transitional treatment specified in paragraph 89-2 of the Revenue Recognition Accounting Standard, the consolidated financial statements for the previous consolidated fiscal year are not reclassified with the new presentation method. Furthermore, in accordance with the transitional treatment specified in paragraph 89-3 of the Revenue Recognition Accounting Standard, no note to "Revenue recognition" for the previous consolidated fiscal year is disclosed.
The impact of this change on per-share information is immaterial.

(Adoption of "Accounting Standard for Fair Value Measurement")

The Company has adopted ASBJ Statement No. 30 "Accounting Standard for Fair Value Measurement" (July 4, 2019; hereinafter the "Fair Value Measurement Accounting Standard") and other relevant standards since the beginning of the current consolidated fiscal year, and therefore the new accounting policy specified in the Fair Value Measurement Accounting Standard, etc. is to be applied into the future in accordance with the transitional treatment specified in paragraph 19 of the Fair Value Measurement Accounting Standard and paragraph 44-2 of ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" (July 4, 2019). This does not affect the consolidated financial statements for the current consolidated fiscal year.
Furthermore, notes on matters related to the breakdown, etc. of financial instruments according to fair value levels are included in the notes to "Financial Instruments." However, such notes do not cover the previous consolidated fiscal year, in accordance with the transitional treatment specified in paragraph 7-4 of ASBJ Guidance No. 19 "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (July 4, 2019).

(Changes of Presentation Methods)

(Consolidated Balance Sheets)

Presentation method for "Provision for loss on business transfers" and "Provision for loss on product liability claims"
"Provision for loss on business transfers" and "Provision for loss on product liability claims" of "Non-current liabilities," which were separately presented in the previous consolidated fiscal year, are presented in "Other provision amount" of "Non-current liabilities" for the current consolidated fiscal year because they are immaterial in terms of amount.
As a result, ¥115 million presented in "Provision for loss on business transfers" and ¥36 million presented in "Provision for loss on product liability claims" of "Non-current liabilities" in the consolidated balance sheets for the previous consolidated fiscal year are reclassified into ¥151 million of "Other provision amount."

(Consolidated Statements of Income)

Presentation method for "Insurance claim income"
"Insurance claim income" of "Non-operating income," which was separately presented in the previous consolidated fiscal year, is presented in "Others" of "Non-operating income" for the current consolidated fiscal year because it has become immaterial in terms of amount.
As a result, ¥1,076 million presented in "Insurance claim income" and ¥2,295 million presented in "Others" of "Non-operating income" in the consolidated statement of income for the previous consolidated fiscal year are reclassified into ¥3,371 million of "Others."

(Additional information)

(Change in the accounting period)

SHI resolved through the 126th Annual General Meeting of Shareholders held on June 29, 2022 to change its accounting period (the last day of fiscal year) as follows.

1 Reason for the change

Amid the accelerated globalization of the Company's business activities, the change concerned is to enhance its global management base by adopting a uniform accounting period and to realize the timely comprehension and disclosure of business achievements on the basis of a uniform accounting period.

2 Details on the change in the accounting period

Currently: March 31 of each year
After change: December 31 of each year
In the 127th term that is the transitional period for the accounting period change, accounting period will be for a nine-month period starting from April 1, 2022 and ending December 31, 2022.

(Consolidated Balance Sheets)

***1** Of notes and accounts receivable — trade, and contract assets, the respective amounts of notes and accounts receivable and contract assets generated from contracts with customers are stated in "3. (1) Balances, etc. of contract assets and contract liabilities" under "(Revenue Recognition)" in "Notes to the Consolidated Financial Statements."

*2 Collateralized assets and secured obligations

The assets offered as collateral are presented below.

Millions of yen

	March 31, 2021	March 31, 2022
Land	¥101	¥ —
Buildings and structures	800	329
Machinery, equipment and vehicles	74	—
Total	¥975	¥329

Secured obligations are presented below.

Millions of yen

	March 31, 2021	March 31, 2022
Current portion of long-term loans payable	¥144	¥ 55
Long-term loans payable	759	274
Total	¥903	¥329

*3 Presentation of inventories and provision for loss on construction contracts

Inventories and the provision for loss on construction contracts relating to construction contracts that are highly likely to incur losses have been presented separately and have not been offset. The amount of the provision for loss on construction contracts that relate to inventories resulting from construction contracts which are likely to generate losses is presented below.

Millions of yen

	March 31, 2021	March 31, 2022
Provision for loss on construction contracts related to inventories	¥459	¥571

*4 Revaluation of land

Land for business use is revalued pursuant to the Act on Revaluation of Land (Act No. 34 of March 31, 1998) and the Act for Partial Amendment of the Act on Revaluation of Land (Act No. 19 of March 31, 2001).
For revaluation difference, the amount corresponding to the tax on such revaluation difference has been recognized as "Deferred tax liabilities for land revaluation" under the Act for Partial Amendment of the Act on Revaluation of Land (Act No. 24 of March 31, 1999), and the amount from which deferred tax liabilities for land revaluation are deducted has been recognized as "Revaluation reserve for land" in net assets.

• Method of revaluation
While revaluation has been done by making reasonable adjustments to the value of the property tax prescribed in Article 2, item (iii) of the Order for Enforcement of the Act of on Revaluation of Land (Cabinet Order No. 119 of March 31, 1998), revaluation has at times been done based on, among other relevant factors, the appraised values by real estate appraisers as prescribed in item (v) of the said Article.

• Date of revaluation
March 31, 2002

Millions of yen

	March 31, 2021	March 31, 2022
Difference between the fair value of revalued land at the end of the year and the book value after revaluation	¥(16,666)	¥(17,110)

*5 Securities of non-consolidated subsidiaries and affiliated companies are as follows.

Millions of yen

	March 31, 2021	March 31, 2022
Investment securities (equity)	¥9,277	¥9,332
Investments in capital	747	791

For presentation purposes, investments in capital have been included in "Others" of "Investments and other assets."

6 Loan commitment line agreements

SHI has loan commitment line agreements with 12 banks to finance operating funds efficiently.
The balances of undrawn loan commitment lines under those agreements are presented below.

Millions of yen

	March 31, 2021	March 31, 2022
Total loan commitment lines	¥70,000	¥70,000
Balance of drawn loan commitment lines	—	—
Undrawn loan commitment lines	¥70,000	¥70,000

7 Contingent liabilities

(1) Guaranteed liabilities

The Company guarantees loans and other liabilities of companies other than the consolidated companies from banks and financial institutions as shown below.

Millions of yen

	March 31, 2021
Sumitomo Mitsui Finance and Leasing Company, Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	¥12,252
Mizuho Leasing Company, Limited (Purchase guarantee, etc. in connection with the lease agreement)	2,318
Fuyo General Lease Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	525
Diamond Construction Equipment Corp. (Purchase guarantee, etc. in connection with the lease agreement)	479
Itochu TC Construction Machinery Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	70
Other 7 transactions (Purchase guarantee, etc. in connection with the lease agreement)	138
Total	¥15,782

	March 31, 2022
Sumitomo Mitsui Finance and Leasing Company, Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	¥11,997
Mizuho Leasing Company, Limited (Purchase guarantee, etc. in connection with the lease agreement)	1,795
Diamond Construction Equipment Corp. (Purchase guarantee, etc. in connection with the lease agreement)	604
BOT Lease Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	284
Fuyo General Lease Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	262
Other 8 transactions (Purchase guarantee, etc. in connection with the lease agreement)	212
Total	¥15,154

The amounts for the previous consolidated fiscal year include foreign currency-denominated liabilities of CNY725 million (¥11,527 million) and NTD7 million (¥28 million), and the amounts for the current consolidated fiscal year include foreign currency-denominated liabilities of CNY618 million (¥11,163 million) and NTD5 million (¥20 million).

(2) Repurchase obligation following the securitization of notes receivable

Millions of yen

	March 31, 2021	March 31, 2022
	¥1,025	¥2,830

(Consolidated Statements of Income)

*1 Revenue generated from contracts with customers

For net sales, revenue generated from contracts with customers and other revenues are not stated separately. The amount of revenue generated from contracts with customers is stated in "1 Information on the breakdown of revenues generated from contracts with customers" under "(Revenue Recognition)" in "Notes to the Consolidated Financial Statements."

*2 Provision for loss on construction contracts included in the cost of sales

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
	¥2,756	¥2,738

*3 R&D expenses included in general and administrative expenses and production cost for the period

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
	¥19,470	¥20,181

*4 Major items of selling, general and administrative expenses

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Salaries and allowances	¥49,895	¥54,786
R&D expenses	19,434	20,143
Retirement benefit expenses	3,361	2,340
Provision of allowance for doubtful accounts and bad debts expenses	(92)	473

*5 Impairment loss

For the year ended March 31, 2021

The Company recognized impairment losses in relation to the following groups of assets.

Purpose of use	Category	Location	Amount (Millions of yen)
Business assets	Buildings and others	Yokosuka City, Kanagawa	¥4,991
Business assets	Intangible assets	United States	404
Business assets	Buildings and others	Nishi Tokyo City, Tokyo, and others	368
Idle assets	Buildings and others	Takatsuki City, Osaka	6

For the above-mentioned assets, the Company recognized impairment losses because it was not possible to recover the relevant investments due to decreased profitability.
The Company determined recognition of impairment losses basically by each business unit and recognition of impairment of idle assets not expected to be used in the future by individual property.
Recoverable amounts were calculated based on the underlying net selling value or value in use. Net selling value was calculated based on the amount of disposal values less costs of disposal. Furthermore, although value in use was calculated by discounting future cash flows at 17.5%, some assets were determined to have no fair value since the estimated future cash flows were negative.

For the year ended March 31, 2022

The Company recognized impairment losses in relation to the following groups of assets.

Purpose of use	Category	Location	Amount (Millions of yen)
Assets subject to disposal	Intangible assets	Obu City, Aichi	¥2,057
Business assets	Buildings and others	Yokosuka City, Kanagawa, and others	374
Business assets	Buildings and others	Nishi Tokyo City, Tokyo, and others	64

The Company recognized impairment losses in relation to those assets subject to disposal that were not expected to be used and those business assets regarding which it was not possible to recover the relevant investments due to decreased profitability.
The Company determined recognition of impairment losses basically by each business unit and recognition of impairment of assets subject to disposal not expected to be used in the future by individual property.
Recoverable amounts were calculated based on the underlying net selling value or value in use. Net selling value was calculated based on the amount of disposal values less costs of disposal. Those assets that were not expected to be used in the future and difficult to sell off were determined to have no selling value. Furthermore, no value in use was recognized since the estimated future cash flows are negative.

(Consolidated Statements of Comprehensive Income)

*1 Reclassification adjustment and tax effect relating to other comprehensive income

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Valuation difference on available-for-sale securities		
Amount accrued during the year	¥ 3,888	¥ (252)
Reclassification adjustment	(247)	(82)
Before tax effect adjustment	3,641	(334)
Tax effect	(1,023)	70
Valuation difference on available-for-sale securities	2,617	(264)
Deferred gains or losses on hedges		
Amount accrued during the year	243	(235)
Reclassification adjustment	(521)	(748)
Before tax effect adjustment	(278)	(983)
Tax effect	(27)	451
Deferred gains or losses on hedges	(306)	(532)
Foreign currency translation adjustments		
Amount accrued during the year	(3,807)	23,523
Reclassification adjustment	1	—
Foreign currency translation adjustments	(3,806)	23,523
Remeasurements of defined benefit plans		
Amount accrued during the year	5,280	9,125
Reclassification adjustment	1,358	(1,105)
Before tax effect adjustment	6,639	8,020
Tax effect	(1,634)	(1,986)
Remeasurements of defined benefit plans	5,004	6,034
Share of other comprehensive income of entities accounted for using equity method		
Amount accrued during the year	(4)	22
Reclassification adjustment	14	(6)
Share of other comprehensive income of entities accounted for using equity method	10	16
Total other comprehensive income	¥ 3,520	¥28,776

(Consolidated Statements of Changes in Equity)

For the year ended March 31, 2021

1 Type and total number of issued shares and treasury shares

Thousand shares

	Number of shares at the beginning of the year	Increase during the year	Decrease during the year	Number of shares at the end of the year
Issued shares				
Common share	122,905	—	—	122,905
Total	122,905	—	—	122,905
Treasury shares				
Common share	389	8	0	397
Total	389	8	0	397

Notes: 1 The increase in common share of treasury shares by 8 thousand shares was due to requests for the repurchase of shares less than one unit.
2 The decrease in common share of treasury shares by less than 1 thousand shares was due to the sale of shares less than one unit.

2 Dividends

(1) Cash dividends paid

(Resolution)	Type of share	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 26, 2020 Annual general meeting of shareholders	Common share	¥4,288	¥35	March 31, 2020	June 29, 2020
October 30, 2020 Meeting of the Board of Directors	Common share	1,103	9	September 30, 2020	December 1, 2020
Total		¥5,391	¥—		

(2) Dividends recorded during the current consolidated fiscal year but effective in the next consolidated fiscal year

(Resolution)	Type of share	Source for payment of dividends	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 29, 2021 Annual general meeting of shareholders	Common share	Retained earnings	¥6,860	¥56	March 31, 2021	June 30, 2021

For the year ended March 31, 2022

1 Type and total number of issued shares and treasury shares

Thousand shares

	Number of shares at the beginning of the year	Increase during the year	Decrease during the year	Number of shares at the end of the year
Issued shares				
Common share	122,905	—	—	122,905
Total	122,905	—	—	122,905
Treasury shares				
Common share	397	8	0	405
Total	397	8	0	405

Notes: 1 The increase in common share of treasury shares by 8 thousand shares was due to requests for the repurchase of shares less than one unit.
2 The decrease in common share of treasury shares by less than 1 thousand shares was due to the sale of shares less than one unit.

2 Dividends

(1) Cash dividends paid

(Resolution)	Type of share	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 29, 2021 Annual general meeting of shareholders	Common share	¥6,860	¥56	March 31, 2021	June 30, 2021
October 29, 2021 Meeting of the Board of Directors	Common share	4,288	35	September 30, 2021	December 1, 2021
Total		¥11,148	¥—		

(2) Dividends recorded during the current consolidated fiscal year but effective in the next consolidated fiscal year

(Resolution)	Type of share	Source for payment of dividends	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 29, 2022 Annual general meeting of shareholders	Common share	Retained earnings	¥9,800	¥80	March 31, 2022	June 30, 2022

(Consolidated Statements of Cash Flows)

*1 Reconciliations between the cash and cash equivalents and cash and deposits presented in the consolidated balance sheets

Millions of yen

	March 31, 2021	March 31, 2022
Cash and deposits	¥99,518	¥88,782
Time deposits with term of over 3 months to maturity	(3,276)	(3,790)
Cash and cash equivalents	¥96,242	¥84,992

(Lease Transactions)

As lessee

Operating lease transactions

Lease payments for non-cancelable operating lease transactions

Millions of yen

	March 31, 2021	March 31, 2022
Within 1 year	¥1,420	¥1,498
Over 1 year	1,690	2,055
Total	¥3,110	¥3,553

(Financial Instruments)

1 Financial instruments

(1) Policy to cope with financial instruments

As a general machinery manufacturer, the Company manufactures, sells, and distributes various machines and systems including gear reducers and transmissions, as well as finances necessary operating and equipment funds through bank loans and issue of corporate bonds. Temporary surplus funds are limited to investment in highly stable and short-term financial assets. Derivatives are used to hedge the risks described below and the Company has a policy to refrain from entering into any speculative transactions.

(2) Details of financial instruments and their risks

Notes and accounts receivable — trade are exposed to customers' credit risks. Although foreign currency-denominated trade accounts receivable generated from the global expansion of business operations are exposed to foreign exchange fluctuation risks, the Company hedges the net positions of foreign currency-denominated trade accounts receivable and trade accounts payable by utilizing forward exchange contracts to maintain those positions in a certain range of percentages. Reports on hedge ratios and unhedged positions are submitted to the Board of Directors in a timely manner.

Investment securities consist of shares in the companies with which the Company has a business relationship and which are exposed to market price fluctuation risks.

Most notes and accounts payable — trade are due within one year. Some of them, which relate to imports of raw materials and are denominated in foreign currencies, are exposed to foreign exchange fluctuation risks and are hedged by utilizing forward exchange contracts.

Loans and bonds are principally intended to finance operating funds and equipment funds necessary for business transactions. For some of the long-term loans payable, the Company utilizes derivative transactions (interest rate swap transactions) as hedge instruments for each individual contract. As interest swap transactions satisfy the requirements for simplified accounting treatment, assessment of the effectiveness is not carried out. Foreign currency-denominated loans are exposed to foreign exchange fluctuation risks.

Derivative transactions consist of forward exchange contracts designed for hedge transactions in preparation for foreign exchange fluctuation risks for foreign currency-denominated trade accounts receivable and payable, and interest rate swap transactions designed to hedge fluctuation risks involving interests payable on loans and foreign exchanges. For details of hedge accounting instruments and hedged transactions, hedge policy, and methods of assessment of their effectiveness, please refer to "Method of significant hedge accounting" in "Accounting policies" above.

(3) Risk management structure for financial instruments

(i) Management of credit risk (risk from the default, etc. of counterparties)

For domestic transactions and export transactions in excess of certain levels, the Company endeavors to mitigate its concerns about the recoverability of trade accounts receivable, for example, by conducting credit examinations prior to accepting orders. In addition, each business division manages the due dates and balances of trade accounts receivable for each counterparty in accordance with the credit management regulations, thereby trying to identify concerns about recoverability as early as practicable.

In using derivative transactions, the Company enters into transactions only with highly rated financial institutions to mitigate counterparty risks.

The Company maintains term deposits only with highly rated financial institutions with which the Company has loan transactions to mitigate repayment risks. Therefore, the Company is subject only to an insignificant level of credit risks.

(ii) Management of market risk (risk from the fluctuation of foreign currency exchange rates, interest rates or other factors)

SHI hedges the net positions of foreign currency-denominated trade accounts receivable and payable in accordance with the Market Risk Management Policy which stipulates, among others, hedge ratios and unhedged volumes of foreign exchange transactions, and submits a report on how those positions are hedged to the Board of Directors on a monthly basis. Major consolidated subsidiaries with foreign currency-denominated trade accounts receivable and payable also manage their foreign exchange fluctuation risks through currency hedging in accordance with the exchange hedging policy which stipulates, among others, hedge ratios or unhedged volumes of foreign exchange transactions.

Moreover, SHI monitors interest expenses on loans and submits a report to the Board of Directors in a timely manner. The Company utilizes interest rate swap transactions to control interest expense fluctuation risks.

For investment securities, the Company monitors fair values and financial conditions of issuers in a timely manner. The Company also reviews its holdings position considering its relationships with business partners.

SHI and its major consolidated subsidiaries have a policy to utilize derivative transactions for the sole purpose of hedging the foreign exchange and interest fluctuation risks mentioned above and reconciles balances with each counterparty on a monthly basis.

(iii) Management of liquidity risk for financing (risk of becoming unable to pay debts when they become due and payable)

The Company has introduced the cash management systems for major consolidated subsidiaries, under which SHI centrally manages the Company's funds. The Company prepares and updates financing plans on a timely basis based on reports from the business divisions and major affiliated companies and manages the liquidity risk.

2 Fair values for financial instruments

The carrying amounts and fair values of financial instruments on the consolidated balance sheets and their difference are presented below.

For the year ended March 31, 2021

Millions of yen

	Carrying amount	Fair value	Difference
(1) Investment securities	¥11,238	¥11,238	¥ —
(2) Long-term loans receivable	2,658	2,586	(71)
Total	¥13,895	¥13,824	¥ (71)
(1) Bonds payable	¥50,000	¥50,182	¥182
(2) Long-term loans payable	42,741	42,937	196
Total	¥92,741	¥93,119	¥378
Derivative transactions (*3)	¥ (1,773)	¥ (1,814)	¥ (41)

(*1) Cash is omitted from the above table. Likewise, deposits, notes and accounts receivable — trade, notes and accounts payable — trade, and short-term loans payable are omitted since their carrying amounts approximate their respective fair values because of their short-term nature.
(*2) The carrying amounts of financial instruments on the consolidated balance sheets, regarding which it is not practicable to identify their fair values, are as shown below.
(*3) Receivables and payables generated from derivative transactions are presented on a net basis, and net payables are presented in brackets.

Millions of yen

Category	March 31, 2021
Shares of subsidiaries and associates	¥9,277
Unlisted shares	2,292
Equity securities	5

These financial instruments are not included in "(1) Investment securities" because they had no active market price and it was not practicable to identify their fair values.

For the year ended March 31, 2022

Millions of yen

	Carrying amount	Fair value	Difference
(1) Investment securities	¥10,247	¥10,247	¥ —
Total	¥10,247	¥10,247	¥ —
(1) Bonds payable	¥50,000	¥50,112	¥112
(2) Long-term loans payable	36,052	36,103	51
Total	¥86,052	¥86,215	¥163
Derivative transactions (*3)	¥ (3,278)	¥ (3,122)	¥157

(*1) Cash is omitted from the above table. Likewise, deposits, notes and accounts receivable — trade, notes and accounts payable — trade, short-term loans payable and commercial papers are omitted since their carrying amounts approximate their respective fair values because of their short-term nature.
(*2) Shares that do not have a market price are not included in "(1) Investment securities." The carrying amounts of those financial instruments on the consolidated balance sheets are presented below.
(*3) Receivables and payables generated from derivative transactions are presented on a net basis, and net payables are presented in brackets.

Millions of yen

Category	March 31, 2022
Shares of subsidiaries and associates	¥9,332
Unlisted shares	2,329
Equity securities	5

Note 1: Amounts of financial assets expected to be redeemed after the end of the year

For the year ended March 31, 2021

Millions of yen

	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥ 99,518	¥ —	¥ —
Notes and accounts receivable — trade	277,451	5,377	101
Long-term loans receivable	265	2,387	6
Total	¥377,234	¥7,764	¥106

For the year ended March 31, 2022

Millions of yen

	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥ 88,782	¥ —	¥ —
Notes and accounts receivable — trade	229,437	4,034	120
Total	¥318,220	¥4,034	¥120

Note 2: Amounts of bonds payable and long-term loans payable to be repaid after the end of the year

For the year ended March 31, 2021

Millions of yen

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Bonds payable	¥ —	¥10,000	¥ —	¥10,000	¥20,000	¥10,000
Long-term loans payable	3,270	11,758	22,268	3,511	1,672	261
Total	¥3,270	¥21,758	¥22,268	¥13,511	¥21,672	¥10,261

For the year ended March 31, 2022

Millions of yen

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Bonds payable	¥10,000	¥ —	¥10,000	¥20,000	¥ —	¥10,000
Long-term loans payable	7,745	22,759	3,652	3,652	159	153
Total	¥17,745	¥22,759	¥13,652	¥23,652	¥159	¥10,153

3 The breakdown, etc. of financial instruments according to their levels

The fair values of financial instruments are categorized into the following three levels according to the observability and materiality of inputs associated with the calculation of fair values.

Level 1 fair value: A fair value calculated from, out of observable inputs to a market value measurement, the quoted prices of assets or liabilities subject to the calculation of fair values that are formed in an active market

Level 2 fair value: A fair value calculated by using, out of observable inputs to the fair value measurement, inputs to a fair value measurement that are other than the inputs for level 1

Level 3 fair value: A fair value calculated by using unobservable inputs to a fair value measurement

When a number of inputs that have a material impact on a fair value measurement are used for the measurement, the relevant fair value is categorized into, among the levels into which those inputs are individually categorized, the lowest level in terms of priority for the fair value measurement.

(1) Financial instruments whose fair values are stated on the consolidated balance sheets

March 31, 2022

Millions of yen

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	¥10,247	¥ —	¥—	¥10,247
Derivative transactions				
Foreign currency-related transactions	—	807	—	807
Total	¥10,247	¥ 807	¥—	¥11,054
Derivative transactions				
Foreign currency-related transactions	¥ —	¥4,084	¥—	¥ 4,084
Interest-related transactions	—	1	—	1
Total	¥ —	¥4,085	¥—	¥ 4,085

(2) Financial instruments other than those whose fair values are stated on the consolidated balance sheets

March 31, 2022

Millions of yen

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Derivative transactions				
Foreign currency-related transactions	¥—	¥ 1	¥—	¥ 1
Interest-related transactions	—	232	—	232
Total	¥—	¥ 233	¥—	¥ 233
Bonds payable	¥—	¥ 50,112	¥—	¥50,112
Long-term loans payable	—	36,103	—	36,103
Derivative transactions				
Foreign currency-related transactions	—	76	—	76
Total	¥—	¥86,292	¥—	¥86,292

Note: Explanation of valuation techniques used for the calculation of fair values and inputs

Investment securities

The valuation of listed shares is based on their quoted prices. Since listed shares are actively traded in the market, their fair values are categorized as level 1 fair values.

Bonds payable

The fair value of a bond payable issued by SHI is calculated with the present discounted value method based on the total amount of the principal and interest and an interest rate that reflects the duration of the bond to maturity and credit risk, which is categorized as a level 2 fair value.

Long-term loans payable

The fair value of a long-term loan payable is calculated with the present discounted value method based on the total amount of the principal and interest and an interest rate that reflects the duration of the loan to maturity and credit risk, which is categorized as a level 2 fair value.

Derivative transactions

The fair value of an interest rate swap transaction or forward exchange contract is calculated on the basis of a price, etc. presented by the relevant financial institution, which is categorized as a level 2 fair value.

(Securities)

1 Available-for-sale securities

March 31, 2021

Millions of yen

Category	Carrying amount	Acquisition cost	Difference
Securities for which the carrying amount on the consolidated balance sheets is in excess of the acquisition cost			
Shares	¥11,224	¥4,363	¥6,861
Securities for which the carrying amount on the consolidated balance sheets is not in excess of the acquisition cost			
Shares	14	14	(0)
Total	¥11,238	¥4,377	¥6,861

Note: The shares of subsidiaries and associates (carrying amount on the consolidated balance sheets: ¥9,277 million), unlisted shares (carrying amount on the consolidated balance sheets: ¥2,292 million) and equity securities (carrying amount on the consolidated balance sheets: ¥5 million) are not included in "Available-for-sale securities" in the table above, as those shares and securities have no active market price and it is not practicable to identify their fair values.

March 31, 2022

Millions of yen

Category	Carrying amount	Acquisition cost	Difference
Securities for which the carrying amount on the consolidated balance sheets is in excess of the acquisition cost			
Shares	¥10,225	¥3,695	¥6,530
Securities for which the carrying amount on the consolidated balance sheets is not in excess of the acquisition cost			
Shares	22	26	(4)
Total	¥10,247	¥3,721	¥6,526

Note: The shares of subsidiaries and associates (carrying amount on the consolidated balance sheets: ¥9,332 million), unlisted shares (carrying amount on the consolidated balance sheets: ¥2,329 million) and equity securities (carrying amount on the consolidated balance sheets: ¥5 million) are not included in "Available-for-sale securities" in the table above, as those shares and securities have no active market price.

2 Available-for-sale securities sold during the year

For the year ended March 31, 2021

Millions of yen

Type	Amount sold	Total amount of selling profits	Total amount of selling losses
Shares	¥864	¥256	¥—

For the year ended March 31, 2022

Millions of yen

Type	Amount sold	Total amount of selling profits	Total amount of selling losses
Shares	¥845	¥187	¥108

3 Recognition of impairment loss on securities

For the year ended March 31, 2021

No disclosure is made as further descriptions are immaterial in terms of amount.

For the year ended March 31, 2022

Not applicable

Impairment loss on investment securities is recognized when there is a significant decline in the fair value. Investment securities for which the fair value as of the end of the fiscal year has fallen to below 50% of the acquisition costs are deemed to have no recovery potential and to be impaired in their entirety. Investment securities for which the fair value has fallen to between 30% and 50% of the acquisition costs are deemed to be partially impaired by an amount that takes into consideration the likelihood of recovery and other factors.

(Derivative Transactions)

1 Derivative transactions to which hedge accounting is not applied

Foreign currency-related transactions

March 31, 2021

Millions of yen

Category	Type	Contract amount	Over 1 year	Fair value	Valuation gains (losses)
Off-market transactions	Forward exchange contracts				
	Selling				
	USD	¥14,452	¥ —	¥(615)	¥(615)
	EUR	11,160	—	(140)	(140)
	CNY	5,967	—	(346)	(346)
	THB	42	—	1	1
	GBP	28	—	(1)	(1)
	Buying				
	USD	5,082	1,861	277	277
	JPY	1,294	—	(20)	(20)
	EUR	334	143	10	10
	CNY	12	—	1	1
	Total	¥38,370	¥2,005	¥(833)	¥(833)

March 31, 2022

Millions of yen

Category	Type	Contract amount	Over 1 year	Fair value	Valuation gains (losses)
Off-market transactions	Forward exchange contracts				
	Selling				
	USD	¥23,328	¥ —	¥(1,202)	¥(1,202)
	EUR	8,892	—	(377)	(377)
	CNY	3,667	—	(309)	(309)
	GBP	883	—	(35)	(35)
	CAD	297	—	(26)	(26)
	Buying				
	USD	7,801	3,444	395	395
	EUR	3,771	1,866	144	144
	JPY	111	—	(4)	(4)
	Total	¥48,748	¥5,311	¥(1,413)	¥(1,413)

2 Derivative transactions to which hedge accounting is applied

(1) Foreign currency-related transactions

March 31, 2021

Millions of yen

Method of hedge accounting	Type	Major hedged item	Contract amount	Over 1 year	Fair value
Basic accounting method	Forward exchange contracts				
	Selling				
	USD	Accounts receivable — trade	¥22,530	¥5,326	¥(824)
	EUR		1,836	—	(93)
	Buying				
	USD	Accounts payable — trade	1,582	—	(32)
	EUR		535	—	36
	PLN		869	—	(25)
	ZAR		60	—	1
Allocation of forward exchange contracts	Forward exchange contracts				
	Selling				
	USD	Accounts receivable — trade	782	—	(26)
	EUR		54	—	(6)
	Total		¥28,248	¥5,326	¥(968)

March 31, 2022

Millions of yen

Method of hedge accounting	Type	Major hedged item	Contract amount	Over 1 year	Fair value
Basic accounting method	Forward exchange contracts				
	Selling				
	USD	Accounts receivable — trade and contract assets	¥18,183	¥4,790	¥(1,810)
	EUR		6,002	925	(105)
	Buying				
	EUR	Accounts payable — trade	596	—	47
	CHF		142	—	1
	USD		39	—	22
Allocation of forward exchange contracts	Forward exchange contracts				
	Selling				
	USD	Accounts receivable — trade	438	—	(59)
	EUR		9	—	(1)
	Buying				
	JPY	Accounts payable — trade	970	—	(17)
	EUR		29	—	1
	Total		¥26,407	¥5,715	¥(1,939)

(2) Interest-related transactions

March 31, 2021

Millions of yen

Method of hedge accounting	Type	Major hedged item	Contract amount	Over 1 year	Fair value
Simplified accounting treatment of interest swaps	Interest rate swap transactions payable at fixed rate and receivable at floating rate	Long-term loans payable	¥2,554	¥2,220	¥(12)
	Total		¥2,554	¥2,220	¥(12)

March 31, 2022

Millions of yen

Method of hedge accounting	Type	Major hedged item	Contract amount	Over 1 year	Fair value
Deferred hedge accounting	Interest rate swap transactions payable at fixed rate and receivable at floating rate	Long-term loans payable	¥ 193	¥95	¥ (1)
Simplified accounting treatment of interest swaps	Interest rate swap transactions payable at fixed rate and receivable at floating rate	Long-term loans payable	2,220	—	232
Total			¥2,413	¥95	¥231

(Retirement Benefits)

1 Outline of the retirement benefit plans adopted

SHI and its major domestic consolidated subsidiaries have adopted a combination of the lump-sum retirement allowance plan and the defined contribution pension plan, while certain overseas consolidated subsidiaries have defined benefit-type plans.
A retirement benefit trust has been created for SHI's lump-sum retirement allowance plan.
Some consolidated subsidiaries with lump-sum retirement allowance plans calculate net defined benefit liability and retirement benefit costs based on the simplified method.

2 Defined benefit plans (excluding plans to which the simplified method is applied)

(1) Movements in retirement benefit obligations

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Balance at the beginning of the year	¥89,828	¥94,104
Service cost	3,523	3,941
Interest cost	891	806
Actuarial loss (gain)	4,157	(2,215)
Benefit paid	(3,582)	(4,255)
Increase due to change from the simplified method to the principle method	94	—
Increase due to newly consolidated subsidiaries	40	—
Others	(847)	2,979
Balance at the end of the year	¥94,104	¥95,360

(2) Movements in plan assets

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Balance at the beginning of the year	¥42,936	¥51,189
Expected return on plan assets	1,694	2,007
Actuarial loss (gain)	9,208	7,110
Contributions paid by the employer	1,121	787
Benefit paid	(2,344)	(2,248)
Others	(1,425)	3,198
Balance at the end of the year	¥51,189	¥62,042

(3) Reconciliations from retirement benefit obligations and plan assets to net defined benefit liability (asset)

Millions of yen

	March 31, 2021	March 31, 2022
Funded retirement benefit obligations	¥ 66,177	¥ 67,817
Plan assets	(51,189)	(62,042)
	14,988	5,775
Unfunded retirement benefit obligations	27,927	27,542
Total net defined benefit liability	¥ 42,915	¥ 33,317
Defined benefit asset	¥ (4,536)	¥ (8,791)
Defined benefit liability	47,451	42,108
Total net defined benefit liability	¥ 42,915	¥ 33,317

(4) Retirement benefit expenses

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Service cost	¥ 3,523	¥ 3,941
Interest cost	891	806
Expected return on plan assets	(1,694)	(2,007)
Net actuarial loss amortization	1,247	(1,053)
Past service costs amortization	112	(52)
Increase due to transition from the simplified method to the principle method	55	—
Others	39	20
Total retirement benefit expenses	¥ 4,173	¥ 1,654

(5) Remeasurements of defined benefit plans

The items recognized in remeasurements of defined benefit plans (before tax effect) are as follows.

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Past service costs	¥ 112	¥ 195
Actuarial gains and losses	6,298	8,272
Others	229	(447)
Total	¥6,639	¥8,020

(6) Accumulated remeasurements of defined benefit plans

The items recognized in accumulated remeasurements of defined benefit plans (before tax effect) are as follows.

Millions of yen

	March 31, 2021	March 31, 2022
Past service costs that are yet to be recognized	¥ (121)	¥ 68
Actuarial gains and losses that are yet to be recognized	(1,338)	6,494
Total	¥(1,458)	¥6,562

(7) Plan assets

(i) Major components of plan assets

Percentages by major category to total plan assets are as follows.

%

	March 31, 2021	March 31, 2022
Shares	75	79
Cash and deposits	1	1
Others	24	20
Total	100	100

Note: Total plan assets include the retirement benefit trust created for SHI's lump-sum retirement allowance plan. The retirement benefit trust has been included as a percentage to total plan assets, which was 47% (¥23,814 million) at the end of the previous consolidated fiscal year and is 46% (¥28,258 million) at the end of the current consolidated fiscal year.

(ii) Method of setting a long-term expected rate of return on plan assets
In order to determine a long-term expected rate of return on plan assets, the present and predicted allocation of plan assets and the present and expected long-term rate of return on various assets constituting plan assets are considered.

(8) The basis of actuarial assumptions

Basis for major actuarial assumptions

%

	For the year ended March 31, 2021	For the year ended March 31, 2022
Discount rate	0.0 to 4.0	0.0 to 4.0
Long-term expected rate of return on plan assets	0.0 to 8.0	0.0 to 8.0

3 Defined benefit plans to which the simplified method is applied

(1) Movements in net defined benefit liability

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Balance at the beginning of the year	¥3,800	¥4,157
Decrease due to change from the simplified method to the principle method	(38)	—
Retirement benefit expenses	793	956
Benefit paid	(347)	(297)
Contributions paid by the employer	(51)	(57)
Balance at the end of the year	¥4,157	¥4,758

(2) Reconciliations from retirement benefit obligations and plan assets to net defined benefit liability

Millions of yen

	March 31, 2021	March 31, 2022
Funded retirement benefit obligations	¥ 862	¥ 900
Plan assets	(916)	(945)
	(55)	(45)
Unfunded retirement benefit obligations	4,211	4,803
Total net defined benefit liability	¥4,157	¥4,758
Defined benefit asset	¥ (55)	¥ (45)
Defined benefit liability	4,211	4,803
Total net defined benefit liability	¥4,157	¥4,758

(3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method: ¥793 million for the precious consolidated fiscal year and ¥956 million for the current consolidated fiscal year

4 Defined contribution plans

The amounts required to be contributed to the defined contribution plans of the Company are ¥1,019 million for the previous consolidated fiscal year and ¥954 million for the current consolidated fiscal year.

(Tax Effect Accounting)

1 Major components of deferred tax assets and deferred tax liabilities

Millions of yen

	March 31, 2021	March 31, 2022
Deferred tax assets		
Accrued bonuses	¥ 3,706	¥ 3,750
Amount exceeding the limit on deductible allowance for doubtful accounts	924	1,056
Provision for construction warranties	4,974	4,075
Defined benefit liability	15,112	13,635
Unrealized profit on inventories	1,814	1,914
Loss on valuation of investment securities	717	835
Excess of depreciation	2,129	1,704
Tax loss carryforward	5,593	7,232
Loss on valuation of inventories	2,791	3,090
Impairment loss	3,371	3,735
Provision for loss on construction contracts	870	826
Others	8,784	9,324
Subtotal	50,786	51,175
Valuation allowance for tax loss carryforward (Note 2)	(5,015)	(6,612)
Valuation allowance for deductible temporary differences	(8,860)	(5,839)
Subtotal of valuation allowance (Note 1)	(13,875)	(12,450)
Total	36,911	38,725
Deferred tax liabilities		
Unrealized gains on full fair value valuation of consolidated subsidiaries	(3,286)	(3,262)
Extra depreciation in overseas subsidiaries	(3,016)	(3,062)
Retained earnings of overseas subsidiaries	(5,332)	(6,421)
Intangible assets identified by business combinations	(5,549)	(5,812)
Valuation difference on available-for-sale securities	(1,801)	(1,755)
Others	(996)	(2,969)
Total	(19,979)	(23,282)
Net deferred tax assets	¥ 16,932	¥ 15,443

Notes: 1 There is no material change in the valuation allowance.
2 Tax loss carryforward and its deferred tax assets by expiration period

March 31, 2021

Millions of yen

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax loss carryforward (a)	¥ 318	¥103	¥ 271	¥ 37	¥46	¥ 4,818	¥ 5,593
Valuation allowance	(303)	(68)	(149)	(37)	(3)	(4,456)	(5,015)
Deferred tax assets	¥ 15	¥ 35	¥ 123	¥ —	¥44	¥ 362	(b) ¥ 578

(a) Tax loss carryforward shown in the above table is after multiplication by the statutory tax rate.
(b) The Company recognized deferred tax assets of ¥578 million in relation to tax loss carryforward of ¥5,593 million (amount multiplied by the statutory tax rate). These deferred tax assets were recognized mainly for tax loss carryforward at SHI's consolidated subsidiaries. The tax loss carryforward which resulted in the recognition of such deferred tax assets was generated from previously recognized loss before income taxes; however, no valuation allowance was recognized for the portions that were determined to be recoverable based on expected future taxable income and other factors.

March 31, 2022

Millions of yen

	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax loss carryforward (a)	¥ 81	¥ 173	¥ 68	¥58	¥40	¥ 6,812	¥ 7,232
Valuation allowance	(52)	(163)	(49)	(1)	(2)	(6,344)	(6,612)
Deferred tax assets	¥ 29	¥ 11	¥ 19	¥57	¥38	¥ 468	(b) ¥ 621

(a) Tax loss carryforward shown in the above table is after multiplication by the statutory tax rate.
(b) The Company recognized deferred tax assets of ¥621 million in relation to tax loss carryforward of ¥7,232 million (amount multiplied by the statutory tax rate). These deferred tax assets were recognized mainly for tax loss carryforward at SHI's consolidated subsidiaries. The tax loss carryforward which resulted in the recognition of such deferred tax assets was generated from previously recognized loss before income taxes; however, no valuation allowance was recognized for the portions that were determined to be recoverable based on expected future taxable income and other factors.

2 SHI and its consolidated domestic companies are subject to corporate, inhabitants' and enterprise taxes, which constitute, in the aggregate, a statutory tax rate in Japan of approximately 30.6% for the years ended March 31, 2021 and 2022, respectively. Major items causing the differences between the statutory effective tax rate and the effective income tax rate after application of tax effect accounting are as follows.

%

	March 31, 2021	March 31, 2022
Statutory effective tax rates	30.6	30.6
(adjustments)		
Items not deductible permanently, such as entertainment expenses	0.9	0.3
Inhabitant tax on a per capita basis	0.6	0.4
Items not taxable permanently, such as dividend income	(0.2)	(0.3)
Increase (decrease) in valuation allowance	4.6	(2.3)
Tax credit	(4.9)	(2.3)
Share of profit of entities accounted for using equity method	(0.1)	(0.1)
Retained earnings of overseas subsidiaries	1.6	1.8
Tax rate differences of overseas subsidiaries	(1.4)	(3.4)
Amortization of goodwill	1.5	1.2
Others	1.3	1.5
Effective income tax rates after application of tax effect accounting	34.6	27.4

(Asset Retirement Obligations)

No further disclosure is made as those obligations are immaterial in terms of amount.

(Revenue Recognition)

1 Information on the breakdown of revenues generated from contracts with customers

The sales of the Company consist of revenues mainly generated from contracts with customers, and the sales of the Company's reporting segments are broken down by region as follows.

For the year ended March 31, 2022

Millions of yen

	Reporting Segments					Others	Total
	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifelines	Total		
North America	¥27,611	¥19,186	¥101,205	¥11,597	¥159,600	¥—	¥159,600
Europe	34,968	37,015	16,157	19,978	108,118	—	108,118
Asia (excluding China)	14,501	31,519	32,135	17,338	95,492	—	95,492
China	15,853	56,833	31,965	1,331	105,982	11	105,993
Others	9,719	5,614	15,367	20,127	50,828	—	50,828
Overseas	102,652	150,168	196,829	70,370	520,020	11	520,030
Japan	58,334	80,432	144,530	134,691	417,987	5,962	423,949
Sales to external customers	¥160,986	¥230,600	¥341,360	¥205,061	¥938,006	¥5,973	¥943,979

Note: "Sales to external customers" include revenues generated from contracts with customers and revenues generated from other sources. Such revenues from other sources include those related to leases and those from real estate business, which have no material impact in terms of the amounts.

2 Information as a basis for understanding revenues

With respect to contracts with customers, revenue is recognized when control over the promised goods or service is transferred to the customer and in the amount of consideration to which the Company expects to be entitled in exchange for the goods or service.

Revenue is recognized within a range within which an economic benefit is likely to flow into the Company and the amount of the revenue is reliably measurable, and is measured with reference to the fair value of the received or receivable consideration in light of the terms of payment under the relevant contract. No material financial element is involved in the transaction price.

In the recognition of revenue, a performance obligation associated with the Company's sale of finished goods, construction contract, or provision of a service is identified in light of the contract with the customer concerned, and the relevant revenue is normally recognized at the applicable point of time below when the performance obligation is determined to be satisfied.

For details on the types of finished goods and services in each reporting segment, refer to "(Segment Information, etc.)" under "1 [Consolidated Financial Statements]" of "V. [Financial Section]."

(1) Revenue from the sale of finished goods

Revenue from the sale of finished goods mainly includes revenue from the sale of gear reducers and transmissions, plastics machinery and hydraulic excavators and is recognized at the time of delivery because the relevant performance obligation is determined to be satisfied as the customer assumes control over the relevant finished goods at that time. For finished goods which the Company assumes no obligation to install, in cases where the period from the shipment of such finished goods to the time when control over those finished goods is transferred to the customer is an ordinary period of time, the revenue is recognized at the time of shipment.

(2) Revenue from construction contracts and the provision of services

Revenue from construction contracts mainly includes revenue from the production/construction of ships, material handling machinery and energy plant systems and is recognized over a period of time as the relevant performance obligation is being satisfied, and the progress of satisfaction of the performance obligation to provide the customer with the subject matter of production/construction is estimated. The cost-to-cost method is mainly used for estimation of construction progress. In the application of the cost-to-cost method, the percentage of costs incurred for construction work to estimated total construction costs is used to determine the progress toward the completion of construction. For a construction contract with a very short work period, the revenue is recognized when the relevant performance obligation is satisfied in full.

3 Information for understanding the amounts of revenue in the current consolidated fiscal year and subsequent fiscal years

(1) Balances, etc. of contract assets and contract liabilities

The balances of notes and accounts receivable generated from contracts with customers, contract assets and contract liabilities are as follows.

Millions of yen

	For the year ended	
	Balance at the beginning of the period	Balance at the end of the period
Notes and accounts receivable generated from contracts with customers		
Notes receivable	¥ 29,949	¥ 21,563
Accounts receivable	194,624	212,028
Total	¥224,572	¥233,591
Contract assets	58,356	61,179
Contract liabilities	57,676	55,952

In relation to the balance of contract liabilities at the beginning of the current consolidated fiscal year, the amount of revenue recognized during the same fiscal year is ¥44,907 million.

The revenue recognized during the current consolidated fiscal year on the basis of performance obligations satisfied (or partially satisfied) during previous periods is not material.

Contract assets are for the consideration of works that have been completed as of the end of the current consolidated fiscal year but which has not been billed. Contract assets are to be reclassified as accounts receivable when the right to receive relevant payments becomes unconditional.

Contract liabilities mainly consist of advances received from customers.

(2) Transaction price allocated to remaining performance obligations

The total amount of transaction prices allocated to performance obligations remaining as of the end of the current consolidated fiscal year is ¥110,325 million. The transaction price allocated to such performance obligations is mainly attributable to the business of individually ordered items and in relation to transactions under those construction contracts under which approximately 70% of the performance obligations are to be satisfied within three years and approximately 30% are to be satisfied over periods longer than three years.

(Segment Information, etc.)

[Segment Information]

1 Summary of reporting segments

(1) Method for determining reporting segments

The reporting segments of the Company are based on the business units for which financial information is separately available and are periodically reviewed by the Board of Directors to determine the allocation of management resources and assess their operating performance.

(2) Type of finished goods and services belonging to each reporting segment

The Company formulates comprehensive domestic and global strategies for its products and services handled by the head office and each consolidated subsidiary, develops business activities and consists of segments classified according to the products and services of the head office and each consolidated subsidiary.

In accordance with the policy of the "Medium-term Management Plan 2023," the Company has changed its reporting segments since the current consolidated fiscal year. Based on this change, the reporting segments of the Company have been changed from "Machinery Components," "Precision Machinery," "Construction Machinery," "Industrial Machinery," "Ships" and "Environmental Facilities & Plants" to "Mechatronics," "Industrial Machinery," "Logistics & Construction" and "Energy & Lifelines."

Business	Main finished goods
Mechatronics	Power transmissions, control equipment, inverters, laser processing systems, precision positioning equipment, control components
Industrial Machinery	Plastics machinery, film forming machines, cryogenic equipment, precision forgings, semiconductor production equipment, Ion accelerators, medical machines and equipment, forging press machines, machine tools, air-conditioning equipment, defense equipment
Logistics & Construction	Hydraulic excavators, mobile cranes, road machinery, material handling systems, logistics systems, automated parking systems
Energy & Lifelines	Private power generation facilities, boilers, air pollution control equipment, water and sewage treatment systems, industrial waste treatment facilities, turbines, pumps, process equipment, pressure vessels, mixing vessels, food processing machinery, ships

2 Method of calculating net sales, profits or losses, assets and other items of each reporting segment

The method of accounting treatment of the business segments reported is almost identical to the descriptions in "Basis for preparation."

Internal sales and transfers among the segments are based on market prices in effect.

As described in "Changes in accounting policies," since the Company has adopted the Revenue Recognition Accounting Standard, etc. from the consolidated financial statements for the current consolidated fiscal year and has changed the method of accounting treatment of revenue recognition, the method of calculating the profits and losses of business segments has also been changed. The impact of this change on the current consolidated fiscal year is immaterial.

3 Information on the amounts of sales, profits or losses, assets and other items by reporting segment

For the year ended March 31, 2021

Millions of yen

	Reporting Segments					Others (Note 1)	Total	Adjustments (Note 2)	Carrying amount on the consolidated financial statements
	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifelines	Total				
Net sales									
(1) Sales to external customers	¥133,446	¥204,177	¥301,870	¥203,529	¥843,022	¥ 6,043	¥ 849,065	¥ —	¥ 849,065
(2) Inter-segment sales	2,069	1,036	894	922	4,920	3,485	8,406	(8,406)	—
Total	135,515	205,213	302,764	204,451	847,943	9,528	857,471	(8,406)	849,065
Segment profit	3,106	15,869	13,577	16,710	49,263	1,978	51,241	101	51,342
Segment assets	209,050	225,683	310,342	198,008	943,082	60,996	1,004,079	26,605	1,030,684
Other categories									
Depreciation	8,217	6,633	9,932	4,304	29,085	661	29,746	—	29,746
Amortization of goodwill	1,304	146	67	621	2,137	—	2,137	—	2,137
Impairment loss	—	772	—	4,991	5,763	6	5,769	—	5,769
Investments in companies accounting for using equity method	278	—	2,609	—	2,888	—	2,888	—	2,888
Increase in tangible and intangible assets	11,010	12,850	13,826	4,166	41,851	1,738	43,589	—	43,589

Notes: 1 "Others" is a business segment which is not included in the reporting segments, and contains the real estate business, software-related business and other businesses.
2 Adjustments are as follows.
(1) Adjustments of segment profit (¥101 million) are attributable to inter-segment eliminations.
(2) Adjustments of segment assets (¥26,605 million) are attributable to assets relating to the surplus investment funds (cash and deposits) and long-term investment funds (investment securities) of SHI.
3 Segment profit has been adjusted in relation to operating profit in the consolidated statements of income.

For the year ended March 31, 2022

Millions of yen

	Reporting Segments					Others (Note 1)	Total	Adjustments (Note 2)	Carrying amount on the consolidated financial statements
	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifelines	Total				
Net sales									
(1) Sales to external customers	¥160,986	¥230,600	¥341,360	¥205,061	¥ 938,006	¥ 5,973	¥ 943,979	¥ —	¥ 943,979
(2) Inter-segment sales	1,718	1,296	348	834	4,197	3,602	7,798	(7,798)	—
Total	162,704	231,896	341,708	205,895	942,203	9,575	951,778	(7,798)	943,979
Segment profit	6,392	19,314	19,333	18,199	63,236	2,465	65,702	(23)	65,678
Segment assets	239,082	250,799	320,603	211,131	1,021,615	54,756	1,076,371	18,559	1,094,930
Other categories									
Depreciation	8,693	7,563	10,310	3,743	30,309	621	30,930	—	30,930
Amortization of goodwill	1,917	195	—	662	2,774	—	2,774	—	2,774
Impairment loss	2,057	64	—	374	2,494	—	2,494	—	2,494
Investments in companies accounting for using equity method	72	—	2,702	—	2,774	—	2,774	—	2,774
Increase in tangible and intangible assets	17,722	14,679	13,609	3,358	49,369	1,607	50,976	—	50,976

Notes: 1 "Others" is a business segment which is not included in the reporting segments, and contains the real estate business, software-related business and other businesses.
2 Adjustments are as follows.
(1) Adjustments of segment profit (a decrease of ¥23 million) are attributable to inter-segment eliminations.
(2) Adjustments of segment assets (¥18,559 million) are attributable to assets relating to the surplus investment funds (cash and deposits) and long-term investment funds (investment securities) of SHI.
3 Segment profit has been adjusted in relation to operating profit in the consolidated statements of income.

[Related Information]

For the year ended March 31, 2021

1 Information by finished goods and service

No further disclosure is made because the finished goods and services categories are identical to those of the reporting segments.

2 Information by region

(1) Sales

Millions of yen

Japan	United States	China	Others	Total
¥411,880	¥115,614	¥90,412	¥231,159	¥849,065

Note: Sales are based on the locations of customers and are divided into countries or regions.

(2) Property, plant and equipment

Millions of yen

Japan	Others	Total
¥200,780	¥75,024	¥275,804

3 Information by major customer

There is no description because the Company has no single external customer that accounts for at least 10% of the net sales in the consolidated statements of income.

For the year ended March 31, 2022

1 Information by finished goods and service

No further disclosure is made because the finished goods and services categories are identical to those of the reporting segments.

2 Information by region

(1) Sales

Millions of yen

Japan	United States	China	Others	Total
¥423,949	¥144,340	¥105,993	¥269,697	¥943,979

Note: Sales are based on the locations of customers and are divided into countries or regions.

(2) Property, plant and equipment

Millions of yen

Japan	Others	Total
¥217,965	¥83,049	¥301,014

3 Information by major customer

There is no description because the Company has no single external customer that accounts for at least 10% of the net sales in the consolidated statements of income.

[Unamortized Balance of Goodwill by Reporting Segment]

For the year ended March 31, 2021

Millions of yen

	Reporting Segments					Others	Corporate/ Eliminations	Total
	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifelines	Total			
Balance at the end of the period	¥17,047	¥1,646	¥—	¥10,670	¥29,364	¥—	¥—	¥29,364

For the year ended March 31, 2022

Millions of yen

	Reporting Segments					Others	Corporate/ Eliminations	Total
	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifelines	Total			
Balance at the end of the period	¥19,241	¥1,510	¥—	¥10,303	¥31,054	¥—	¥—	¥31,054

[Information on Gain on Negative Goodwill by Reporting Segment]

Not applicable

[Information on Related Parties]

Not applicable

(Per-share Information)

Yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Net assets per share	¥4,005.43	¥4,501.11
Earnings per share	218.46	359.61

Notes: 1 There is no disclosure for diluted earnings per share information after adjustments of dilutive potential shares because there are no dilutive potential shares.
2 The basis for calculation of earnings per share is presented below.

Millions of yen

	For the year ended March 31, 2021	For the year ended March 31, 2022
Profit attributable to owners of parent	¥ 26,764	¥ 44,053
Value not attributable to common shareholders	—	—
Profit attributable to common shareholders of parent	26,764	44,053
Average number of outstanding shares for the term (in thousand shares)	122,512	122,504

(Significant Subsequent Events)

Not applicable

(Consolidated Supplementary Schedules)

[Bonds Schedule]

Company name	Name of issue	Issue date	Millions of yen: Balance at the beginning of the current period	Millions of yen: Balance at the end of the current period	Interest rate (%)	Security	Redemption date
Sumitomo Heavy Industries, Ltd.	4th unsecured bond	March 15, 2018	¥10,000	10,000 (10,000)	0.17	Unsecured	March 15, 2023
Sumitomo Heavy Industries, Ltd.	5th unsecured bond	July 24, 2019	10,000	10,000	0.13	Unsecured	July 24, 2024
Sumitomo Heavy Industries, Ltd.	6th unsecured bond	January 24, 2020	10,000	10,000	0.29	Unsecured	January 24, 2030
Sumitomo Heavy Industries, Ltd.	7th unsecured bond	September 23, 2020	20,000	20,000	0.17	Unsecured	September 22, 2025
Total	—	—	¥50,000	¥ 50,000 (10,000)	—	—	—

Notes: 1 The amounts in brackets under "Balance at the end of the current period" are to be redeemed within one year.
2 Annualized amounts to be redeemed within five years after the end of the current consolidated fiscal year are as follows.

Millions of yen

Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years
¥10,000	¥—	¥10,000	¥20,000	¥—

[Loans Schedule]

Category	Millions of yen: Balance at the beginning of the period	Millions of yen: Balance at the end of the period	Average interest rate (%)	Repayment date
Short-term loans payable	¥31,698	¥19,198	0.76	—
Current portion of long-term loans payable	3,270	7,745	1.16	—
Commercial papers	—	6,000	(0.02)	—
Lease obligations due within 1 year	3,084	3,185	—	—
Long-term loans payable (excluding long-term debts due within 1 year)	39,471	28,307	0.37	From February 9, 2023 to October 19, 2031
Lease obligations (excluding long-term debts due within 1 year)	9,018	8,771	—	—
Total	¥86,540	¥73,206	—	—

Notes: 1 For "Average interest rate," a weighted average interest rate on the balance of the loan at the end of the current fiscal year is presented.
2 The table below is the maturity profile of long-term loans payable and lease obligations at the end of the current consolidated fiscal year, which are due after one year.

Millions of yen

Category	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years
Long-term loans payable	¥22,759	¥3,652	¥1,585	¥ 159
Lease obligations (long-term)	2,606	1,939	1,723	1,176

3 No interest rate information is available because lease obligations are measured by including interest expenses, except for certain consolidated subsidiaries.

[Asset Retirement Obligations Schedule]

No further disclosure is made because the amount of asset retirement obligations was 1% or less of the total balance of liabilities and net assets at the beginning of the current consolidated fiscal year and at the end of the current consolidated fiscal year, respectively.

Independent auditor’s report

To the Board of Directors of Sumitomo Heavy Industries, Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Heavy Industries, Ltd. (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2022 and 2021, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the judgment as to whether an impairment loss should be recognized on goodwill that arose when the Group acquired control of Sumitomo SHI FW Energie B.V. and Lafert S.p.A.

The key audit matter	How the matter was addressed in our audit
As described in the Note on “Significant Accounting Estimates, 1. Valuation of goodwill” to the consolidated financial statements, the Group recognized goodwill of ¥31,054 million in the consolidated balance sheet as of March 31, 2022, which included	The primary procedures we performed to assess whether the judgment as to whether an impairment loss should be recognized on goodwill that arose when the Group acquired control of Sumitomo SHI FW Energie B.V. and Lafert S.p.A. was appropriate included the following:

the balance of goodwill amounting to ¥10, 303 million that arose when the Group acquired control of Sumitomo SHI FW Energie B.V. and the balance of goodwill amounting to ¥11,111 million that arose when the Group acquired control of Lafert S.p.A.. As described in the Note on "Basis of Preparation, 5. Accounting policies, (7) Method and period of amortization of goodwill" to the consolidated financial statements, goodwill is amortized using the straight-line method over a period of up to 20 years. In addition, each business unit to which goodwill has been allocated is tested for impairment whenever there is an impairment indicator. The impairment test is performed by comparing the total amount of undiscounted future cash flows of each business unit with the aggregate carrying amount of asset groups related to the business unit including the carrying amount of goodwill. If the recognition of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss. During the current fiscal year, there were impairment indicators for goodwill of both Sumitomo SHI FW Energie B.V. and Lafert S.p.A. because the market environment of the former is expected to go through significant changes as capital investments in the power generation boliers market would shift from a major convential coal-based product line to biomass and recycled fuel-based models, and the latter has recognized recurring operating losses after deducting amortization of goodwill for some consecutive years. Accordingly, the Group performed impairment tests and determined that the recognition of an impairment loss was not necessary as the total amount of the undiscounted future cash flows exceeded the carrying amount of the asset groups including goodwill for both business units. While the undiscounted future cash flows used for the impairment tests were estimated based on the business plans prepared by management, the future trends and the Group's prospective share of the power generation boilers market for Sumitomo SHI FW Energie B.V. or the	**(1) Internal control testing** We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the process of determining whether an impairment loss on goodwill should be recognized. In this assessment, we focused our testing on controls to assess the reasonableness of the business plan and the estimated undiscounted future cash flows prepared based on the business plan, as well as certain other controls within the approval process. **(2) Assessment of the reasonableness of the estimated undiscounted future cash flows** In order to assess the appropriateness of key assumptions adopted in preparing the estimated undiscounted future cash flows and the business plans of Sumitomo SHI FW Energie B.V. and Lafert S.p.A. which were used as the basis for estimating undiscounted future cash flows, we inquired of management and the personnel responsible for the related business units about their rationales, and inspected materials reported to the Board of Directors. In addition, we: ● evaluated the accuracy of the profit and loss plan in the previous fiscal years by analyzing the causes of any variances between the estimated profit and loss and actual results; ● evaluated whether there was any potential effect on the determination of an impairment loss to be recognized when specific estimation uncertainties were incorporated into the business plans; ● compared the future trends in the power generation boilers and industrial motors markets, which were adopted by management as key assumptions, with market forecast data published by external research organizations; and ● obtained an understanding of the prospective market shares, including how they were reflected in the business plans, by inquiring of management and the personnel responsible for the related business units, and then assessed the reasonableness of the prospective market shares by comparing them with past actual results.

industrial motors market for Lafert S.p.A. involved a high degree of uncertainty as they were developed based on the long-term forecasts. Accordingly, management's judgment thereon had a significant effect on the estimated undiscounted future cash flows. We, therefore, determined that our assessment of the appropriateness of the judgment as to whether an impairment loss should be recognized on goodwill that arose when the Group acquired control of Sumitomo SHI FW Energie B.V. and Lafert S.p.A. was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	

Reasonableness of the estimate of total construction costs for performance obligations satisfied over a period of time

The key audit matter	How the matter was addressed in our audit
As described in the Note on "Significant Accounting Estimates, 2. Estimate of total construction costs based on performance obligations to be satisfied over a period of time" to the consolidated financial statements, the Group estimates the progress towards complete satisfaction of a performance obligation and recognizes revenue over time based on such progress as performance obligations are satisfied over a period of time in each of the Industrial Machinery, Logistics & Construction, and Energy & Lifeline segments. The construction revenue recognized from performance obligations satisfied over a period of time for the current fiscal year totaled ¥158,233 million, representing approximately 17% of net sales in the consolidated financial statements. The progress towards complete satisfaction of a performance obligation is estimated mainly using the cost-to-cost method, and the percentage of costs incurred for construction work against the estimated total construction costs is used to measure the progress toward the completion of construction.	The primary procedures we performed to assess whether the Group's estimate of total construction costs for performance obligations satisfied over a period of time was reasonable included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the process of preparing and revising a project budget for construction, with a particular focus on the following: ● controls to ensure the accuracy of a project budget for construction by comparing it with the specification sheet and confirming the completeness of the estimated total construction costs; and ● controls to revise the project budget for construction in a timely manner based on subsequent changes in the specification and the progress of construction work. **(2) Assessment of the reasonableness of the estimated total construction costs** The primary procedures we performed with respect to large-scale construction projects to assess the reasonableness of the estimate of total construction cost included the following:

Since each construction work is significantly different in nature depending on the contract, the preparation of a project budget, which provided the basis for estimating the total construction costs, as well as any subsequent revisions thereto involved estimation uncertainty. Specifically, management's determination of the following aspects of construction had a significant effect on the estimated total construction costs. ● whether all the work necessary to complete the construction contract was identified and the estimated costs were included in the project budget; and ● whether subsequent developments, such as unexpected changes in the economic environment, actual costs incurred exceeding the initially estimated costs due to design or process disruptions or penalty payments resulting from issues with product performance or delivery timing, were reflected within the project budget in a timely and appropriate manner. We, therefore, determined that our assessment of the reasonableness of the estimate of total construction costs for performance obligations satisfied over a period of time was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	● We assessed whether there are any projects with a significant difference between the actual progress measured and the expected progress toward completion based on the pattern of costs incurred on similar projects in the past; and ● For a selection of projects that were deemed to involve a higher degree of uncertainty in the estimated total construction costs considering the terms and conditions and the nature of each project, we performed the following procedures: ・ We assessed the accuracy of the project budget for construction by comparing the preliminary estimate of the total construction costs with the revised estimate. We also assessed the reasonableness of the revised project budget for construction after considering the causes of variances identified in the comparison; ・ We inquired of a personnel responsible for the construction project about the overview and progress of the construction as well as the basis for the judgment of whether to revise the project budget, after assessing the differences between the actual progress and the planned progress toward completion described in the progress management materials at the construction sites. We also performed site visits for certain of the construction sites with a higher degree of progress towards completion; and ・ We traced the estimated total construction costs to the supporting cost accumulation materials that were used as the basis for the estimate, and assessed whether significant estimated costs necessary to complete the construction were included in the project budget.

Other Information

The other information comprises the information included in the Consolidated Financial Statements and Notes to the Consolidated Financial Statements, but does not include the consolidated financial statements and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.The selection and application of audit procedures depends on the auditor's judgment.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If

we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Takemitsu Nemoto

Designated Engagement Partner

Certified Public Accountant

Yutaka Matsuki

Designated Engagement Partner

Certified Public Accountant

Yoshinori Saito

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

September 28, 2022

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.