

Sumitomo Heavy Industries, Ltd.

CONSOLIDATED FINANCIAL REPORT

For the Nine-Month Period from January 1 to September 30, 2023

All financial information has been prepared in accordance with generally accepted accounting principles in Japan. This document has been translated from the Japanese original as a guide to non-Japanese investors, and contains forward-looking statements that are based on management's estimates, assumptions, and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. Amounts shown in this financial statement have been rounded to the nearest million yen.

Summary of Consolidated Financial Results
For the Nine-Month Period from January 1 to September 30, 2023
Presented November 9, 2023

Sumitomo Heavy Industries, Ltd.

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Scheduled date for submitting quarterly report	November 13, 2023
Scheduled date of payment of cash dividends	—
Availability of supplementary explanations for quarterly financial statement	Yes
Holding of meeting to explain quarterly financial statement	Yes

1. FY2023 Third Quarter Consolidated Results (January 1, 2023 to September 30, 2023)

(1) Business Results

(Units: millions of yen)

	Third Quarter January 1 to September 30, 2023	Third Quarter April 1 to December 31, 2022
	% change	% change
Net sales	772,505	—
Operating profit	49,732	—
Ordinary profit	50,362	—
Profit attributable to owners of parent	34,319	—
Profit attributable to owners of parent ratio (yen)	280.17	—
Fully diluted profit attributable to owners of parent ratio	—	—

Note 1: Comprehensive income:

Fiscal quarter ended September 30, 2023: 66,970 million yen, (— %)

Fiscal quarter ended December 31, 2022: — million yen, (— %)

Note 2: The Company has changed the closing date from March 31 to December 31 starting from the previous consolidated fiscal year. For the previous consolidated fiscal year, a transition period for the change of the closing date, consolidated financial statements for the third quarter were not prepared and therefore consolidated cumulative business results for the third quarter of the fiscal year ended December 31, 2022 and year-on-year change rates are not described in this document.

(2) Financial Position

(Units: millions of yen)

	End of Third Quarter As of September 30, 2023	End of Previous Full Year December 31, 2022
Total assets	1,232,702	1,148,870
Total net assets	630,685	576,922
Equity ratio (%)	50.6	49.5

Reference: Equity:

Fiscal quarter ended September 30, 2023: 623,248 million yen

Fiscal year ended December 31, 2022: 569,263 million yen

2. Dividends

(Unit: yen)

	Year Ended December 31, 2022	Year Ending December 31, 2023	Year Ending December 31, 2023 (forecast)
Annual dividends per share			
First quarter	—	—	
Second quarter	45.00	60.00	
Third quarter	—	—	
End of term	45.00		60.00
Annual dividends	90.00		120.00

Note: Changes from the most recent dividend forecast: No

3. FY2023 Consolidated Forecasts (January 1, 2023 to December 31, 2023)

(Units: millions of yen)

	Full Year January 1, 2023 to December 31, 2023	% change
Net sales	1,075,000	—
Operating profit	64,000	—
Ordinary profit	60,000	—
Profit attributable to owners of parent	38,000	—
Profit attributable to owners of parent ratio (yen)	310.21	

Note 1: Changes from the most recent dividend forecast: None

Note 2: As a result of the change of the closing date, accounts were closed in an irregular manner for the fiscal year ended December 31, 2022. Therefore, year-on-year change rates are not described in this document.

Additional Notes

- (1) Transfers of important subsidiaries during the nine months ended September 30, 2023: None
(moves of specific subsidiaries due to change in scope of consolidation)
- Newly consolidated: —
Excluded from consolidation: —
- (2) Special accounting measures applied in the quarterly consolidated financial report: Applicable
- (3) Changes to accounting policies, changes to accounting estimates, and retrospective restatements
- (i) Changes to accounting policies due to revisions to accounting standards: None
(ii) Changes to accounting policies not otherwise stated in (i): None
(iii) Changes to accounting estimates: None
(iv) Retrospective restatements: None
- (4) Number of shares issued (share capital)
- (i) Number of shares issued at end of fiscal period (including treasury shares):
- | | |
|--------------------------|--------------------|
| As of September 30, 2023 | 122,905,481 shares |
| As of December 31, 2022 | 122,905,481 shares |
- (ii) Number of treasury shares at end of fiscal period:
- | | |
|--------------------------|----------------|
| As of September 30, 2023 | 416,892 shares |
| As of December 31, 2022 | 409,650 shares |
- (iii) Average number of shares during fiscal period (cumulative quarterly period):
- | | |
|--------------------------|---------------------|
| As of September 30, 2023 | 122, 491,955 shares |
| As of December 31, 2022 | — shares |

*Treasury stock that is deducted to calculate the number of term-end treasury stock and the average number of shares during the fiscal period includes shares of the Company held in the trust account related to the share delivery trust established for the stock compensation plan for directors and others.

*The Company has changed the closing date from March 31 to December 31 starting from the previous consolidated fiscal year. For the previous consolidated fiscal year, a transition period for the change of the closing date, consolidated financial statements for the third quarter were not prepared and therefore the average number of shares during the third quarter (cumulative quarterly period) of the fiscal year ended December 31, 2022 is not described in this document.

* The Quarterly Summary of Financial Results is not subject to the Quarterly Review by a Certified Public Accountant or an Independent Auditor

* Explanation on the proper use of earnings forecasts, and other special remarks

Earnings forecasts and outlooks concerning future financial results are believed to be reasonable based on information available at the time of publication. Actual financial results may vary from the above forecast and outlook due to a variety of factors. For information on the assumptions that form the basis of the earnings forecast and items to note concerning the use of earnings forecasts, please refer to the *Explanation of the Consolidated Earnings Forecast and Other Forward-Looking Estimates* in the *Supplementary Materials* section beginning on page 9.

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I. Qualitative Information regarding Current Quarterly Consolidated Business Performance

1. Explanation of Business Performance

The Company has changed the closing date from March 31 to December 31 starting from the previous consolidated fiscal year. For the previous consolidated fiscal year, a transition period for the change of the closing date, consolidated financial statements for the third quarter were not prepared. Therefore, comparative information using the same quarter of the previous fiscal year, for which results are restated so that such period becomes comparable to the consolidated cumulative third quarter under review (such same quarter of the previous fiscal year is hereinafter referred to as “the same quarter of the previous fiscal year after adjustment”), is described in this document as reference values.

(Units: millions of yen)

	Same Quarter of Previous Year after Adjustment (January 1, 2022 to September 30, 2022)	Present Third Quarter (January 1, 2023 to September 30, 2023)	Y/Y Change	
	Amount	Amount	Amount	% change
Orders	885,470	752,538	(132,932)	(15.0)
Net sales	740,816	772,505	31,689	4.3
Operating profit	41,882	49,732	7,850	18.7
Ordinary profit	44,126	50,362	6,236	14.1
Quarterly profit attributable to owners of parent	29,479	34,319	4,839	16.4

Regarding the economic environment surrounding the Group for the third quarter under review, the Japanese economy in general showed signs of weakness, such as a lack of strength in capital investment mainly in the manufacturing industry and a continued phase of adjustment in the semiconductor market, although some sectors were robust. Turning to overseas regions, capital investment showed strength against a background of gradual economic recovery in the US and other countries; however, the European economy slowed down due to rising inflation and the investment mindset weakened in Southeast Asia. In China, the recovery in production and consumption was sluggish due to a deterioration in the real estate market, and a decline in demand is ongoing. In addition, amid an easing of supply and demand constraints for procured goods, the prices of some materials continued to rise and risks (such as the issue between Russia and Ukraine) persisted in the geopolitical landscape. Due primarily to the above reasons, the economic outlook remained highly uncertain.

In this business environment, the Group promoted the “Medium-Term Management Plan 2023,” aiming to increase corporate value in a sustainable manner by solving social issues through products and services and moved forward with measures, such as developing a robust entity, making reform to improve corporate value, expanding contribution to SDGs and strengthening initiatives for reducing negative environmental impacts.

As a result, the Group’s orders amounted to JPY752.5 billion (down 15% from the same quarter of the previous fiscal year after adjustment) and sales increased by 4% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY772.5 billion. In terms of profitability, the Group posted operating profit of JPY49.7 billion (up 19% from the same quarter of the previous fiscal year after adjustment) and ordinary profit of JPY50.4 billion (up 14% from the same quarter of the previous fiscal year after adjustment) and quarterly profit attributable to owners of parent came to JPY34.3 billion (up 16% from the same quarter of the previous fiscal year after adjustment).

The situation by segment is described below.

(i) Mechatronics

Orders decreased because demand for gear reducers and motors was sluggish due to inventory adjustment by customers in the US and Europe and a slowdown in the Chinese market. Meanwhile, both sales and operating profit increased due partly to a backlog of orders.

As a result, orders decreased by 10% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY150.9 billion, while sales increased by 13% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY162.0 billion, operating profit increased by 114% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY9.5 billion.

(ii) Industrial Machinery

For the plastics machinery business, orders, sales and operating profit all decreased due to a slowdown in demand for electrical and electronics-related products in China and sluggish investment in Japan and Europe.

For other businesses, orders decreased due partly to inventory adjustment and postponement of investment by customers as a result of the softening of the semiconductor market. However, both sales and operating profit increased partly because there was a backlog of orders.

As a result, orders decreased by 22% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY197.8 billion, sales came to JPY200.4 billion, up 5% from the same quarter of the previous fiscal year after adjustment, and operating profit decreased by 5% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY17.5 billion.

(iii) Logistics & Construction

For the hydraulic excavator business, orders decreased due to reasons such as a reactionary drop from advanced orders in the US in the previous fiscal year. However, both sales and operating profit increased due partly to a backlog of orders.

Turning to other businesses, the mobile crane business saw increases in both orders and sales due to strong demand from North America. On the other hand, operating profit decreased due in part to an increase in fixed costs.

For the material handling system business, orders increased due to large-scale projects for port cranes, but sales and operating profit decreased because there was a limited number of projects that could be factored into sales in the third quarter under review.

As a result, orders across the segment decreased by 4% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY297.0 billion, while sales increased by 8% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY279.3 billion. The segment posted an operating profit of JPY18.1 billion, a 38% increase as compared to the same quarter of the previous fiscal year after adjustment.

(iv) Energy & Lifeline

For the energy plant business, both orders and sales declined due to a decrease in large-scale projects for biomass-fueled power generation plants in Japan. On the other hand, a reduction in unprofitable large-scale projects in Europe and other factors led to an increase in operating profit.

For other businesses, orders, sales and operating profit all decreased due partly to a decrease in large-scale projects and the transfer of the general waste treatment business in the previous fiscal year.

As a result, orders across the segment decreased by 31% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY102.3 billion, sales decreased by 12% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY126.2 billion, and operating profit decreased by 27% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY3.1 billion.

(v) Others

Orders increased by 7% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY4.6 billion, sales increased by 10% as compared to the same quarter of the previous fiscal year after adjustment to finish at JPY4.6 billion, while operating profit decreased by 1% to JPY1.5 billion from the same quarter of the previous fiscal year after adjustment.

2. Explanation of the Group's Consolidated Financial Position

1. Condition of Assets, Liabilities, and Net Assets

Total assets at the end of the third quarter of the current consolidated fiscal year under review (ended September 30, 2023) amounted to JPY1,232.7 billion, an increase of JPY83.8 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to increases of JPY63.9 billion in inventory assets and JPY18.8 billion in tangible fixed assets as compared to the end of the previous consolidated fiscal year, while notes and accounts receivable - trade and contract assets decreased by JPY14.8 billion.

Total liabilities came to JPY602.0 billion, an increase of JPY30.1 billion as compared to the end of the previous consolidated fiscal year. This was partly because interest-bearing debts increased by JPY22.9 billion.

Net assets amounted to JPY630.7 billion, an increase of JPY53.8 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to increases of JPY32.4 billion and JPY21.6 billion in foreign currency translation adjustments and retained earnings, respectively.

As a result of the above, the shareholders' equity ratio increased by 1.0 point from the end of the previous consolidated fiscal year to finish at 50.6%.

2. Cash Flow Condition

Cash and cash equivalents at the end of the third quarter of the current consolidated fiscal year under review came to JPY105.7 billion, an increase of JPY12.0 billion from the end of the previous consolidated fiscal year. Cash flows for the consolidated cumulative third quarter under review and the factors contributing to increases or decreases in cash flows are as follows.

Since the previous consolidated fiscal year was a transition period for the change of the closing date, the cash flow statement for the third quarter was not prepared. Therefore, year-on-year change rates are not described in this document.

(Cash Flow from Operating Activities)

Cash flow from operating activities increased by JPY36.9 billion during the consolidated cumulative third quarter under review. The main sources of cash flow were quarterly profit before taxes and other adjustments of JPY49.9 billion, depreciation costs of JPY26.5 billion and decreases in notes and accounts receivable and contract assets of JPY16.4 billion. The main sources of expenses were an increase in inventory assets of JPY47.5 billion and a decrease in notes and accounts payable of JPY12.3 billion.

(Cash Flow from Investing Activities)

Cash flow from investing activities decreased by JPY32.3 billion during the consolidated cumulative third quarter under review. The main reason for the cash outflow was JPY31.2 billion used to acquire fixed assets.

(Cash Flow from Financing Activities)

Cash flow from financing activities increased by JPY3.0 billion during the consolidated cumulative third quarter under review. The main source of cash flow was an increase in interest-bearing debts of JPY18.5 billion. The main sources of expenses were payments of dividends of JPY12.8 billion.

3. Explanation of the Consolidated Earnings Forecast and Other Forward-Looking Estimates

No change has been made to the consolidated earnings forecast for the fiscal year ending December 31, 2023 that was announced in the financial report dated August 7, 2023.

II. Quarterly Consolidated Financial Statements and Key Explanatory Notes

1. Quarterly Consolidated Balance Sheets

(Units: millions of yen)

	End of Full Year As of December 31, 2022	End of Third Quarter As of September 30, 2023
	Amount	Amount
Assets		
Current assets		
Cash and deposits	97,476	109,799
Notes and accounts receivable - trade and contract assets	300,281	285,519
Inventory assets	275,528	339,399
Other	43,734	41,002
Allowance for doubtful accounts	(5,662)	(8,575)
Total current assets	711,358	767,145
Fixed assets		
Tangible fixed assets		
Land	110,701	111,462
Other (net)	209,376	227,413
Total tangible fixed assets	320,077	338,876
Intangible fixed assets		
Goodwill	19,223	20,142
Other	37,421	38,774
Total intangible fixed assets	56,644	58,915
Investments and other assets		
Other	62,114	69,271
Allowance for doubtful accounts	(1,322)	(1,505)
Total investments and other assets	60,792	67,766
Total Fixed assets	437,512	465,557
Total assets	1,148,870	1,232,702

(Units: millions of yen)

	End of Full Year As of December 31, 2022	End of Third Quarter As of September 30, 2023
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable - trade	186,282	186,126
Short-term loans payable	36,442	60,799
Current portion of bonds payable	10,000	10,000
Current portion of long-term loans payable	16,985	20,269
Commercial Papers	25,000	14,000
Provision for bonuses	7,513	14,046
Provision for construction warranties	10,603	11,410
Other provision amount	4,177	3,194
Other	121,235	118,200
Total current liabilities	418,238	438,045
Fixed Liabilities		
Bonds payable	40,000	40,000
Long-term debt due after one year	32,338	38,642
Defined benefit liability	36,363	41,063
Deferred income taxes on revaluation	20,479	20,409
Provision amount	158	164
Other	24,371	23,694
Total non-current liabilities	153,710	163,971
Total liabilities	571,948	602,017
Net assets		
Shareholders' equity		
Capital stock	30,872	30,872
Capital surplus	25,203	25,203
Retained earnings	413,570	435,154
Treasury shares	(1,149)	(1,173)
Total Shareholders' equity	468,496	490,056
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,763	6,794
Deferred gains or losses on hedges	(752)	(1,571)
Revaluation reserve for land	40,442	40,308
Foreign currency translation adjustments	50,534	82,908

	End of Full Year As of December 31, 2022	End of Third Quarter As of September 30, 2023
	Amount	Amount
Remeasurements of defined benefit plans	5,780	4,754
Total accumulated other comprehensive income	100,767	133,192
Non-controlling interests	7,659	7,437
Total net assets	576,922	630,685
Total liabilities and net assets	1,148,870	1,232,702

2. Quarterly Consolidated Income Statements and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Income Statements

Nine months ended September 30, 2023

(Units: millions of yen)

	Present Third Quarter January 1, 2023 to September 30, 2023
	Amount
Net sales	772,505
Cost of sales	589,910
Gross income	182,595
Selling, general and administrative expenses	132,863
Operating profit	49,732
Non-operating profit	
Interest income	1,070
Dividend income	390
Foreign exchange profit	2,244
Other	2,190
Total non-operating profit	5,894
Non-operating expenses	
Interest expenses	1,747
Patent related expenses	928
Other	2,589
Total non-operating expenses	5,264
Ordinary profit	50,362
Extraordinary losses	
Impairment loss	483
Total extraordinary losses	483
Profit before income taxes	49,879
Income taxes	16,068
Profit	33,812
Profit (loss) attributable to non-controlling interests	(507)
Profit attributable to owners of parent	34,319

Quarterly Consolidated Statement of Comprehensive Income
Nine months ended September 30, 2023

(Units: millions of yen)

	Present Third Quarter January 1, 2023 to September 30, 2023
	Amount
Profit	33,812
Other comprehensive income	
Valuation difference on available-for-sale securities	2,031
Deferred gains or losses on hedges	(819)
Foreign currency translation adjustments	32,971
Adjustment to retirement benefits	(1,028)
Share of other comprehensive income of entities accounted for using equity method	2
Total other comprehensive income	33,158
Comprehensive income	66,970
(Breakdown)	
Quarterly comprehensive income attributable to owners of parent	66,878
Quarterly comprehensive income attributable to non-controlling interests	92

3. Items of Special Note Concerning the Quarterly Consolidated Financial Statements

(Significant Events or Conditions that Question the Premise of a Going Concern)

There are no applicable items.

(Notes regarding Significant Fluctuations to Shareholders' Equity)

There are no applicable items.

(Application of Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements)

(Calculation of tax expenses)

The effective tax rate expected to be imposed on pretax profit (after tax effect accounting) applicable to the consolidated fiscal year in which the third quarter of the current consolidated fiscal year under review is included was estimated based on reasonable assumptions, and tax expenses were calculated by multiplying the quarterly pretax profit by the estimated effective tax rate.

(Subsequent Events of Significant Importance)

There are no applicable items.

III. Supplemental Information

1. Orders Received, Sales and Operating Profit/Loss, and Balance of Orders Received, by Segment

The Company has changed the closing date from March 31 to December 31 starting from the previous consolidated fiscal year. For the previous consolidated fiscal year, a transition period for the change of the closing date, consolidated financial statements for the third quarter were not prepared. Therefore, comparative information using the same quarter of the previous fiscal year, for which results are restated so that such period becomes comparable to the consolidated cumulative third quarter under review (such same quarter of the previous fiscal year is hereinafter referred to as “the same quarter of the previous fiscal year after adjustment”), is described below as reference values.

(1) Orders Received

(Units: millions of yen)

Segment	After adjustment; January 1, 2022 to September 30, 2022	January 1, 2023 to September 30, 2023	Y/Y Change	
	Amount	Amount	Amount	%
Mechatronics	167,942	150,854	(17,088)	(10.2)
Industrial Machinery	254,537	197,810	(56,727)	(22.3)
Logistics & Construction	309,593	297,044	(12,549)	(4.1)
Energy & Lifelines	149,147	102,268	(46,879)	(31.4)
Others	4,251	4,561	310	7.3
Total	885,470	752,538	(132,932)	(15.0)

(2) Sales and operating profit/loss

(Units: millions of yen)

Segment	After adjustment; January 1, 2022 to September 30, 2022		January 1, 2023 to September 30, 2023		Y/Y Change	
	Sales	Operating profit/loss	Sales	Operating profit/loss	Sales	Operating profit/loss
Mechatronics	143,330	4,437	161,975	9,492	18,646	5,055
Industrial Machinery	191,651	18,543	200,383	17,542	8,732	(1,001)
Logistics & Construction	258,993	13,168	279,318	18,122	20,325	4,954
Energy & Lifelines	142,657	4,263	126,244	3,125	(16,414)	(1,138)
Others	4,185	1,502	4,585	1,469	400	(33)
Adjustment	—	(32)	—	(17)	—	14
Total	740,816	41,882	772,505	49,732	31,689	7,850

(3) Balance of Orders Received

(Units: millions of yen)

Segment	End of Full Year As of December 31, 2022	As of September 30, 2023	Y/Y Change	
	Amount	Amount	Amount	%
Mechatronics	113,841	102,720	(11,121)	(9.8)
Industrial Machinery	195,263	192,690	(2,573)	(1.3)
Logistics & Construction	257,628	275,355	17,726	6.9
Energy & Lifelines	262,601	238,625	(23,976)	(9.1)
Others	1,751	1,728	(24)	(1.3)
Total	831,084	811,117	(19,967)	(2.4)

Business segments of the Company are categorized as follows.

Businesses	Main Products
Mechatronics	Power transmission, control equipment, motors, 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, machining 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, turbines, pumps, pressure vessels, mixing vessels, food processing machinery, ships

2. (Summary) Quarterly Consolidated Cash Flows Statement

Since the previous consolidated fiscal year was a transition period for the change of the closing date, the cash flow statement for the third quarter was not prepared. Therefore, changes in cumulative results between the previous and current third quarters are not described in this document.

(Units: millions of yen)

	Present Third Quarter January 1, 2023 to September 30, 2023
Profit before income taxes	49,879
Depreciation	26,545
(Increase) decrease in notes and accounts receivable	16,389
(Increase) decrease in inventories	(47,518)
Increase (decrease) in notes and accounts payable - trade	(12,277)
Payments for income taxes	(8,107)
Other	11,990
Cash flows from operating activities	36,901
Purchase of fixed assets	(31,220)
Other	(1,128)
Cash flows from investing activities	(32,349)
Increase (decrease) in interest-bearing debts	18,534
Cash dividends paid	(12,842)
Other	(2,653)
Cash flows from financing activities	3,039
Other	4,391
Cash and cash equivalents at beginning of year	93,727
Cash and cash equivalents at end of quarter	105,710