

FY2024
Consolidated Financial Statements
&
Notes to the Consolidated Financial Statements

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 January 1, 2024 to December 31, 2024) 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

	December 31, 2023	December 31, 2024
ASSETS		
Current assets		
Cash and deposits	¥104,458	¥111,132
Notes and accounts receivable - trade, and contract assets	^{*1,*3} 289,861	^{*1,*3} 307,423
Finished goods	131,972	131,757
Work in process	^{*4} 101,787	^{*4} 109,377
Raw materials and supplies	87,327	92,718
Others	35,280	34,350
Allowance for doubtful accounts	(2,400)	(2,263)
Total current assets	748,285	784,495
Non-current assets		
Property, plant and equipment		
Buildings and structures	236,281	251,872
Accumulated depreciation	(138,118)	(147,006)
Buildings and structures, net	^{*2} 98,163	^{*2} 104,866
Machinery, equipment and vehicles	286,274	306,902
Accumulated depreciation	(198,035)	(214,779)
Machinery, equipment and vehicles, net	88,239	92,123
Land	^{*5} 111,169	^{*5} 112,062
Construction in progress	10,840	16,286
Others	79,480	83,716
Accumulated depreciation	(57,885)	(61,055)
Others, net	21,595	22,661
Total property, plant and equipment	330,007	347,998
Intangible assets		
Goodwill	19,312	8,020
Others	26,300	20,241
Total intangible assets	45,612	28,261
Investments and other assets		
Investment securities	^{*2,*6} 19,854	^{*2,*6} 21,417
Long-term loans receivable	5,604	8,198
Deferred tax assets	22,456	18,572
Defined benefit asset	15,797	31,961
Others	^{*6} 21,151	^{*6} 20,284
Allowance for doubtful accounts	(7,909)	(944)
Total investments and other assets	76,953	99,487
Total non-current assets	452,572	475,747
Total assets	¥1,200,857	¥1,260,242

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	
	December 31, 2023	December 31, 2024
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	^{*3} ¥180,822	^{*3} ¥153,158
Short-term loans payable	63,258	84,806
Current portion of bonds payable	10,000	20,000
Current portion of long-term loans payable	^{*2} 9,741	^{*2} 4,649
Commercial papers	—	17,000
Income taxes payable	13,980	8,612
Contract liabilities	48,029	36,351
Provision for bonuses	7,753	7,963
Provision for construction warranties	12,164	11,451
Provision for loss on construction contracts	^{*4} 1,288	^{*4} 863
Provision for business restructuring expenses	—	2,374
Provision for loss on business liquidation	840	840
Provision for loss on guarantees	908	—
Others	67,545	67,825
Total current liabilities	416,329	415,892
Non-current liabilities		
Bonds payable	40,000	40,000
Long-term loans payable	^{*2} 39,231	^{*2} 72,166
Defined benefit liability	33,836	35,011
Deferred tax liabilities for land revaluation	^{*5} 20,408	^{*5} 20,408
Other provisions	161	167
Others	23,428	30,181
Total non-current liabilities	157,064	197,933
Total liabilities	573,393	613,824
NET ASSETS		
Shareholders' equity		
Share capital	30,872	30,872
Capital surplus	25,203	25,203
Retained earnings	433,579	428,776
Treasury shares	(1,177)	(11,207)
Total shareholders' equity	488,476	473,644
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,951	7,953
Deferred gains or losses on hedges	(956)	(1,233)
Revaluation reserve for land	^{*5} 40,307	^{*5} 40,307
Foreign currency translation adjustments	72,163	96,993
Remeasurements of defined benefit plans	12,831	23,017
Total accumulated other comprehensive income	131,295	167,037
Non-controlling interests	7,693	5,737
Total net assets	627,464	646,418
Total liabilities and net assets	¥1,200,857	¥1,260,242

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

Millions of yen

	For the year ended December 31, 2023	For the year ended December 31, 2024
Net sales	^{*1} ¥1,081,533	^{*1} ¥1,071,126
Cost of sales	^{*2,*3,*4} 826,286	^{*2,*3,*4} 814,126
Gross profit	255,247	257,001
Selling, general and administrative expenses	^{*4,*5} 180,880	^{*4,*5} 201,898
Operating profit	74,367	55,103
Non-operating income		
Interest income	1,562	1,558
Dividend income	277	1,212
Foreign exchange profit	381	—
Gain on sale of investment securities	76	847
Others	3,015	3,145
Total non-operating income	5,311	6,761
Non-operating expenses		
Interest expenses	2,487	3,611
Foreign exchange losses	—	2,673
Patent related expenses	1,400	1,559
Others	5,542	4,837
Total non-operating expenses	9,429	12,680
Ordinary profit	70,250	49,184
Extraordinary income		
Gain on amortization of past service cost	^{*6} 1,271	—
Total extraordinary profit	1,271	—
Extraordinary losses		
Impairment loss	^{*7} 19,237	^{*7} 24,872
Business restructuring expenses	—	^{*8} 2,614
Provision for loss on business liquidation	840	—
Total extraordinary losses	20,077	27,486
Profit before income taxes	51,444	21,698
Income taxes - current	23,868	18,916
Income taxes for prior periods	(337)	(4,421)
Income taxes - deferred	(4,800)	(1,234)
Total income taxes	18,730	13,261
Net profit	32,714	8,438
Current net profit attributable to non-controlling interests or current net loss attributable to non-controlling interests (loss)	(29)	716
Profit attributable to owners of parent	¥32,742	¥7,721

Consolidated Statements of Comprehensive Income

Millions of yen

	For the year ended December 31, 2023	For the year ended December 31, 2024
Profit	¥32,714	¥8,438
Other comprehensive income		
Valuation difference on available-for-sale securities	2,187	984
Deferred gains or losses on hedges	(204)	(277)
Foreign currency translation adjustments	22,157	25,362
Remeasurements of defined benefit plans	7,031	10,157
Share of other comprehensive income of entities accounted for using equity method	21	44
Total current liabilities	^{*1} 31,192	^{*1} 36,270
Comprehensive income	63,905	44,708
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	63,405	43,463
Comprehensive income attributable to non-controlling interests	¥500	¥1,245

Consolidated Statements of Changes in Equity

For the year ended December 31, 2023

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	¥25,203	¥413,570	¥(1,149)	¥468,496
Changes during the period					
Dividends of surplus			(12,869)		(12,869)
Profit attributable to owners of parent			32,742		32,742
Purchase of treasury shares				(29)	(29)
Disposal of treasury shares		0		1	1
Reversal of revaluation reserve for land			135		135
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	0	20,009	(28)	19,980
Balance at the end of the period	¥30,872	¥25,203	¥433,579	¥(1,177)	¥488,476

Millions of yen

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	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		
Balance at the beginning of the period	¥4,763	¥(752)	¥40,442	¥50,534	¥5,780	¥100,767	¥7,659	¥576,922
Changes during the period								
Dividends of surplus								(12,869)
Profit attributable to owners of parent								32,742
Purchase of treasury shares								(29)
Disposal of treasury shares								1
Reversal of revaluation reserve for land								135
Net changes of items other than shareholders' equity	2,187	(204)	(135)	21,629	7,051	30,528	34	30,561
Total changes of items during the period	2,187	(204)	(135)	21,629	7,051	30,528	34	50,542
Balance at the end of the period	¥6,951	¥(956)	¥40,307	¥72,163	¥12,831	¥131,295	¥7,693	¥627,464

For the year ended December 31, 2024

Millions of yen

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total share-holders' equity
Balance at the beginning of the period	¥30,872	¥25,203	¥433,579	¥(1,177)	¥488,476
Changes during period					
Dividends of surplus			(14,568)		(14,568)
Profit attributable to owners of parent			7,721		7,721
Purchase of treasury shares				(10,035)	(10,035)
Disposal of treasury shares		0		5	5
Change in scope of consolidation			2,045		2,045
Change in ownership interest of parent due to transactions with non-controlling interests		(0)			(0)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	(0)	(4,802)	(10,030)	(14,832)
Balance at the end of the period	¥30,872	¥25,203	¥428,776	¥(11,207)	¥473,644

Millions of yen

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	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		
Balance at the beginning of the period	¥6,951	¥(956)	¥40,307	¥72,163	¥12,831	¥131,295	¥7,693	¥627,464
Changes during period								
Dividends of surplus								(14,568)
Profit attributable to owners of parent								7,721
Purchase of treasury shares								(10,035)
Disposal of treasury shares								5
Change in scope of consolidation								2,045
Change in ownership interest of parent due to transactions with non-controlling interests								(0)
Net changes of items other than shareholders' equity	1,002	(277)	—	24,830	10,187	35,742	(1,956)	33,786
Total changes of items during the period	1,002	(277)	—	24,830	10,187	35,742	(1,956)	18,954
Balance at the end of the period	¥7,953	¥(1,233)	¥40,307	¥96,993	¥23,017	¥167,037	¥5,737	¥646,418

Consolidated Statements of Cash Flows

Millions of yen

	For the year ended December 31, 2023	For the year ended December 31, 2024
Cash flows from operating activities		
Profit before income taxes	¥51,444	¥21,698
Depreciation	36,374	37,377
Impairment loss	19,237	24,872
Business restructuring expenses	—	2,614
Interest and dividend income	(1,839)	(2,769)
Interest expenses	2,487	3,611
Loss (gain) on sale of investment securities	(76)	(847)
Increase (decrease) in provision	2,926	(931)
Decrease (increase) in notes and accounts receivable - trade, and contract assets	6,697	(20,793)
Decrease (increase) in inventories	(37,683)	3,398
Increase (decrease) in notes and accounts payable - trade	(14,427)	(36,333)
Others	10,838	2,620
Subtotal	75,976	34,518
Interest and dividend income received	1,609	3,157
Interest expenses paid	(2,415)	(3,730)
Income taxes paid	(9,800)	(21,181)
Net cash provided by (used in) operating activities	65,370	12,763
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(39,459)	(47,687)
Proceeds from sale of property, plant and equipment and intangible assets	719	78
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	—	548
Purchase of shares of subsidiaries and associates	(518)	(162)
Purchases of investment securities	(120)	(26)
Proceeds from sale of investment securities	189	1,115
Net decrease (increase) in short-term loans receivable	(304)	(133)
Payments of loans receivable	(3,389)	(10,290)
Collection of loans receivable	1,084	7,664
Others	(1,474)	(589)
Net cash provided by (used in) investing activities	(43,271)	(49,482)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	24,848	17,912
Net increase (decrease) in commercial papers	(25,000)	17,000
Proceeds from long-term loans payable	16,528	37,799
Repayments of long-term loans payable	(17,147)	(10,454)
Proceeds from issuance of bonds	10,000	20,000
Redemption of bonds payable	(10,000)	(10,000)
Cash dividends paid	(12,867)	(14,548)
Dividends paid to non-controlling interests	(467)	(2,994)
Payments for acquisition of treasury shares	(29)	(10,035)
Others	(3,073)	(2,773)
Net cash provided by (used in) financing activities	(17,207)	41,908
Effect of exchange rate change on cash and cash equivalents	1,616	2,117
Net increase (decrease) in cash and cash equivalents	6,508	7,306
Cash and cash equivalents at the beginning of the period	93,727	100,235
Cash and cash equivalents at the end of the period	^{*1} ¥100,235	^{*1} ¥107,542

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" (Practical Issues Task Force No.18) issued by 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 — 137 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.

Sumitomo Heavy Industries Power Transmission & Controls Sales Co., Ltd., which was dissolved through a merger, and three other companies are excluded from the current consolidated fiscal year.

(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: 2

Name of the major company: Sumitomo NACCO Forklift Co., Ltd.

From the current consolidated fiscal year, Invertek Drives Far East Pte. Ltd., whose equity ratio decreased, is 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

The closing date of Sumi-Cyclo Drive India Private Limited, which is among the consolidated subsidiaries, is March 31. In preparing consolidated financial statements, SHI uses financial statements that are based on provisional account settlement, which was conducted as of the consolidated closing date.

The closing date of other consolidated subsidiaries is December 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 bonuses

SHI allocates an amount to be recorded in the current consolidated fiscal year based on the estimated amount to be paid, in order to appropriate it for the payment of bonuses to its employees.

(iii) 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.

(iv) 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.

(v) Provision for loss on guarantees

In order to provide for future losses related to debt guarantees in connection with the lease agreement, financial conditions, etc., of the guaranteed parties are individually taken into account, and the estimated amount of those losses is recognized as provision for loss on guarantees.

(vi) Provision for business restructuring expenses

In order to provide for loss generated from the business structural reorganization, an estimated amount of the generated loss is recorded.

(vii) Provision for loss on business liquidation

In order to provide for loss resulting from business liquidation, an estimated loss is calculated and recognized.

(4) Accounting methods for retirement benefits

(i) Method of attributing expected retirement benefits

With respect to retirement benefit obligations, the benefit formula basis is used to calculate the portion of expected retirement benefits attributable to the period up to the end of the consolidated fiscal year.

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

Past service costs are mainly amortized using the straight-line method over a period within the average remaining service period of employees at the time the costs are incurred.

Actuarial differences are amortized using the straight-line method over a period within the average remaining service period of employees beginning in the consolidated fiscal year following the year in which the actuarial differences arise.

(5) 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. Details on the main performance obligations in the Company's major businesses and the typical timing of revenue recognition 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, as this is 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 where the Company has no installation obligation, and where the period from shipment to the transfer of control to the customer is within a normal period of time, 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. Accordingly, revenue is recognized through estimation of the progress of satisfaction of the performance obligation to deliver the construction or 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.

(6) 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.

(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

SHI and some of its consolidated subsidiaries apply the group tax sharing system.

(Significant Accounting Estimates)

1 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 ¥1,071,126 million in the Consolidated Statement of Income for the year ended December 31, 2024, 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 December 31, 2023	For the year ended December 31, 2024
Construction revenue (sales) based on performance obligations to be satisfied over a period of time	¥141,642	¥135,870

(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 estimate 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.

2 Impairment of fixed assets

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

In the consolidated balance sheet at the end of the current consolidated fiscal year, property, plant and equipment of ¥347,998 million, intangible assets of ¥28,261 million, and investments and other assets of ¥99,487 million are recorded. Of these, the amounts recorded for Persimmon Technologies Corporation are as follows.

	Millions of yen	
Account title	For the year ended December 31, 2024	
Property, plant and equipment	¥649	
Intangible assets	270	
Investments and other assets	6,241	

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

The operating profit/loss of Persimmon Technologies Corporation has continued to be negative in the current consolidated fiscal year due partly to inventory adjustment at its customer and investment postponement associated with stagnation of the semiconductor market. Therefore, there are indications of impairment in the company's asset group. Accordingly, the Group performed impairment tests. In addition, the company's assets, including the right-of-use-asset recorded in investments and other assets, are becoming more material in terms of amount.

As a result of judging the necessity of impairment loss recognition, it was determined that the recognition of impairment losses was unnecessary as the net selling value exceeded the book value of the asset group. The net selling value is based on a valuation by a real estate appraiser who is the Company's external expert, and major assumptions in the real estate appraisal are on matters such as the rent levels on the real estate market, and the inflation rate. Therefore, if the net selling value decreases due to changes for example in the real estate market condition, it may become necessary to recognize impairment losses in the consolidated financial statements for the next consolidated fiscal year.

(Unapplied Accounting Standards)

- 1 • “Accounting Standard for Current Income Taxes” (ASBJ Statement No.27, October 28, 2022)
• “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No.25, October 28, 2022)
• “Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Statement No.28, October 28, 2022)

(1) Outline

In the course of deliberations at the time of transferring the practical guidelines on tax effect accounting at the Japanese Institute of Certified Public Accountants (JICPA) to the ASBJ, it was decided that the following two issues would be considered again after the release of ASBJ Statement No. 28 “Partial Amendments to Accounting Standard for Tax Effect Accounting,” etc. in February 2018. The results of the consideration are as follows.

- Category of tax expense (taxation on other comprehensive income)
- Income tax effects on sales of shares of subsidiaries (shares of a subsidiary or an affiliate) when group taxation regime is applied.

(2) Scheduled date of application

The new accounting standard will be applied from the beginning of the fiscal year ended December 31, 2025.

(3) Impact of the application of said accounting standards, etc.

The impact of the application of the “Accounting Standard for Current Income Taxes, etc.” and other related standards on consolidated financial statements is currently under evaluation.

- 2 • “Accounting Standards for Leases” (ASBJ Statement No. 34, September 13, 2024)
• “Guidelines on the Application of the Accounting Standards for Leases” (ASBJ Statement No. 33, September 13, 2024), etc.

(1) Outline

At the Accounting Standards Board of Japan, discussions were held on the development of accounting standards for leases under which assets and debts are recognized for all leases of borrowers in light of international accounting standards, as part of its efforts to align Japanese standards with international standards. As a result, the ASBJ announced standards, including accounting standards for leases, based on a single accounting model under IFRS No. 16 as the basic policy. These standards are designed to be simple and practical, and ensure that corrections are generally unnecessary even when IFRS No. 16 is applied to individual financial statements, by adopting only the major provisions rather than all provisions of IFRS No. 16.

For borrowers, a single accounting model is applied for allocating lease expenses of borrowers, in which depreciation of the right-of-use-asset and the interest equivalent on the lease liability are recorded for all leases, whether or not the lease is a finance lease or an operating lease, consistent with IFRS No. 16.

(2) Scheduled date of application

The new accounting standards will be applied from the beginning of the fiscal year ended December 31, 2028.

(3) Impact of the application of said accounting standards, etc.

The impact of the application of the “Accounting Standards for Leases” and other related standards on consolidated financial statements is currently under evaluation.

(Changes in Presentation Methods)

(Consolidated Statements of Income)

“Gain on sale of investment securities”, which was included in “Others” under “Non-operating income” in the previous consolidated fiscal year, is separately presented starting from the current consolidated fiscal year due to its increased materiality. To reflect this change in presentation, the financial statements for the previous consolidated fiscal year have been reclassified accordingly.

As a result, ¥3,091 million of “Others” presented under “Non-operating income” in the consolidated statement of income for the previous consolidated fiscal year has been reclassified as ¥76 million of “Gain on sale of investment securities” and ¥3,015 million of “Others”.

"Loss on retirement of non-current assets" under "Non-operating expenses", which was separately presented in the previous consolidated fiscal year, is presented in "Others" under "Non-operating expenses" in the current consolidated fiscal year due to its decreased materiality. To reflect this change in presentation, the financial statements for the previous consolidated fiscal year have been reclassified accordingly.

As a result, ¥1,644 million of "Loss on retirement of non-current assets", which was presented under "Non-operating expenses", and ¥3,897 million of "Others", in the consolidated statement of income for the previous consolidated fiscal year, have been reclassified as ¥5,542 million of "Others".

"Income taxes for prior periods", which was included in "Corporate, inhabitant, and enterprise taxes" in the previous consolidated fiscal year, is separately presented starting from the current consolidated fiscal year due to its increased materiality. To reflect this change in presentation, the financial statements for the previous consolidated fiscal year have been revised accordingly.

As a result, ¥23,530 million presented as "Corporate, inhabitant, and enterprise taxes", in the consolidated statement of income for the previous consolidated fiscal year, has been reclassified as ¥23,868 million of "Corporate, inhabitant, and enterprise taxes" and ¥(337) million of "Income taxes for prior periods".

(Consolidated Statements of Cash Flows)

"Loss (gain) on sale of investment securities", which was included in "Others" under "Net cash provided by (used in) operating activities" in the previous consolidated fiscal year, is separately presented starting from the current consolidated fiscal year due to its increased materiality. To reflect this change in presentation, the financial statements for the previous consolidated fiscal year have been revised accordingly.

As a result, ¥10,762 million of "Others", which was presented under "Net cash provided by (used in) operating activities" in the consolidated statements of cash flows for the previous consolidated fiscal year, has been reclassified as ¥(76) million of "Gain and loss on sale of investment securities" and ¥10,838 million of "Others".

"Payments for acquisition of treasury shares", which was included in "Others" under "Net cash provided by (used in) financing activities" in the previous consolidated fiscal year, is separately presented starting from the current consolidated fiscal year due to its increased materiality.

To reflect this change in presentation, the financial statements for the previous consolidated fiscal year have been revised accordingly.

As a result, ¥(3,102) million of "Others", which was presented under "Net cash provided by (used in) financing activities" in the consolidated statements of cash flows for the previous consolidated fiscal year, has been reclassified as ¥(29) million of "Payments for acquisition of treasury shares" and ¥(3,073) million of "Others".

(Additional information)

(Share-based compensation system for Directors and Vice Presidents)

SHI has introduced a share-based compensation system (hereinafter "this system") for Directors (excluding outside directors) and Vice Presidents (hereinafter collectively "Directors, etc.") The purpose of this system is to raise awareness about the improvement of medium-to-long-term performance and the contribution to increasing the corporate value, by clarifying the interrelation between the compensations of Directors, etc. and the value of SHI's shares, and encouraging Directors, etc., to share the benefits and risks of share price fluctuations with the shareholders.

1. Overview of transactions

In this system, a trust that SHI establishes by contributing funding (hereinafter "this trust") acquires SHI's common shares (hereinafter "SHI shares"), and SHI shares in a number equivalent to points granted to Directors, etc., are issued to the Directors, etc., through this trust. The time when SHI shares are issued to any Director, Vice President, etc., is when the Director retires in principle.

2. SHI's own shares remaining in the trust

SHI shares remaining in the trust are recorded as treasury shares in Net Assets section on the balance sheets according to the book value in the trust (excluding the amount of ancillary expenses). The book value and the number of such treasury shares are ¥200 million and 67,500 shares at the end of the previous consolidated fiscal year and ¥195 million and 66,000 shares at the end of the current consolidated fiscal year, respectively.

(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 (1) "Notes to the Consolidated Financial Statements" under "1 [Consolidated Financial Statements]" of "V. [Financial Section]."

***2 Collateralized assets and secured obligations**

The assets offered as collateral are presented below.

	Millions of yen	
	December 31, 2023	December 31, 2024
Buildings and structures	¥797	¥809
Investment securities	5	5
Others	—	6
Total	¥802	¥820

Secured obligations are presented below.

	Millions of yen	
	December 31, 2023	December 31, 2024
Current portion of long-term loans payable	¥66	¥69
Long-term loans payable	198	138
Total	¥264	¥208

***3 Notes maturing on the closing date of the consolidated fiscal year**

For the accounting of notes maturing on the closing date of the consolidated fiscal year, SHI clears them on the respective due dates.

The closing date of the current consolidated fiscal year was a non-working day of financial institutions. Therefore, the following notes which mature at the end of the period are included in the balance as of the closing date of the current consolidated fiscal year.

	Millions of yen	
	December 31, 2023	December 31, 2024
Notes receivable	¥770	¥715
Notes payable	¥1,229	¥833

***4 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	
	December 31, 2023	December 31, 2024
Provision for loss on construction contracts related to inventories	¥199	¥604

***5 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).

The tax amount corresponding to the 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" under net assets.

•Method of revaluation

While revaluation has been conducted 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 based on, among other relevant factors, the appraised values provided by real estate appraisers as prescribed in item (v) of the same Article.

•Date of revaluation

March 31, 2002

Millions of yen

	December 31, 2023	December 31, 2024
Difference between the fair value of revalued land at the end of the year and the book value after revaluation	¥(17,366)	¥(16,071)

***6 Securities of nonconsolidated subsidiaries and affiliated companies**

Millions of yen

	December 31, 2023	December 31, 2024
Investment securities (equity)	¥4,150	¥4,527
Investments in capital	815	836

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

7 Loan commitment line agreements

SHI has loan commitment line agreements with 14 banks to finance operating funds efficiently.

The balances of undrawn loan commitment lines under those agreements are presented below.

Millions of yen

	December 31, 2023	December 31, 2024
Total loan commitment lines	¥90,000	¥90,000
Balance of drawn loan commitment lines	—	—
Undrawn loan commitment lines	¥90,000	¥90,000

8 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

	December 31, 2023		December 31, 2024
Sumitomo Mitsui Finance and Leasing Company, Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	¥3,598	Sumitomo Mitsui Finance and Leasing Company, Ltd. (Purchase guarantee in connection with the lease agreement)	¥2,866
Diamond Construction Equipment Corp. (Purchase guarantee, etc. in connection with the lease agreement)	592	Diamond Construction Equipment Corp. (Purchase guarantee in connection with the lease agreement)	648
NTT TC Leasing Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	465	NTT TC Leasing Co., Ltd. (Purchase guarantee in connection with the lease agreement)	631
Mizuho Leasing Company, Limited (Purchase guarantee, etc. in connection with the lease agreement)	368	Mizuho Leasing Company, Limited (Purchase guarantee in connection with the lease agreement)	431
BOT Lease Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	126	Shin Nippon Machinery Middle East FZCO (Guarantee for bonds issued by financial institutions)	51
Other 9 transactions (Purchase guarantee, etc. in connection with the lease agreement)	170	Other 9 transactions (Purchase guarantee, etc. in connection with the lease agreement)	194
Total	¥5,320	Total	¥4,822

The amounts for the previous consolidated fiscal year include foreign currency-denominated liabilities of CNY48 million (¥962 million), and the amounts for the current consolidated fiscal year include foreign currency-denominated liabilities of CNY7 million (¥151 million), USD0 million (¥51 million) and THB10 million (¥47 million).

(2) Repurchase obligation following the securitization of notes receivable

Millions of yen

	December 31, 2023	December 31, 2024
	¥3,178	¥3,306

(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 (1) "Notes to the Consolidated Financial Statements".

*2 Loss on valuation of inventories

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 (1) "Notes to the Consolidated Financial Statements".

Millions of yen

	December 31, 2023	December 31, 2024
	¥2,986	¥2,300

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

Millions of yen

	December 31, 2023	December 31, 2024
	¥2,196	¥851

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

Millions of yen

	December 31, 2023	December 31, 2024
	¥24,800	¥33,682

*5 Major items of selling, general and administrative expenses

Millions of yen

	December 31, 2023	December 31, 2024
Salaries and allowances	¥62,519	¥68,824
Provision for bonuses	3,505	3,893
R&D expenses	24,660	33,439
Retirement benefit expenses	3,249	2,658
Provision of allowance for doubtful accounts and bad debts expenses	3,450	187

*6 Gain on amortization of past service cost

The gain arises from the amortization of past service costs incurred due to revisions made to the Company's retirement benefit plan.

*7 Impairment loss

For the year ended December 31, 2023

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

Purpose of use	Category	Location	Amount (Millions of yen)
Core system	Other intangible assets, etc.	Obu City, Aichi, etc.	¥11,455
Business assets	Buildings and structures, etc.	China	6,932
Business assets	Machinery, equipment, etc.	Yokosuka City, Kanagawa, etc.	552
Others	Goodwill, etc.	United States	191
Business assets	Machinery, equipment, etc.	Yokosuka City, Kanagawa	91
Business assets	Other property, plant and equipment, etc.	Nishi Tokyo City, Tokyo, etc.	17

Due to a change in the development plan, the Company recognized an impairment loss on other intangible assets, as future cost reductions are no longer expected after reviewing the feasibility of the assets.

For other tangible and intangible assets, the Company recognized impairment losses because it was not possible to recover the relevant investments due to decreased profitability.

The Company recognizes impairment losses primarily by each business unit and impairment for idle assets and similar items not expected to be used in the future by individual property.

Recoverable amounts are calculated based on the underlying net selling value or value in use. Net selling value is calculated based on the amount of disposal values less costs of disposal. Those assets that are not expected to be used in the future and difficult to sell off are determined to have no selling value.

Furthermore, the value in use of certain assets was determined to be zero since the estimated future cash flows were negative.

For the year ended December 31, 2024

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

Purpose of use	Category	Location	Amount (Millions of yen)
Business assets	Other intangible assets, etc., Goodwill	Italy, etc.	¥12,575
			¥10,616
Business assets	Buildings and structures, etc.	Yokosuka City, Kanagawa, etc.	900
Business assets	Machinery, equipment, etc.	Germany	543
Business assets	Machinery, equipment, etc.	Niihama City, Ehime Prefecture	226
Business assets	Other property, plant and equipment, etc.	Nishi Tokyo City, Tokyo, etc.	12

Impairment losses were recognized on goodwill related to Lafert S.p.A., a consolidated subsidiary, due to the impact of the stagnation of the European market and continued uncertainty in the business environment, which have made it challenging to achieve the initially projected income.

For other tangible and intangible assets, the Company recognized impairment losses because it was not possible to recover the relevant investments due to decreased profitability.

The Company recognizes impairment losses primarily by each business unit and impairment for idle assets and similar items not expected to be used in the future by individual property.

Recoverable amounts are calculated based on the underlying net selling value or value in use. Net selling value is calculated based on the amount of disposal values less costs of disposal. Those assets that are not expected to be used in the future and difficult to sell off are determined to have no selling value.

Furthermore, although the value in use was calculated by discounting future cash flows using the weighted average cost of capital (16%), the value in use of certain assets was determined to be zero since the estimated future cash flows were negative.

*8 Business restructuring expenses

The estimated amount of special retirement benefits associated with the structural reorganization of the Company's consolidated subsidiaries has been recorded.

(Consolidated Statements of Comprehensive Income)

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

Millions of yen

	For the year ended December 31, 2023	For the year ended December 31, 2024
Valuation difference on available-for-sale securities		
Amount accrued during the year	¥3,249	¥1,689
Reclassification adjustment	(113)	(268)
Before tax effect adjustment	3,137	1,421
Tax effect	(949)	(437)
Valuation difference on available-for-sale securities	2,187	984
Deferred gains or losses on hedges		
Amount accrued during the year	728	683
Reclassification adjustment	(1,111)	(1,298)
Before tax effect adjustment	(383)	(615)
Tax effect	179	338
Deferred gains or losses on hedges	(204)	(277)
Foreign currency translation adjustments		
Amount accrued during the year	22,157	27,450
Reclassification adjustment	—	(2,088)
Foreign currency translation adjustments	22,157	25,362
Remeasurements of defined benefit plans		
Amount accrued during the year	11,283	16,606
Reclassification adjustment	(1,322)	(2,314)
Before tax effect adjustment	9,961	14,292
Tax effect	(2,929)	(4,134)
Remeasurements of defined benefit plans	7,031	10,157
Share of other comprehensive income of entities accounted for using equity method		
Amount accrued during the year	14	104
Reclassification adjustment	7	(61)
Share of other comprehensive income of entities accounted for using equity method	21	44
Total other comprehensive income	¥31,192	¥36,270

(Consolidated Statements of Changes in Equity)

For the year ended December 31, 2023

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	410	9	0	418
Total	410	9	0	418

Notes: 1 The number of treasury shares at the end of the current consolidated fiscal year includes 68 thousand SHI shares held by a trust account under the board benefit trust established for a share-based compensation system for Directors, etc.

2 The increase in the number of common treasury shares by 9 thousand shares was due to requests for the repurchase of shares less than one unit.

3 The decrease in the number of common 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
March 30, 2023 Annual General Meeting of Shareholders	Common share	¥5,515	¥45	December 31, 2022	March 31, 2023
August 7, 2023 Meeting of the Board of Directors	Common share	7,353	60	June 30, 2023	September 1, 2023
Total		¥12,869	¥—		

Notes: 1 The total amount of dividends resolved at the Annual General Meeting of Shareholders held on March 30, 2023 includes a dividend of ¥3 million for the trust account concerning the board benefit trust established for a share-based compensation system for Directors, etc.

2 The total amount of dividends resolved at the Meeting of the Board of Directors held on August 7, 2023 includes a dividend of ¥4 million for the trust account under the board benefit trust established for a share-based compensation system for Directors, etc.

(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
March 28, 2024 Annual General Meeting of Shareholders	Common share	Retained earnings	¥7,353	¥60	December 31, 2023	March 29, 2024

Notes: 1 The total amount of dividends resolved at the Annual General Meeting of Shareholders held on March 30, 2023 includes a dividend of ¥3 million for the trust account concerning the board benefit trust established for a share-based compensation system for Directors, etc.

2 The total amount of dividends resolved at the Meeting of the Board of Directors held on August 7, 2023 includes a dividend of ¥4 million for the trust account concerning the board benefit trust established for a share-based compensation system for Directors, etc.

For the year ended December 31, 2024

1 Type and total number of issued shares and treasury 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	418	2,309	2	2,726
Total	418	2,309	2	2,726

Notes: 1 The number of treasury shares at the end of the current consolidated fiscal year includes SHI shares held by a trust account under the board benefit trust established for a share-based compensation system for Directors, etc., (68 thousand shares at the beginning of the current consolidated fiscal year, 66 thousand shares at the end of the current consolidated fiscal year).

2 The increase of 2,309 thousand common shares of treasury shares consists of an increase of 2,301 thousand shares due to the acquisition of treasury shares based on a resolution by the Board of Directors, and an increase of 8 thousand shares due to requests for the repurchase of shares in amounts less than one unit.

3 The decrease of 2 thousand common shares of treasury shares consists of a decrease of less than 1 thousand shares due to the sale of shares less than one unit, and a decrease of 2 thousand shares due to the board benefit trust.

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
March 28, 2024 Annual General Meeting of Shareholders	Common share	¥7,353	¥60	December 31, 2023	March 29, 2024
August 7, 2024 Meeting of the Board of Directors	Common share	7,215	60	June 30, 2024	September 2, 2024
Total		¥14,568	¥—		

Notes: 1 The total amount of dividends resolved at the Annual General Meeting of Shareholders held on March 28, 2024 includes a dividend of ¥4 million for the trust account concerning the board benefit trust established for a share-based compensation system for Directors, etc.

2 The total amount of dividends resolved at the Meeting of the Board of Directors held on August 7, 2024 includes a dividend of ¥4 million for the trust account concerning the board benefit trust established for a share-based compensation system for Directors, etc.

(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
March 28, 2025 Annual General Meeting of Shareholders	Common share	Retained earnings	¥7,816	¥65	December 31, 2024	March 31, 2025

Note: The total amount of dividends resolved at the Annual General Meeting of Shareholders held on March 28, 2025 includes a dividend of ¥4 million for the trust account concerning the board benefit trust established for a share-based compensation system for Directors, etc.

(Consolidated Statements of Changes in Equity)

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

	Millions of yen	
	December 31, 2023	December 31, 2024
Cash and deposits	¥104,458	¥111,132
Time deposit with a maturity of more than three months	(4,223)	(3,590)
Cash and cash equivalents	¥100,235	¥107,542

(Lease Transactions)

As lessee

Operating lease transactions

Lease payments for non-cancelable operating lease transactions

	Millions of yen	
	December 31, 2023	December 31, 2024
Within 1 year	¥1,139	¥1,331
Over 1 year	1,367	2,350
Total	¥2,506	¥3,681

(Financial Instruments)

1 Financial instruments

(1) Policy for managing financial instruments

As a general machinery manufacturer, the Company manufactures, sells, and distributes various machines and systems including gear reducers and transmissions. The Company finances necessary operating and equipment funds through bank loans and the issuance 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 risk. 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 companies with which the Company has a business relationship and which are exposed to market price fluctuation risk.

Most notes and accounts payable — trade are due within one year. A portion of these, 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 certain 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 risk.

Derivative transactions consist of forward exchange contracts designed for hedge transactions in preparation for foreign exchange fluctuation risk for foreign currency-denominated trade accounts receivable and payable, and interest rate swap transactions designed to hedge fluctuation risk involving interests payable on loans and foreign exchange. 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 regarding the recoverability of trade accounts receivable by, for example, 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 aiming to identify concerns regarding recoverability as early as practicable.

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

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

(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 risk 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 risk.

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

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

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

The Company has introduced cash management systems for its 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 business divisions and major affiliated companies, and manages liquidity risk.

2 Fair values for financial instruments

The carrying amounts and fair values of financial instruments on the consolidated balance sheets, and the differences between them, are presented below.

For the year ended December 31, 2023

Millions of yen

	Carrying amount	Fair value	Difference
(1) Investment securities	¥13,271	¥13,271	¥—
Total	¥13,271	¥13,271	¥—
(1) Bonds payable	¥50,000	¥50,062	¥62
(2) Long-term loans payable	48,972	49,260	288
Total	¥98,972	¥99,322	¥350
Derivative transactions ^{(*)3}	¥(462)	¥(428)	¥34

(*)1 Cash is omitted from the above table. Deposits, notes and accounts receivable — trade, notes and accounts payable — trade, and short-term loans payable are also omitted, as their carrying amounts approximate their respective fair values due to 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	December 31, 2023
Shares of subsidiaries and associates	¥4,150
Unlisted shares	2,428
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 December 31, 2024

Millions of yen

	Carrying amount	Fair value	Difference
(1) Investment securities	¥14,451	¥14,451	¥—
Total	¥14,451	¥14,451	¥—
(1) Bonds payable	¥60,000	¥60,345	¥345
(2) Long-term loans payable	76,815	77,674	859
Total	¥136,815	¥138,019	¥1,205
Derivative transactions ^{(*)3}	¥(3,318)	¥(3,484)	¥(166)

(*)1 Cash is omitted from the above table. Deposits, notes and accounts receivable — trade, notes and accounts payable — trade, and short-term loans payable are also omitted, as their carrying amounts approximate their respective fair values due to 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	December 31, 2024
Shares of subsidiaries and associates	¥4,527
Unlisted shares	2,434
Equity securities	5

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

For the year ended December 31, 2023

Millions of yen

	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥104,458	¥—	¥—
Notes and accounts receivable — trade	239,590	10,403	235
Total	¥334,048	¥10,403	¥235

For the year ended December 31, 2024

Millions of yen

	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥111,132	¥—	¥—
Notes and accounts receivable — trade	249,689	8,525	21
Total	¥360,821	¥8,525	¥21

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

For the year ended December 31, 2023

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	¥20,000	¥—	¥—	¥10,000	¥10,000
Long-term loans payable	9,741	3,332	5,832	14,526	15,536	5
Total	¥19,741	¥23,332	¥5,832	¥14,526	¥25,536	¥10,005

For the year ended December 31, 2024

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	¥20,000	¥—	¥—	¥10,000	¥20,000	¥10,000
Long-term loans payable	4,649	7,123	15,330	18,123	14,690	16,900
Total	¥24,649	¥7,123	¥15,330	¥28,123	¥34,690	¥26,900

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 determined using quoted prices in active markets for identical assets or liabilities that are directly observable at the measurement date.

Level 2 fair value: A fair value determined using inputs other than quoted prices within level 1 that are directly or indirectly observable.

Level 3 fair value: A fair value determined 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, the 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

December 31, 2023

Millions of yen

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	¥13,271	¥—	¥—	¥13,271
Derivative transactions				
Foreign currency-related transactions	—	1,155	—	1,155
Total	¥13,271	¥1,155	¥—	¥14,426
Derivative transactions				
Foreign currency-related transactions	¥—	¥1,617	¥—	¥1,617
Total	¥—	¥1,617	¥—	¥1,617

December 31, 2024

Millions of yen

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	¥14,451	¥—	¥—	¥14,451
Derivative transactions				
Foreign currency-related transactions	—	267	—	267
Total	¥14,451	¥267	¥—	¥14,719
Derivative transactions				
Foreign currency-related transactions	¥—	¥3,585	¥—	¥3,585
Total	¥—	¥3,585	¥—	¥3,585

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

December 31, 2023

Millions of yen

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Derivative transactions				
Foreign currency-related transactions	¥—	¥113	¥—	¥113
Total	¥—	¥113	¥—	¥113
Bonds payable	¥—	¥50,062	¥—	¥50,062
Long-term loans payable	—	49,260	—	49,260
Derivative transactions				
Foreign currency-related transactions	—	78	—	78
Total	¥—	¥99,400	¥—	¥99,400

December 31, 2024

Millions of yen

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Derivative transactions				
Foreign currency-related transactions	¥—	¥—	¥—	¥—
Total	¥—	¥—	¥—	¥—
Bonds payable	¥—	¥60,345	¥—	¥60,345
Long-term loans payable	—	77,674	—	77,674
Derivative transactions				
Foreign currency-related transactions	—	166	—	166
Total	¥—	¥138,186	¥—	¥138,186

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 measured using the present discounted value method based on the total amount of the principle and interest and an interest rate that reflects the bond's time 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 measured using the present discounted value method based on the total amount of the principal and interest and an interest rate that reflects the loan's time to maturity and credit risk, which is categorized as a level 2 fair value.

Derivative transactions

The fair values of interest rate swaps and forward exchange contracts are measured using observable inputs such as interest rates and exchange rates, and classified as level 2 fair value.

(Securities)

1 Available-for-sale securities

December 31, 2023

Category	Millions of yen		
	Carrying amount	Acquisition cost	Difference
Securities for which the carrying amount on the consolidated balance sheets is in excess of the acquisition cost			
Shares	¥13,191	¥3,522	¥9,669
Securities for which the carrying amount on the consolidated balance sheets is not in excess of the acquisition cost			
Shares	80	127	(47)
Total	¥13,271	¥3,649	¥9,622

Note: Unlisted shares, etc. (amount recorded in the consolidated balance sheets: ¥2,433 million) are shares, etc., with no active market price, and therefore are not included in "Available-for-sale securities" in the above table.

December 31, 2024

Category	Millions of yen		
	Carrying amount	Acquisition cost	Difference
Securities for which the carrying amount on the consolidated balance sheets is in excess of the acquisition cost			
Shares	¥14,413	¥3,363	¥11,050
Securities for which the carrying amount on the consolidated balance sheets is not in excess of the acquisition cost			
Shares	38	45	(7)
Total	¥14,451	¥3,408	¥11,043

Note: Unlisted shares, etc. (amount recorded in the consolidated balance sheets: ¥2,439 million) are shares, etc., with no active market price, and therefore are not included in "Available-for-sale securities" in the above table.

2 Available-for-sale securities sold during the year

For the year ended December 31, 2023

Type	Millions of yen		
	Amount sold	Total amount of selling profits	Total amount of selling losses
Shares	¥189	¥76	¥—

For the year ended December 31, 2024

Type	Millions of yen		
	Amount sold	Total amount of selling profits	Total amount of selling losses
Shares	¥1,115	¥847	¥—

3 Recognition of impairment loss on securities

For the year ended December 31, 2023

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

For the year ended December 31, 2024

Not applicable

An 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 declined to less than 50% of their 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

December 31, 2023

		Millions of yen			
Category	Type	Contract amount	Over 1 year	Fair value	Valuation gains (losses)
Off-market transactions	Forward exchange contracts				
	Selling				
	USD	¥43,009	¥—	¥786	¥786
	EUR	15,670	—	(35)	(35)
	CNY	3,453	—	23	23
	MXN	2,340	—	(26)	(26)
	GBP	2,152	—	(48)	(48)
	Buying				
	USD	6,229	370	81	81
	EUR	2,598	496	67	67
	MXN	1,237	—	(5)	(5)
	CNY	579	53	15	15
	JPY	77	—	(1)	(1)
	CLP	43	—	0	0
	THB	28	—	0	0
Total		¥77,414	¥919	¥858	¥858

December 31, 2024

		Millions of yen			
Category	Type	Contract amount	Over 1 year	Fair value	Valuation gains (losses)
Off-market transactions	Forward exchange contracts				
	Selling				
	USD	¥20,539	¥—	¥(989)	¥(989)
	EUR	10,233	—	(203)	(203)
	CNY	5,434	—	(219)	(219)
	JPY	438	—	3	3
	Buying				
	USD	5,310	140	17	17
	EUR	932	—	(17)	(17)
	THB	72	—	7	7
	CNY	43	24	4	4
Total		¥43,002	¥164	¥(1,397)	¥(1,397)

2 Derivative transactions to which hedge accounting is applied

(1) Foreign currency-related transactions

December 31, 2023

Millions of yen

Category	Type	Major hedged item	Contract amount	Over 1 year	Fair value
Basic accounting method	Forward exchange contracts				
	Selling				
	USD		¥18,823	¥8,574	¥(1,159)
	EUR	Accounts receivable — trade and contract assets	2,118	102	(11)
	TWD		2,732	—	(153)
	GBP		398	—	(12)
	CNY		132	—	(2)
	Buying				
	TWD	Accounts payable — trade	1,005	—	17
	USD		131	24	(1)
Allocation of forward exchange contracts	Forward exchange contracts				
	Selling				
	USD	Accounts receivable — trade	607	33	(53)
	EUR		195	113	(25)
	Buying				
	JPY	Accounts payable — trade	2,942	—	113
Total			¥29,084	¥8,845	¥(1,286)

December 31, 2024

Millions of yen

Category	Type	Major hedged item	Contract amount	Over 1 year	Fair value
Basic accounting method	Forward exchange contracts				
	Selling				
	USD		¥18,493	¥3,411	¥(1,763)
	EUR	Accounts receivable — trade and contract assets	12,585	—	(240)
	GBP		3,341	—	(25)
	TWD		970	—	6
	CNY		166	—	9
	Buying				
	TWD	Accounts payable — trade	892	225	39
	EUR		731	101	54
	USD		33	—	1
Allocation of forward exchange contracts	Forward exchange contracts				
	Selling				
	EUR	Accounts receivable — trade	1,144	433	(76)
	USD		65	9	(9)
	CNY		4	—	(0)
	Buying				
	JPY	Accounts payable — trade	2,167	—	(81)
Total			¥40,593	¥4,180	¥(2,087)

(2) Interest-related transactions

December 31, 2023

Not applicable

December 31, 2024

Not applicable

(Retirement Benefits)

1 Overview 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 maintained 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 December 31, 2023	For the year ended December 31, 2024
Balance at the beginning of the year	¥ 84,424	¥ 88,385
Service cost	3,417	3,659
Interest cost	2,076	2,150
Actuarial loss (gain)	2,606	(5,389)
Benefit paid	(6,075)	(3,275)
Past service cost	(1,254)	—
Increase due to change from the simplified method to the principle method (Note)	214	524
Others	2,977	832
Balance at the end of the year	¥88,385	¥86,886

Note: This is due to the absorption of consolidated subsidiaries to which the simplified accounting method is applied, resulting in the acceptance of retirement benefit obligations.

(2) Movements in plan assets

	Millions of yen	
	For the year ended December 31, 2023	For the year ended December 31, 2024
Balance at the beginning of the year	¥60,264	¥74,705
Expected return on plan assets	2,423	3,073
Actuarial loss (gain)	12,901	11,091
Contributions paid by the employer	823	571
Benefit paid	(4,039)	(3,294)
Others	2,333	1,956
Balance at the end of the year	¥74,705	¥88,103

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

	Millions of yen	
	December 31, 2023	December 31, 2024
Funded retirement benefit obligations	¥62,291	¥59,913
Plan assets	(74,705)	(88,103)
	(12,414)	(28,190)
Unfunded retirement benefit obligations	26,094	26,973
Total net defined benefit liability	¥13,680	¥(1,217)
Defined benefit asset	¥(15,773)	¥(31,914)
Defined benefit liability	29,453	30,697
Total net defined benefit liability	¥13,680	¥(1,217)

(4) Retirement benefit expenses

Millions of yen

	For the year ended December 31, 2023	For the year ended December 31, 2024
Service cost	¥3,417	¥3,659
Interest cost	2,076	2,150
Expected return on plan assets	(2,423)	(3,073)
Net actuarial loss amortization	(9)	(2,030)
Past service costs amortization	(1,313)	(285)
Increase due to transition from the simplified method to the principle method(Note)	125	40
Total retirement benefit expenses	¥1,872	¥462

Note: This is due to the absorption of consolidated subsidiaries to which the simplified accounting method was applied, resulting in the acceptance of retirement benefit obligations.

(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 December 31, 2023	For the year ended December 31, 2024
Past service costs	¥(59)	¥(285)
Actuarial gains and losses	10,286	14,450
Others	(266)	126
Total	¥9,961	¥14,292

(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

	December 31, 2023	December 31, 2024
Past service costs that are yet to be recognized	¥185	¥155
Actuarial gains and losses that are yet to be recognized	18,284	32,605
Total	¥18,469	¥32,760

(7) Plan assets

(i) Major components of plan assets

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

%

	December 31, 2023	December 31, 2024
Shares	79	74
Cash and deposits	3	2
Others	18	24
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 48% (¥35,601 million) at the end of the previous consolidated fiscal year and is 49% (¥43,261 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) Basis of actuarial assumptions

Basis for major actuarial assumptions

%

	For the year ended December 31, 2023	For the year ended December 31, 2024
Discount rate	0.0 to 7.0	0.0 to 6.1
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 December 31, 2023	For the year ended December 31, 2024
Balance at the beginning of the year	¥3,678	¥4,359
Decrease due to change from the simplified method to the principle method(Note)	(89)	(484)
Retirement benefit expenses	1,123	737
Benefit paid	(297)	(291)
Contributions paid by the employer	(57)	(56)
Balance at the end of the year	¥4,359	¥4,266

Note: This is due to the absorption of consolidated subsidiaries to which the simplified accounting method was applied, resulting in the acceptance of retirement benefit obligations.

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

Millions of yen

	For the year ended December 31, 2023	For the year ended December 31, 2024
Funded retirement benefit obligations	¥925	¥914
Plan assets	(949)	(962)
	(24)	(48)
Unfunded retirement benefit obligations	4,383	4,313
Total net defined benefit liability	¥4,359	¥4,266
Defined benefit asset	¥(24)	¥(48)
Defined benefit liability	4,383	4,313
Total net defined benefit liability	¥4,359	¥4,266

(3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method: ¥1,123 million for the previous consolidated fiscal year and ¥737 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 ¥982 million for the previous consolidated fiscal year and ¥1,024 million for the current consolidated fiscal year.

(Tax Effect Accounting)

1 Major components of deferred tax assets and deferred tax liabilities

Millions of yen

	December 31, 2023	December 31, 2024
Deferred tax assets		
Allowance for bonuses	1,720	1,886
Amount exceeding the limit on deductible allowance for doubtful accounts	2,381	597
Provision for construction warranties	3,200	3,087
Defined benefit liability	8,424	10,139
Unrealized profit on inventories	3,386	3,200
Loss on valuation of investment securities	2,525	2,695
Excess of depreciation	3,783	6,888
Tax loss carryforward	12,959	17,408
Loss on valuation of inventories	3,711	4,212
Impairment loss	8,921	6,115
Provision for loss on construction contracts	88	258
Others	11,135	12,323
Subtotal	62,229	68,807
Valuation allowance for tax loss carryforward (Note 2)	(11,301)	(15,699)
Valuation allowance for deductible temporary differences	(12,714)	(12,650)
Subtotal of valuation allowance (Note 1)	(24,015)	(28,349)
Total	38,214	40,458
Deferred tax liabilities		
Unrealized gains on full fair value valuation of consolidated subsidiaries	(3,302)	(3,302)
Extra depreciation in overseas subsidiaries	(3,956)	(5,174)
Retained earnings of overseas subsidiaries	(6,986)	(7,123)
Intangible assets identified by business combinations	(3,948)	(2,038)
Defined benefit asset	(3,070)	(8,589)
Valuation difference on available-for-sale securities	(2,666)	(3,102)
Others	(790)	(1,642)
Total	(24,719)	(30,969)
Net deferred tax assets	¥13,496	¥9,489

(Changes in Presentation Methods)

"Defined benefit asset", which was previously included in "Others" under "Deferred tax liabilities" in the previous consolidated fiscal year, is now presented as a separate line item starting from the current consolidated fiscal year, due to its increased materiality. To reflect this change in presentation, the notes for the previous consolidated fiscal year have been revised accordingly.

As a result of this reclassification, ¥(3,861) million previously presented as "Others" under "Deferred tax liabilities" has been reclassified as ¥(3,070) million under "Defined benefit asset" and ¥(790) million under "Others".

Note: 1 The change in the valuation allowance is mainly due to an increase in the valuation allowance related to tax loss carryforward at consolidated subsidiaries.

2 Tax loss carryforward and its deferred tax assets by expiration period

December 31, 2023

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)	¥78	¥134	¥115	¥730	¥506	¥11,395	¥12,959
Valuation allowance	(53)	(97)	(65)	(505)	(355)	(10,226)	(11,301)
Deferred tax assets	¥25	¥36	¥50	¥226	¥151	¥1,170	(b) ¥1,657

(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 ¥1,657 million in relation to tax loss carryforward of ¥12,959 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.

December 31, 2024

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)	¥0	¥37	¥791	¥552	¥682	¥15,348	¥17,408
Valuation allowance	0	(34)	(783)	(548)	(607)	(13,729)	(15,699)
Deferred tax assets	¥0	¥3	¥8	¥4	¥76	¥1,620	(b) ¥1,709

(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 ¥1,709 million in relation to tax loss carryforward of ¥17,408million (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 Major items causing the differences between the statutory effective tax rate and the effective income tax rate after application of tax effect accounting.

%

	December 31, 2023	December 31, 2024
Statutory effective tax rates	30.6	30.6
(adjustments)		
Items not deductible permanently, such as entertainment expenses	1.0	2.3
Inhabitant tax on a per capita basis	0.5	1.2
Items not taxable permanently, such as dividend income	(1.0)	(1.1)
Increase (decrease) in valuation allowance	12.9	26.7
Tax credit	(5.4)	(19.4)
Share of profit of entities accounted for using equity method	0.3	(0.2)
Retained earnings of overseas subsidiaries	0.3	0.6
Tax rate differences of overseas subsidiaries	(6.0)	(1.0)
Amortization of goodwill	1.0	2.6
Impairment loss on goodwill	—	14.6
Others	2.1	4.3
Effective income tax rates after application of tax effect accounting	36.4	61.1

3 Accounting of corporate tax and local corporate tax, and accounting of effects of these taxes

SHI and some of its consolidated subsidiaries in Japan apply the group tax sharing system. In connection with this, for the accounting and disclosure of corporate tax, local corporate tax and tax effect accounting application, the Company apply the Practical Issues Task Force (PITF) No. 42 "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (August 12, 2021).

(Asset Retirement Obligations)

No further disclosure is made as the 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 December 31, 2023

Millions of yen

	Reporting Segments					Others (Note 1)	Total
	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifeline	Total		
North America	¥44,246	¥27,870	¥151,871	¥15,894	¥239,881	¥—	¥239,881
Europe	52,095	43,748	26,205	35,859	157,907	—	157,907
Asia (excluding China)	21,273	43,680	36,127	19,723	120,803	—	120,803
China	15,771	62,324	6,381	1,765	86,242	19	86,260
Others	18,396	6,536	18,701	8,477	52,110	—	52,110
Overseas	151,781	184,159	239,285	81,718	656,943	19	656,962
Japan	68,263	95,671	154,137	100,437	418,509	6,063	424,571
Sales to external customers (Note 2)	¥220,044	¥279,830	¥393,422	¥182,155	¥1,075,452	¥6,081	¥1,081,533

Note: 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 "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 the real estate business, which have no material impact in terms of the amounts.

For the year ended December 31, 2024

Millions of yen

	Reporting Segments					Others (Note 1)	Total
	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifeline	Total		
North America	¥43,750	¥29,901	¥145,680	¥13,909	¥233,240	¥—	¥233,240
Europe	42,194	37,794	15,039	35,478	130,505	—	130,505
Asia (excluding China)	20,710	40,984	49,806	18,357	129,858	—	129,858
China	14,403	68,442	5,477	1,455	89,777	44	89,822
Others	17,502	7,900	14,935	13,954	54,291	—	54,291
Overseas	138,560	185,021	230,936	83,154	637,671	44	637,715
Japan	67,535	99,256	161,613	98,822	427,226	6,186	433,412
Sales to external customers (Note 2)	¥206,095	¥284,277	¥392,549	¥181,976	¥1,064,896	¥6,230	¥1,071,126

Note: 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 "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 the Company expects to be entitled to in exchange for the goods or service.

Revenue is recognized within a range where it is probable that economic benefits will flow to the Company and the amount of the revenue can be measured reliably. It is measured with reference to the fair value of the received or receivable consideration based on 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 based on the contract with the customer, and the relevant revenue is normally recognized at the point in time when the performance obligation is determined to be satisfied, as below.

For details on the types of finished goods and services in each reporting segment, refer to "(Segment Information, etc.)".

(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 when the customer obtains control of the relevant finished goods at that time.

For finished goods where the Company has no installation obligation, and where the period from the shipment to the transfer of to the customer is within a normal 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 deliver the 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

For the year ended December 31, 2023

(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.

	For the year ended December 31, 2023	
	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	¥22,966	¥21,588
Accounts receivable	218,901	228,641
Total	¥241,867	¥250,229
Contract assets	58,414	39,632
Contract liabilities	60,473	48,029

In relation to the balance of contract liabilities at the beginning of the previous consolidated fiscal year, the amount of revenue recognized during the same fiscal year was ¥ 44,038 million.

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

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

Contract liabilities mainly consist of advance payments 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 previous consolidated fiscal year was ¥ 129,312 million. The transaction price allocated to such performance obligations is mainly attributable to the business of individually ordered items and transactions based on construction contracts under which approximately 90% of the performance obligations are to be satisfied within three years and approximately 10% are to be satisfied over periods longer than three years.

For the year ended December 31, 2024

(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 December 31, 2023	
	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	¥21,588	¥26,062
Accounts receivable	228,641	232,172
Total	¥250,229	¥258,235
Contract assets	39,632	49,189
Contract liabilities	48,029	36,351

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 ¥ 41,240 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 was ¥ 89,994 million. The transaction price allocated to such performance obligations is mainly attributable to the business of individually ordered items and transactions based on construction contracts under which approximately 90% of the performance obligations are to be satisfied within three years and approximately 10% 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 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, and operates business activities. Therefore, it consists of segments by products and services of the head office and the consolidated subsidiaries, and has four reporting segments: "Mechatronics", "Industrial Machinery", "Logistics & Construction" and "Energy & Lifeline".

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

The method of accounting treatment for reportable business segments is substantially consistent with the methods described in "Basis for preparation."

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

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

For the year ended December 31, 2023

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 & Lifeline	Total				
Net sales									
(1) Sales to external customers	¥220,044	¥279,830	¥393,422	¥182,155	¥1,075,452	¥6,081	¥1,081,533	¥—	¥1,081,533
(2) Inter-segment sales	2,156	1,669	435	707	4,968	3,303	8,270	(8,270)	—
Total	222,201	281,500	393,857	182,862	1,080,419	9,384	1,089,803	(8,270)	1,081,533
Segment profit	12,408	25,602	28,123	6,342	72,476	1,880	74,356	12	74,367
Segment assets	284,135	303,860	360,287	163,497	1,111,779	83,316	1,195,095	5,762	1,200,857
Other categories									
Depreciation	11,441	9,426	11,403	3,544	35,815	559	36,374	—	36,374
Amortization of goodwill	1,898	41	—	—	1,939	—	1,939	—	1,939
Impairment loss	10,993	472	6,932	648	19,045	192	19,237	—	19,237
Investments in companies accounting for using equity method	49	—	2,154	—	2,203	—	2,203	—	2,203
Increase in tangible and intangible assets	14,657	15,217	6,234	5,462	41,570	932	42,502	—	42,502

Note: 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 ¥12 million are attributable to inter-segment eliminations.

(2) Adjustments of segment assets (¥5,762 million) are attributable to assets relating to the surplus investment funds (cash and deposits) and long-term investment funds (investment securities) of SHI.

3 The segment profit is adjusted with the operating profit in the consolidated statements of income.

For the year ended December 31, 2024

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 & Lifeline	Total				
Net sales									
(1) Sales to external customers	¥206,095	¥284,277	¥392,549	¥181,976	¥1,064,896	¥6,230	¥1,071,126	¥—	¥1,071,126
(2) Inter-segment sales	1,748	1,316	678	1,219	4,961	3,553	8,514	(8,514)	—
Total	207,842	285,593	393,227	183,195	1,069,857	9,783	1,079,640	(8,514)	1,071,126
Segment profit	3,787	20,288	25,311	3,766	53,152	2,037	55,189	(86)	55,103
Segment assets	269,216	342,498	376,937	178,419	1,167,070	93,585	1,260,656	(414)	1,260,242
Other categories									
Depreciation	12,540	10,177	10,340	3,798	36,855	523	37,377	—	37,377
Amortization of goodwill	2,028	—	—	—	2,028	—	2,028	—	2,028
Impairment loss	23,191	560	—	1,122	24,872	—	24,872	—	24,872
Investments in companies accounting for using equity method	16	—	2,354	—	2,370	—	2,370	—	2,370
Increase in tangible and intangible assets	16,954	12,681	11,894	4,431	45,960	824	46,784	—	46,784

Note: 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 (¥86 million) are attributable to inter-segment eliminations.

(2) Adjustments of segment assets (¥414 million) are attributable to surplus operating funds (cash and deposits) and long-term investment funds (investment securities) held by SHI, as well as the elimination of intersegment transactions and related assets.

3 The segment profit is adjusted with the operating profit in the consolidated statements of income.

[Related Information]

For the year ended December 31, 2023

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	Others	Total
¥424,571	¥212,048	¥444,913	¥1,081,533

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	United States	Others	Total
¥227,971	¥37,876	¥64,159	¥330,007

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 December 31, 2024

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	Others	Total
¥433,412	¥208,720	¥428,995	¥1,071,126

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	United States	Others	Total
¥236,634	¥47,858	¥63,506	¥347,998

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 December 31, 2023

Millions of yen

	Reporting Segments					Others	Corporate/ Eliminations	Total
	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifeline	Total			
Balance at the end of the period	¥19,312	¥—	¥—	¥—	¥19,312	¥—	¥—	¥19,312

For the year ended December 31, 2024

Millions of yen

	Reporting Segments					Others	Corporate/ Eliminations	Total
	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifeline	Total			
Balance at the end of the period	¥8,020	¥—	¥—	¥—	¥8,020	¥—	¥—	¥8,020

[Information on Gain on Negative Goodwill by Reporting Segment]

Not applicable

[Information on Related Parties]

Not applicable

(Per-share Information)

Millions of yen

	For the year ended December 31, 2023	For the year ended December 31, 2024
Net assets per share	¥5,059.88	¥5,331.01
Earnings per share	267.30	63.86

Note: 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 SHI introduces a share-based compensation system using a trust for Directors, etc. For the average number of outstanding shares for the term, which serves as the basis for calculation of earnings per share, the treasury shares deducted in the calculation include SHI shares held by this trust account (68 thousand shares for the previous consolidated fiscal year, and 66 thousand shares for the current consolidated fiscal year). In addition, to calculate the net assets per share, the treasury shares deducted from the total number of issued shares at the end of the period include SHI shares held by this trust account (68 thousand shares for the previous consolidated fiscal year, and 66 thousand shares for the current consolidated fiscal year).

3 The basis for calculation of earnings per share is presented below.

Millions of yen

	For the year ended December 31, 2023	For the year ended December 31, 2024
Profit attributable to owners of parent	¥32,742	¥7,721
Value not attributable to common shareholders	—	—
Profit attributable to common shareholders of parent	32,742	7,721
Average number of outstanding shares for the term (in thousand shares)	122,491	120,912

(Significant Subsequent Events)

Not applicable

(Consolidated Supplementary Schedules)

[Bonds Schedule]

Company name	Name of issue	Issue date	Millions of yen		Interest rate (%)	Security	Redemption date
			Balance at the beginning of the current period	Balance at the end of the current period			
Sumitomo Heavy Industries, Ltd.	5th unsecured bond	July 24, 2019	¥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 (20,000)	0.17	Unsecured	September 22, 2025
Sumitomo Heavy Industries, Ltd.	8th unsecured bond	July 19, 2023	10,000	10,000	0.41	Unsecured	July 19, 2028
Sumitomo Heavy Industries, Ltd.	9th unsecured bond	April 18, 2024	—	20,000	0.74	Unsecured	April 18, 2024
Total	—	—	¥50,000	¥60,000 (20,000)	—	—	—

Note: 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 3 years but within 4 years
¥20,000	¥—	¥—	¥10,000	¥20,000

[Loans Schedule]

Category	Millions of yen		Average interest rate (%)	Repayment date
	Balance at the beginning of the period	Balance at the end of the period		
Short-term loans payable	¥63,258	84,806	2.98	—
Current portion of long-term loans payable	9,741	4,649	2.67	—
Commercial papers	—	17,000	0.34	—
Lease obligations due within 1 year	3,148	3,435	—	—
Long-term loans payable (excluding long-term debts due within 1 year)	39,231	72,166	0.87	From March 31, 2026 to April 26, 2033
Lease obligations (excluding long-term debts due within 1 year)	5,624	6,223	—	—
Total	¥121,001	¥188,279	—	—

Note: 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 lease obligations presented in the above table do not include lease obligations recognized under the application of U.S. accounting standard ASC Topic 842.

3 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	¥7,123	¥15,330	¥18,123	¥14,690
Lease obligations (long-term)	2,544	1,224	773	456

[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 both the beginning and end of the current consolidated fiscal year.



Independent auditor's report

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

Report on the Audit of the Consolidated Financial Statements

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 December 31, 2024 and 2023, the consolidated statements of income and comprehensive income, changes in net assets 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 December 31, 2024 and 2023, 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 Matter

The Key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was 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 this 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, 1. Estimate of total construction costs based on performance	The primary procedures we performed to assess whether the Group's estimate of total construction

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 segment, the Logistics & Construction segment, and the Energy & Lifeline segment. The construction revenue recognized from performance obligations satisfied over a period of time for the current fiscal year totaled ¥135,870 million, representing approximately 13% 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. In the cost-to-cost method, 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.

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

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 to assess the reasonableness of the estimate of total construction cost included the following:

- We compared the correlation between the construction period and the progress of satisfaction of performance obligations with the correlation of similar projects in the past, and assessed whether there were any projects with a significant deviation; and
- We performed the following procedures 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:
 - 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 evaluated the causes of variances identified in the comparison and assessed whether the impacts caused by events which contributed to

<p>budget in a timely and appropriate manner.</p> <p>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 the most significant matter in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>the variances were appropriately reflected in the revised project budget for construction;</p> <ul style="list-style-type: none"> • traced the estimated total construction costs that were used as the basis for the estimate to the supporting cost accumulation document, and assessed whether all significant estimated costs necessary to complete the construction were included in the project budget; and • assessed the necessity of revising the project budget for construction by inquiring of personnel responsible for the construction project regarding the overview and progress of the construction, as well as comparing the planned progress toward completion described in the progress management document at the construction sites, the progress of satisfaction of performance obligations used to recognize revenue, and the actual progress observed through the inspection of the construction sites.
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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, the 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 risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purpose 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, actions taken to eliminate threats or safeguards applied.

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.

Fee-related Information

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its subsidiaries for the current year are 726 million yen and 242 million yen, respectively.

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.

Yutaka Matsuki

Designated Engagement Partner

Certified Public Accountant

Michiko Muramatsu

Designated Engagement Partner

Certified Public Accountant

Hiroshi Yabumae

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

June 26, 2025

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.