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## **Sumitomo Heavy Industries, Ltd.**

### **125th Ordinary General Meeting of Shareholders Information Disclosed on the Website**

**Fiscal Year 2020 (April 1, 2020 through March 31, 2021)**

- 1. Operational Structure for Ensuring the Appropriate Conduct of Operations and the Outline of Its Operational Status**
- 2. Basic Policy on Position of the Person Controlling Decisions on Financial and Business Policies of the Company**
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Among the documents that should be provided to the shareholders at the time of the Notice of the 125th Ordinary General Meeting of Shareholders, the “Operational Structure for Ensuring the Appropriate Conduct of Operations and the Outline of Its Operational Status” and the “Basic Policy on Position of the Person Controlling Decisions on Financial and Business Policies of the Company” in the Business and Financial Report, the “Consolidated Statement of Changes in Net Assets” and the “Notes to Consolidated Financial Statements” in the Consolidated Financial Statements and the “Statement of Changes in Net Assets” and the “Notes to Financial Statements” in the Financial Statements are only published on our website (<http://www.shi.co.jp>) in accordance with the applicable laws and regulations and Article 16 of the Articles of Incorporation.

## **Operational Structure for Ensuring the Appropriate Conduct of Operations**

The Company has developed the following basic policies to ensure appropriate conduct of its operations:

### **Basic Policies for Establishment of an Internal Control System**

#### **I. Purpose**

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

#### **II. Basic Policies**

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

- 1) Structure for ensuring that the execution of duties by the Directors of the Company is in compliance with laws and regulations and the Articles of Incorporation
  - (a) The Board of Directors of the Company shall determine the basic policies for the establishment of an internal control system, verify its effectiveness as necessary, and strive toward the continuous enhancement and improvement of the Company's internal control system as well as the internal control system of the Group.
  - (b) The Company shall elect Outside Director(s), who are independent of management, to improve the supervisory function of the Board of Directors.
  - (c) The Corporate Auditors of the Company shall audit the appropriateness of the execution of duties by the Directors concerning the establishment and operation of the Company's internal control system as well as the internal control system of the Group.
- 2) Structure for maintenance and administration of information relating to the execution of duties by the Directors of the Company
  - (a) The information related to the execution of duties by the Directors of the Company shall be recorded and maintained under the related rules of the Company, and such records shall be made available to the Directors and the Corporate Auditors of the Company for inspection at any time.
  - (b) The Company shall make efforts to disclose material information related to the execution of duties by the Directors of the Company pursuant to related laws and regulations in an appropriate and timely manner.
- 3) Rules and other relevant corporate structures on loss-risk management of the Company
  - (a) The Company established the Risk Management Committee, which is chaired by the President, formulated the Company's risk management policy, and promoted the identification, mitigation and prevention of risks.
  - (b) The Company shall establish an internal control promotion structure that consists of the persons responsible for the promotion of internal control deployed in each section. Presided over by the President, the Company's Internal Control Group shall supervise the internal control promotion structure and promote risk management.
  - (c) The section(s) responsible for specific types of risks shall stipulate the rules relevant to risk management, and shall strive to reduce risk through education, training, auditing, etc. based on such rules.

- (d) The Company shall deploy persons responsible for being a liaison for emergencies in each section. At the occurrence of an emergency situation, the persons responsible for being a liaison for emergencies shall report such emergency situation promptly to the top management in accordance with the related rules. The management who receive such a report shall take appropriate actions in a timely manner.
- 4) Structure for ensuring the reliability of the financial reporting of the Company
- (a) The Company shall develop a necessary structure to ensure the appropriateness of financial information and to prepare and disclose reliable financial reports.
  - (b) The Company's internal audit department shall audit the operational status of the internal control system related to financial reporting to ensure the reliability of the Company's financial reporting.
- 5) Structure for ensuring the efficient execution of duties by the Directors of the Company
- (a) To conduct the efficient execution of duties, the Company shall adopt a system of Executive Officers wherein the Directors delegate authority to Executive Officers within an appropriate range under the Company's rules such as rules on approval authority.
  - (b) The Company shall adopt a structure to monitor the status of the execution of duties by having the responsible Executive and Operating Officers report the status of the execution of medium-term management plans and annual budgets that are determined by resolution of the Board of Directors of the Company at the monthly meetings of the Executive & Operating Officers Committee, etc.
  - (c) To make decisions on material managerial matters based on a multi-dimensional review, the Management Strategy Committee, etc. shall be established as an advisory organ to the President to consider and discuss such matters.
- 6) Structure for ensuring that the execution of duties by the Company's Executive Officers and employees is in compliance with laws and regulations and the Articles of Incorporation
- (a) The basic policies on compliance shall be determined at the Compliance Committee chaired by the President of the Company, and the Internal Control Group shall promote rigorous observance of such policies through the internal control promotion structure.
  - (b) The Company shall continue to provide training related to compliance. The Company shall also make the Directors, the Executive Officers and all managerial staff submit a pledge to observe specific compliance requirements, as necessary.
  - (c) The Company shall take a resolute position against entities or individuals that threaten the order and safety of civil society and shall sever any relations with such entities or individuals.
  - (d) The Company shall set up an in-house whistleblower system through which actual or suspected violations of laws and regulations or corporate ethics should be reported, and the use of this system shall be encouraged so that problems can be detected at an early stage.
  - (e) The execution of duties by the Executive Officers and employees of the Company shall be audited by the responsible section(s) to ensure that such execution of duties is in compliance with laws and regulations and the Articles of Incorporation.
- (2) Establishment of a structure necessary to ensure the appropriate conduct of business by the entire Group comprising the Company and its subsidiaries**
- 1) Structure for reporting to the Company on matters regarding the execution of duties by directors,

- etc. of the Company's subsidiaries
- (a) The Company shall pursue strengthened governance and the efficient execution of duties of its subsidiaries based on the rules concerning the management of the business of the Group.
  - (b) The Company shall have its major subsidiaries formulate basic policies for the establishment of an internal control system, and the status of operation of the system shall be reported to the Company's Board of Directors through the Company's Internal Control Group.
- 2) Rules and other relevant corporate structures on loss-risk management of the Company's subsidiaries
- (a) The Company's Internal Control Group shall promote group-wide risk management through the internal control promotion structure that has been established at major subsidiaries of the Company.
  - (b) The Company shall have its subsidiaries stipulate the rules to manage specific types of risks. The Company shall strive for group-wide risk reduction through education, training, auditing, etc. by the Company's responsible section for each risk.
  - (c) The Company shall deploy persons responsible for being a liaison for emergencies at its major subsidiaries. At the occurrence of an emergency situation, the persons responsible for being a liaison for emergencies shall report such emergency situation promptly to the directors of the subsidiary and the top management of the Company in accordance with the related rules. The management who receive such a report shall take appropriate actions in a timely manner.
- 3) Structure for ensuring the efficient execution of duties by the directors, etc. of the Company's subsidiaries
- (a) Pursuant to the rules concerning the management of the business of the Group, the Company's subsidiaries shall formulate rules on approval authority and execute their duties efficiently.
  - (b) The medium-term management plans and annual budgets of the Company's major subsidiaries shall be executed after the Company's Board of Directors approves them. The Company shall adopt a structure to monitor the status of the execution of the businesses of the entire Group by having the subsidiaries' directors, etc. report the status of the execution of duties at the meetings of the Executive & Operating Officers Committee, etc. of the Company.
  - (c) To make decisions on the material managerial matters of the Company's major subsidiaries based on a multi-dimensional review, such matters shall be considered and discussed at the Company's Management Strategy Committee, etc.
- 4) Structure for ensuring that the execution of duties by the directors, etc. and employees of the Company's subsidiaries is in compliance with laws and regulations and the Articles of Incorporation
- (a) The Company's Internal Control Group shall promote rigorous compliance throughout the Group through the internal control promotion structure that has been installed at major subsidiaries of the Company.
  - (b) The Company shall have its subsidiaries continue to provide training related to compliance. The Company shall also make the directors and all managerial staff of the subsidiaries submit a pledge to observe specific compliance requirements, as necessary.
  - (c) The Company shall cooperate with its subsidiaries, ensuring that the subsidiaries shall also take a resolute position against entities or individuals that threaten the order and safety of civil society and shall sever any relations with such entities or individuals.
  - (d) The Company shall have its subsidiaries set up an in-house whistleblower system, of which

the contact persons shall include the subsidiary's corporate auditor(s). Contact persons of the in-house whistleblower system of major subsidiaries of the Company shall include the Company's Internal Control Group.

- (e) The Company shall send Director(s) or Corporate Auditor(s) to its major subsidiaries to reinforce the internal control of the Group. The execution of duties by directors of the subsidiaries of the Company shall be audited by the responsible section(s) of the Company to ensure that such execution of duties is in compliance with laws and regulations and the Articles of Incorporation.
- 5) Structure for ensuring the reliability of financial reporting of the subsidiaries of the Company
- (a) To ensure the appropriateness of financial information of the subsidiaries of the Company and prepare and disclose reliable financial reports, the Company shall require its major subsidiaries to establish the internal control system related to financial reporting.
  - (b) The Company's internal audit department shall audit the operational status of the internal control system related to financial reporting at major subsidiaries of the Company to ensure the reliability of the financial reporting by subsidiaries of the Company.
- (3) Necessary matters for the execution of auditing duties by the Corporate Auditors of the Company**
- 1) Matters related to the staff who assist the Corporate Auditors when the Corporate Auditors request to place such assistant staff
- As a department under the direct control of the Board of Corporate Auditors, the Corporate Auditor's Department, which includes dedicated staff who assist the Corporate Auditors of the Company with the execution of auditing duties, shall be established.
- 2) Matters related to independence of the staff who assist the Corporate Auditors of the Company with the execution of auditing duties from the Directors
- The personnel changes, performance appraisals to and disciplinary action against the staff of the Corporate Auditor's Department shall require approval of the Corporate Auditors of the Company.
- 3) Matters for ensuring the effectiveness of instructions given to staff who assist the Corporate Auditors of the Company with the execution of auditing duties
- Concerning the duties of staff who assist the Corporate Auditors of the Company with the execution of auditing duties, instructions and commands to the staff of the Corporate Auditor's Department shall be given by the Corporate Auditors of the Company.
- 4) Structure for reporting to the Corporate Auditors of the Company
- (a) Structure for Directors, Executive Officers and employees of the Company reporting to the Corporate Auditors of the Company
    - (i) To audit the execution of duties by the Directors and the Executive Officers, the Corporate Auditors of the Company shall attend the meetings of the Board of Directors, the Executive & Operating Officers Committee and other important meetings of the Company and shall inspect major *ringisho* (documents for approval) and other important documents relating to the execution of duties.
    - (ii) If any actual or potential violation of laws and regulations, the Articles of Incorporation or compliance obligations exists, the Directors, the Executive Officers and employees of the Company shall report to the Corporate Auditors of the Company promptly.
    - (iii) The contact persons for the Company's in-house whistleblower system shall include the Company's Corporate Auditors.
  - (b) Structure for directors or employees of subsidiaries of the Company or those who received a report from them reporting to the Corporate Auditors of the Company

- (i) If any actual or potential violation of laws and regulations, the Articles of Incorporation or compliance obligations exists, directors, corporate auditors or employees of the subsidiaries of the Company shall promptly report to the Corporate Auditors of the Company through the responsible section(s) of the Company.
  - (ii) From among the issues reported to the in-house whistleblower system of the major subsidiaries of the Company, important issues shall be reported, as necessary, by the Company's Internal Control Group to the Company's Corporate Auditors as to the content of the report and how the issue has been addressed.
  - (iii) Results of audits of the Company's subsidiaries conducted by the Company's internal audit department shall be reported to the Company's Corporate Auditors without delay.
- (c) Structure for ensuring that reporters in the preceding section will not receive detrimental treatment because of the reporting

The Company and its major subsidiaries shall stipulate in their internal rules that whistleblowers or persons who report to the Company's Corporate Auditors shall not receive detrimental treatment because of such reporting, and their employees shall be well informed of this stipulation.

- 5) Policies related to the treatment of expenses or liabilities incurred in connection with the execution of duties by the Company's Corporate Auditors

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

- 6) Other structures for ensuring effective auditing by the Company's Corporate Auditors

- (a) The Company's Directors and Executive Officers and the directors of the Company's subsidiaries shall establish a structure for effective auditing by the Company's Corporate Auditors through liaisons and cooperation with the Company's internal audit department and internal control department, as well as the corporate auditors of subsidiaries and the Independent Auditor, etc.
- (b) To exchange information related to auditing and to enhance the auditing functions across the Company Group, the Company shall hold a group-wide Corporate Auditors meeting on a regular basis, attended by the Corporate Auditors of the Company and the corporate auditors of its subsidiaries.
- (c) Corporate Auditors elected by the Company shall include those who have an appropriate level of knowledge of finance and accounting.

### **III. Revision and Abolition of these Policies**

The necessary revision of these policies shall be undertaken by resolution of the Board of Directors.

#### **(Outline of Operational Status of the Structure for Ensuring the Appropriate Conduct of Operations)**

An outline of the operational status of the structure for ensuring the appropriate conduct of operations for this fiscal year is as follows:

- 1) Structure for ensuring that the execution of duties by the Directors of the Company is in compliance with laws and regulations and the Articles of Incorporation  
The Company established the Basic Policies for Establishment of an Internal Control System, evaluated the operational status thereof, and confirmed their effectiveness.
- 2) Structure for maintenance and administration of information relating to the execution of duties by the Directors of the Company

The Company appropriately maintains and administers the minutes of Shareholders' Meetings and Board of Directors meetings, etc. in accordance with the internal rules.

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

- (a) The Company established the Risk Management Committee to promote comprehensive company-wide risk management by identifying potential risks that would arise while executing the Company Group's business and managing the risks that may affect the Company Group properly. The Committee deliberates the matters related to the decision on the risk management policy, identification of important risks and the Company's response to them, and makes a report to the Board of Directors.
- (b) In accordance with the internal rules of the Company, each section conducts self-risk assessment each fiscal year, sets categories to prioritize risk management, and reports the status of the improvement of risks to the Company on a quarterly basis.
- (c) Each section has a system in place for reporting the occurrence and status of emergency to top management in accordance with the internal rules of the Company and taking action in a timely manner.

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

The Company established the Internal Control Group to develop an internal control system regarding reliable financial reporting and deploys persons responsible for internal control and the promotion thereof to each business section. The Internal Audit Department audits the establishment and operational status of the internal control system regarding financial reporting.

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

The Company ensures the efficient execution of duties by adopting a system of Executive Officers wherein the Directors delegate authority to the Executive Officers in accordance with the internal rules, etc. In addition, the Company has the responsible Executive and Operating Officers report the monthly performance, the status of execution of medium-term management plans and annual budgets at the monthly meetings of the Executive & Operating Officers Committee.

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

- (a) The Compliance Committee confirms the basic policies on compliance and reports the status of general compliance for this fiscal year, such as the operational status of the in-house whistleblower system and the implementation status of training related to compliance.
- (b) The Company provides training to and familiarizes all employees with the compliance necessary for their positions. In addition, the Company monitors the status of employee awareness of compliance through an annual compliance awareness investigation and implements improvement plans when necessary.
- (c) The Company makes all managerial staff submit a pledge to observe compliance requirements every year.

7) Structure necessary to ensure the appropriate conduct of business by the entire Group comprising the Company and its subsidiaries

- (a) To pursue stronger governance and greater efficiency in business execution at subsidiaries, the Company conducts Group business management based on the "Group Business Management Policy." In addition, major subsidiaries each formulated the Basic Policies for Establishment of an Internal Control System and report the operational status thereof to the Company.
- (b) Major subsidiaries conduct self-risk assessment each fiscal year in accordance with the internal rules, set categories to prioritize risk management, and report the status of improvements to the Company on a quarterly basis.

- (c) Domestic and overseas subsidiaries provide training regarding compliance and keep their employees informed of compliance issues. Also, domestic subsidiaries monitor employee awareness of compliance through compliance awareness investigations annually and report the results thereof and the status of improvements to the Company.
  - (d) The Company operates a Group-wide internal whistleblower system using a contact point operated by an external expert company. When a report is made to the contact point, the contact point then makes a report to the Company's Compliance Committee secretariat as well as to the Company's standing Corporate Auditors.
  - (e) For the establishment of internal control systems regarding reliable financial reporting, major domestic and overseas subsidiaries deploy persons responsible for internal control and the promotion thereof. In addition, the Company's Internal Audit Department audits the establishment and the operational status of the internal control systems regarding the financial reporting of major domestic and overseas subsidiaries.
- 8) Structure for ensuring effective auditing by the Corporate Auditors of the Company
- (a) The Company established the Corporate Auditor's Department as a dedicated organization tasked with assisting the Corporate Auditors with their duties and allocates members either exclusively or concurrently in another position within the Company, and the Corporate Auditors instruct and direct the members of the Corporate Auditor's Department.
  - (b) The Company includes the expenses, etc. to be incurred in connection with the execution of duties by the Corporate Auditors in the annual budget and manages them appropriately.
  - (c) To ensure that the audits by the Corporate Auditors are effective, the Company provides information to the Corporate Auditors through important meetings such as the Board of Directors meetings, Executive & Operating Officers Committee meetings, and Management Strategy Committee meetings, and also provides the Corporate Auditors and the Representative Directors with regular opportunities to exchange opinions. In addition, the corporate auditors of subsidiaries or affiliates and the Internal Audit Department and the Independent Auditor of the Company exchange information regarding their duties with the Corporate Auditors of the Company regularly or as necessary to enhance the audit functions across the Company Group.
  - (d) The Company reports without delay cases or matters that are of violations of laws and regulations or compliance obligations to the Corporate Auditors through the Company's department in charge. The Company and the domestic subsidiaries also establish rules regarding the protection of whistleblowers and keep each company informed of those rules.



## **Basic Policy on Position of the Person Controlling Decisions on Financial and Business Policies of the Company**

### (1) Contents of the Basic Policy

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

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

### (2) Special Measures to Pursue the Basic Policy

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

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

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

Outside Corporate Auditors utilize their high level of expertise and abundant experience in their respective fields, while Standing Corporate Auditors utilize their expertise concerning the Company's management along with their extensive experience, to conduct highly effective audits, as well as to actively state their opinions to management at Board of Directors meetings, and Executive & Operating Officers Committee meetings, etc. In addition, the Company has established the Corporate Auditor's Department as a department supporting Corporate Auditors and staffs the department with full-time employees, thereby supporting the Corporate Auditors' work and providing information to the

Corporate Auditors in a smooth manner. Moreover, in order to enhance auditing functions across the Company Group, the Corporate Auditors of the Company hold Corporate Auditors meetings across the Company's subsidiaries and affiliates on a regular basis. In addition, the Corporate Auditors conduct on-site audits annually at overseas subsidiaries in response to the increasingly globalized business conditions within the Company Group.

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

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

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

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

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

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

The Company believes that advancing the aforementioned measures (2) and (3) as an effort to realize the basic policy above will lead to ensuring and increasing the Company's corporate value and the common interests of shareholders. At the same time, the Company believes that it will be difficult to conduct a large-scale acquisition that does not contribute to the corporate value of the Company and the common interests of shareholders. In addition, if a person conducting a large-scale acquisition emerges, the Company will take appropriate measures, such as striving to ensure necessary and

sufficient information and time for shareholders to properly judge the pros and cons. Therefore, the Company has determined that measures (2) and (3) above are consistent with the above basic policy and are not intended to maintain the Company's officers' positions.

## Consolidated Statement of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
<b>Balance at April 1, 2020</b>	30,872	26,070	367,229	(1,080)	423,091
Changes in the period					
Dividends from surplus			(5,391)		(5,391)
Net income attributable to shareholders of the parent company			26,764		26,764
Acquisition of treasury stock				(21)	(21)
Disposal of treasury stock			(0)	1	1
Reversal of land revaluation difference			284		284
Change in ownership interest of parent due to transactions with non-controlling interests		0			0
Change in scope of consolidation			1,450		1,450
Changes in items other than shareholders' equity in the period (net)					
<b>Total changes in the period</b>	—	0	23,107	(20)	23,088
<b>Balance at March 31, 2021</b>	30,872	26,071	390,336	(1,100)	446,179

	Accumulated other comprehensive income						Non-controlling Interests	Total Net Assets
	Unrealized Gains/Losses on Securities	Deferred Gains/Losses on Hedges	Land Revaluation Difference	Foreign Currency Translation Adjustments	Re-measurement of Defined Benefit Plans	Total Accumulated Other Comprehensive Income		
<b>Balance at April 1, 2020</b>	2,410	(532)	40,626	4,911	(6,049)	41,366	13,191	477,648
Changes in the period								
Dividends from surplus								(5,391)
Net income attributable to shareholders of the parent company								26,764
Acquisition of treasury stock								(21)
Disposal of treasury stock								1
Reversal of land revaluation difference								284
Change in ownership interest of parent due to transactions with non-controlling interests								0
Change in scope of consolidation								1,450
Changes in items other than shareholders' equity in the period (net)	2,620	(303)	(284)	(3,895)	5,014	3,152	1,040	4,192
<b>Total changes in the period</b>	2,620	(303)	(284)	(3,895)	5,014	3,152	1,040	27,280
<b>Balance at March 31, 2021</b>	5,030	(834)	40,342	1,016	(1,035)	44,518	14,230	504,928

“English Translation of Financial Statements Originally Issued in the Japanese Language”

Note: Amounts shown in this financial statement have been rounded to the nearest million yen.

## Notes to Consolidated Financial Statements

### (Notes Regarding Important Basic Matters for Preparing Consolidated Financial Statements)

#### 1. Matters Related to Scope of Consolidation

- (1) Number of consolidated subsidiaries and names of major consolidated subsidiaries

Number of consolidated subsidiaries: 142

Names of major consolidated subsidiaries:

Sumitomo Construction Machinery Co., Ltd.  
Sumitomo Construction Machinery Sales Co., Ltd.  
Sumitomo Heavy Industries Construction Cranes Co., Ltd.  
Nihon Spindle Manufacturing Co., Ltd.  
Shin Nippon Machinery Co., Ltd.  
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.  
Sumitomo Heavy Industries Gearbox Co., Ltd.  
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.  
Sumitomo Heavy Industries Environment Co., Ltd.  
Sumitomo Heavy Industries Ion Technology Co., Ltd.  
Sumitomo Heavy Industries Process Equipment Co., Ltd.  
Sumitomo Heavy Industries Power Transmission & Controls Sales Co., Ltd.  
LBX Company, LLC  
Sumitomo Machinery Corporation of America  
LBCE Holdings, Inc.  
Sumitomo SHI FW Energie B.V.  
Sumitomo (SHI) Demag Plastics Machinery GmbH  
Sumitomo (SHI) Cyclo Drive Germany GmbH  
Lafert S.p.A.  
Sumitomo Construction Machinery (Tangshan) Co., Ltd.  
Sumitomo (SHI) Cyclo Drive China, Ltd.  
Sumitomo Heavy Industries (Vietnam) Co., Ltd.

- (2) Names, etc. of major non-consolidated subsidiaries:

Name of major non-consolidated subsidiary: Sumitomo (SHI) Cryogenics Taiwan Co., Ltd.  
Non-consolidated subsidiaries are excluded from the scope of consolidation because the scale of each non-consolidated subsidiary is small, and their total assets, sales, net income or loss (the amount proportional to the relevant equity shares) and retained earnings (the amount proportional to the relevant equity shares) have no significant influence on the consolidated financial statements.

#### 2. Matters Related to Application of Equity Method

- (1) Number of non-consolidated subsidiaries or affiliated companies to which the equity method is applied and names of major companies

Number of affiliated companies to which the equity method is applied: 6

Name of major company: Sumitomo Nacco Forklift Co., Ltd.

- (2) Names, etc. of non-consolidated subsidiaries or affiliated companies to which the equity method is not applied

Name of major company: Kronos-Izumi Processing Pte. Ltd.

Non-consolidated subsidiaries and affiliated companies excluded from the scope to which the equity method is applied are so excluded because in light of their net income or loss (the amount proportional to the relevant equity shares) and retained earnings (the amount proportional to the relevant equity shares), their exclusion has only a slight influence on the consolidated financial statements and are insignificant as a whole.

**3. Matters Related to Accounting Policies**

- (1) Basis and method of valuation of important assets
  - 1) Marketable securities
    - Held-to-maturity debt securities: At amortized cost
    - Other securities:
      - Those with fair market value: At fair market value on the last day of the fiscal year (Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets. Realized gain on sale of such securities is computed using the moving-average method.)
      - Those without fair market value: At cost based on the moving-average method
  - 2) Derivatives: At fair market value
  - 3) Inventories
    - Work in process: Principally at cost based on the specific identification method (The balance sheet amount is computed by applying inventory write-downs due to decrease in profitability.)
    - Finished goods, raw materials and supplies: Principally at cost based on the weighted-average method (The balance sheet amount is computed by applying inventory write-downs due to decrease in profitability.)
- (2) Method of depreciation of important depreciable assets
  - 1) Property, plant and equipment (excluding leased assets)
    - The straight-line method is employed.
    - The estimated useful lives of the tangible assets are as follows:
 

Buildings and Structures	10–50 years
Machinery and delivery equipment	5–12 years
  - 2) Intangible fixed assets (excluding leased assets)
    - The straight-line method is employed.
    - Software for internal use is depreciated based on its estimated useful life in the Company (5 years).
  - 3) Leased assets
    - As regards to lease assets related to the finance leases other than those by which ownership is considered to pass to the lessees (“ownership non-transfer finance leases”), the lease period is used as the useful life and the straight-line method with a residual value of zero is employed.
    - Of the ownership non-transfer finance leases, those which are not significant and those which began on or before March 31, 2008 are accounted for by a method in conformity with the method of accounting for ordinary lease transactions.
- (3) Basis for determination of important allowances
  - 1) Allowance for doubtful receivables
    - In order to provide for possible losses due to uncollectibility of receivables, such allowance is calculated based on historical collection losses incurred in the past. Such allowance for account receivables with default possibility or in bankruptcy or rehabilitation is booked based on an estimation of the uncollectible amount on a case-by-case basis.

2) Allowance for warranty

In order to provide for expenditures for repair work to be performed free of charge after delivery of products, this amount is stated based on the past experience of such repair work actually performed.

3) Allowance for losses on construction contracts

With regard to construction contracts that have not yet been delivered and have a high probability of generating losses at the end of the fiscal year under review, and where it is possible to reasonably estimate the amount of such losses, the estimated amount of losses to be incurred in the following fiscal year or thereafter is provided as an allowance for losses on construction contracts.

4) Allowance for losses on business transfer

Allowance for losses on business transfer is provided at an estimated amount of losses to be incurred in the future in connection with the resort development business transferred.

5) Allowance for losses on product liabilities

Allowance for losses on product liabilities is provided at an estimated amount of losses on product liabilities to be incurred related to the crane business of overseas subsidiaries.

(4) Standard for recognition of retirement benefit liability

1) Period allocation of expected retirement benefits to be incurred

In calculating the retirement benefit obligations, the benefit formula standard is used to allocate the projected retirement benefits to the years of service up to the end of the fiscal year under review.

2) Recognition method for actuarial gains/losses and prior service cost

The prior service cost is recognized by the straight-line method over a certain period within the average remaining service years of employees at the time of recognition.

Actuarial gains/losses are recognized mainly in expenses based on the straight-line method over a period within the average remaining service years of employees at the time of recognition of each fiscal year, commencing with the year following their fiscal year.

(5) Standards for recognition of income and expenses

The percentage-of-completion method has been applied for construction work for which the completion of a certain percentage of the entire work is clearly recognizable by the end of the fiscal year under review (percentage of completion is estimated on the basis of work performed, which uses the percentage of progress that is derived by totaling the estimated number of total man-hours, the number of man-hours taken in the estimated construction period, and other factors by type of work for the project in a combined manner, or by the cost proportion method), and the completed-contract method has been applied for other contracts.

(6) Method of important hedge accounting

1) Method of hedge accounting

Deferred hedge accounting is employed.

However, with regard to interest-rate swaps that meet the requirements for exceptional accounting (“*tokurei-shori*”), exceptional accounting is employed.

With regard to forward exchange contracts that meet the requirements for deferral hedge accounting (“*furiate-shori*”), deferral hedge accounting is employed.

2) Means of hedging and hedged items

Means of hedging

Forward exchange contracts

Interest-rate swaps

Hedged items

Foreign currency receivables, foreign currency payables and future transactions in foreign currency

Loans

### 3) Hedging policy

The purpose of hedging activities is to reduce exchange-rate fluctuation risks and interest-rate fluctuation risks in accordance with the Market Risks Management Rules established by the Board of Directors, and the Company makes it a rule to observe the real demand principle and not to conduct speculative trading.

### 4) Method of evaluation of effectiveness of hedging

By comparing every six months the total of cash flow fluctuations or market fluctuations of the hedged items and the total of cash flow fluctuations or market fluctuations of the means of hedging, and based on the amount of fluctuations, etc. in both the hedged items and the means of hedging, the effectiveness of hedging activities is evaluated. However, the evaluation of effectiveness of hedging is omitted for interest-rate swaps for which exceptional accounting is employed.

### (7) Accounting for consumption tax, etc.

Consumption tax and local consumption tax are accounted for by the tax-excluded method.

### (8) Amortization method and amortization period of goodwill

Goodwill is equally amortized over the period during which it has an effect in 20 years or less. However, if the amount of goodwill is small, such amount is fully depreciated at the time of generation.

### (9) Adoption of consolidated tax payment system

The Company and some of the consolidated subsidiaries adopt the consolidated tax payment system.

### (10) Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System

For the transition to the group tax sharing system established by the Act Partially Amending the Income Tax Act (Act No. 8 of 2020) and items for which the non-consolidated tax payment system has been reviewed in conjunction with the transition to the group tax sharing system, the Company and certain domestic consolidated subsidiaries have not applied the provisions of paragraph 44 of Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018), and have recognized the amounts of deferred tax assets and deferred tax liabilities in accordance with the provisions of the tax law prior to revision, based on the treatment of paragraph 3 in Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39, March 31, 2020).

## 4. Changes in Important Basic Matters for Preparation of Consolidated Financial Statements

Changes in the scope of consolidation and scope of application of equity method

	Names of Companies	Reasons for Change
Companies that were included in the scope of consolidation	SHI Ion Technology Taiwan Co., Ltd.	Increased significance
	Leifeld Metal Spinning GmbH	Newly acquired shares
Companies that were excluded from the scope of consolidation	Sumiju Plant Engineering Co., Ltd. and one other company	Dissolved by merger
	Sumitomo SHI FW International Trading (Shanghai) Co., Ltd.	Completed liquidation

## 5. Change to Presentation Methods

(1) Presentation method of loss on valuation of investment securities (in the consolidated statement of income)



“Loss on valuation of investment securities” of “Other expenses” presented separately in the previous fiscal year has been included in “Other net” of “Other expenses” from the fiscal year under review due to a decrease in its quantitative materiality.

(2) Changes due to application of the “Accounting Standard for Disclosure of Accounting Estimates”

The Company has applied the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020, Accounting Standards Board of Japan) effective from the fiscal year under review. As a result, “Notes Regarding Important Basic Matters for Preparing Consolidated Financial Statements, 6. Material accounting estimates” are stated in “Notes to Consolidated Financial Statements.”

## 6. Material accounting estimates

(1) Evaluation of goodwill

1) Amount recorded in the consolidated financial statements of the fiscal year under review

Among the intangible fixed assets recorded on the consolidated balance sheet:

- Goodwill of Sumitomo SHI FW Energie B.V.    ¥10,670 million
- Goodwill of Lafert S.p.A.    ¥10,369 million

2) Information which is helpful to understand the details of accounting estimates

The Company Group divides the assets into groups as a unit for determining and measuring the recognition of impairment loss on fixed assets. Based on the grouping result, for the asset or asset group that shows a sign of impairment, the Company considers recording an impairment loss.

As we observed a sign of impairment of the goodwill of Sumitomo SHI FW Energie B.V and Lafert S.p.A. at the end of the fiscal year under review, we made an evaluation concerning the recognition of impairment loss. Since the total amount of the future cash flow before the discount exceeds the book value, we assessed the recognition of an impairment loss is not necessary. The estimate may be affected by unpredictable changes in the business environment in the future. When the future cash flow decreases, it may be necessary to recognize an impairment loss in the consolidated financial statements for the following consolidated fiscal year.

(2) Estimate of total construction cost based on the percentage of completion method

1) Amount recorded in the consolidated financial statements for the consolidated fiscal year under review

Construction revenue (sales) based on the percentage of completion method recorded as part of the sales on the consolidated statement of income:    ¥165,481 million

2) Information which is helpful to understand the details of accounting estimates

The Company Group applies the percentage of completion method to construction work that is recognized as being certain to progress by the end of the consolidated fiscal year under review. For the application, we record construction revenue (sales) based on the progress of construction work, and the progress of construction work is calculated using the volume standard or the cost-to-cost method. When the cost-to-cost method is used, the ratio of the construction cost incurred for the implemented construction work to the total estimated construction cost is treated as the progress of the construction work. Therefore, the estimate of the total construction cost is an important accounting estimate, and as a general rule, the Company reviews it quarterly. However, if the estimated total construction cost is revised due

to changes in economic conditions that could not be initially expected, etc., it could affect the amount to be recorded as construction revenue (sales) for the following consolidated fiscal year.

## (Notes to Consolidated Balance Sheet)

### 1. Assets Pledged and Liabilities Subject to the Pledge

#### (1) Assets pledged

	(Millions of yen)
Land	101
Buildings and structures	800
Machinery and delivery equipment	74
Total	975

#### (2) Liabilities subject to the pledge

	(Millions of yen)
Long-term debt due within one year	144
Long-term debt	759
Total	903

2. Accumulated Depreciation of Property, Plant and Equipment: ¥319,996 million

### 3. Contingent Obligations, etc.

#### (1) Guarantee obligations

With regard to borrowings, etc. of non-consolidated companies from financial institutions, etc., the Company guarantees the following.

		(Millions of yen)
Sumitomo Mitsui Finance & Leasing Company Limited	(Lease contract-related guarantee for purchase, etc.)	12,252
Mizuho Leasing Company, Limited	(Lease contract-related guarantee for purchase, etc.)	2,318
Fuyo General Lease Co., Ltd.	(Lease contract-related guarantee for purchase, etc.)	525
Diamond Construction Equipment Corp.	(Lease contract-related guarantee for purchase, etc.)	479
ITOCHU TC Construction Machinery Co., Ltd.	(Lease contract-related guarantee for purchase, etc.)	70
Others (7 lenders)	(Lease contract-related guarantee for purchase, etc.)	138
Total		15,782

The above figures include guarantee obligations in foreign currencies of 725 million Chinese yuan (¥11,527 million) and 7 million New Taiwan dollars (¥28 million).

(2) Repurchase obligation due to the liquidation of notes receivable: ¥1,025 million

## (Notes to Consolidated Statement of Changes in Net Assets)

### 1. Class and Number of Issued Shares and Class and Number of Shares of Treasury Stock as of the End of the Fiscal Year Under Review

	Number of Shares as of the Beginning of the Fiscal Year Under Review	Increase in the Number of Shares from Previous Fiscal Year	Decrease in the Number of Shares from Previous Fiscal Year	Number of Shares as of the End of the Fiscal Year Under Review
Issued Shares				
Common Stock	122,905,481	—	—	122,905,481
Total	122,905,481	—	—	122,905,481
Treasury Stock				
Common Stock	389,392	8,459	426	397,425
Total	389,392	8,459	426	397,425

The increase in the number of shares of treasury stock was due to the buyback requests for odd-lot shares. The decrease in the number of shares of treasury stock was due to the top-up request for additional odd-lot shares.

## 2. Matters Related to Dividends

### (1) Amount of dividends paid

Resolution	Class of Shares	Total Dividend Amount (Millions of yen)	Dividend per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders held on June 26, 2020	Common stock	4,288	35	March 31, 2020	June 29, 2020
Meeting of Board of Directors held on October 30, 2020	Common stock	1,103	9	September 30, 2020	December 1, 2020
Total		5,391	—		

### (2) Among the dividends whose record date falls within the fiscal year under review, those whose effective date will fall within the next fiscal year

The following proposal is scheduled to be made at the Ordinary General Meeting of Shareholders to be held on June 29, 2021.

- 1) Total amount of dividends      ¥6,860 million
- 2) Dividend per share              ¥56.00
- 3) Record date                      March 31, 2021
- 4) Effective date                    June 30, 2021 (Planned)

The source for the payment of dividends is planned to be retained earnings.

### (Notes Regarding Amounts Per Share)

1. Net assets per share      ¥4,005.43
2. Net income per share      ¥218.46

## (Notes Regarding Financial Instruments)

### 1. Matters Related to Financial Instruments

#### (1) Policy for handling financial instruments

The Company Group is a comprehensive heavy machinery manufacturer that engages in the manufacture and distribution of power transmission and control equipment and other machines and equipment. The necessary operating funds and funds for acquiring equipment are procured by bank loans and the issuance of bonds payable. The management of a temporary surplus fund is limited to safe and short-term financial assets. Derivatives are used to hedge risks, which are explained later. The Company Group has a principle that it does not engage in speculative trading.

#### (2) Components and risks of financial instruments

Trade receivables (i.e., notes and accounts receivable) and long-term loans receivable are exposed to customers' credit risk. Trade receivables denominated in foreign currencies, brought about by the global business development, are exposed to foreign exchange rate fluctuation risk. To hedge the position of net trade receivables and trade payables in foreign currencies, forward exchange contracts are used to maintain the position at a constant hedge ratio. Hedge ratios and positions that are not yet hedged are regularly reported to the Board of Directors.

Investment securities are mostly transaction-related corporate stocks that are exposed to market price fluctuation risk.

Most trade payables (i.e., notes and accounts payable) are due within one year. Some related to the import of raw materials are denominated in foreign currencies and exposed to foreign exchange rate fluctuation risks, and are hedged using forward exchange contracts.

The main purpose of loans and bonds payable are to procure the necessary operating funds and to supplement the capital investment fund. Among these payables, derivatives (interest-rate swaps) are used to hedge individual contracts for a portion of long-term debt. With regard to the method of evaluating the effectiveness of hedging, because the employed interest-rate swaps meet the requirements for exceptional accounting ("*tokurei-shori*"), the evaluation of effectiveness is omitted. Foreign currency denominated loan is exposed to the exchange-rate fluctuation risk.

The Company Group's derivative transactions consist of forward exchange contracts, which are aimed at hedging the exchange fluctuation risk associated with foreign currency denominated trade receivables/payables, and interest-rate swaps, which are aimed at hedging the interest-rate fluctuation risk associated with the interest paid on loans and the exchange-rate fluctuation risk. For the means of hedging, the hedged items, the hedging policy and the method of evaluation of effectiveness of hedging, please see "Method of important hedge accounting" stated in the aforementioned "Matters Related to Accounting Policies."

#### (3) Financial instrument-related risk management structure

##### 1) Management of credit risk (risk related to customers' default of contracts)

With regard to domestic contracts and export-related contracts beyond a certain amount, the Company Group conducts a credit check before receiving orders, thereby alleviating concern about the collection of trade receivables. Each business segment conforms to the credit management regulations and manages the due dates of trade receivables and the balance for each counterparty, thereby quickly identifying a collectivity risk.

When using derivatives, the Company Group conducts transactions only with highly rated financial institutions to reduce counterparty risk. The time deposit-related credit risk is low because the Company Group has time deposits only at highly rated financial institutions with which it has loan transactions in order to reduce redemption risk.

## 2) Management of market risk (exchange- and interest-rate fluctuation risk)

In compliance with the market risk management regulations that stipulate hedging ratios, the exchange-rate amounts yet to be hedged, etc., the Company hedges exchange-rate fluctuations with respect to its position of net trade receivables and trade payables denominated in foreign currencies. The hedging status is reported to the Board of Directors each month. At those major consolidated subsidiaries that also hold trade receivables and payables in foreign currencies, in conformity with the exchange-rate hedging regulations that stipulate hedging ratios or exchange-rate amounts yet to be hedged, exchange-rate hedging is adopted to control exchange-rate fluctuation risk.

In addition, the Company monitors loan-related interest payable, which is reported to the Board of Directors regularly. To reduce interest-rate fluctuation risk, interest-rate swaps are used.

With regard to investment securities, their current fair market value and the financial position of the issuers are checked regularly. Taking the relationship with the counterparty into consideration, the appropriateness of holding such securities is continually reviewed.

Derivative transactions conducted by the Company and its major consolidated subsidiaries are solely for the purpose of hedging exchange- and interest-rate fluctuation risks as explained above. We verify the balance with the counterparty each month.

## 3) Management of fund procurement-related liquidity risk (risk of being unable to pay on the due date)

The Company Group introduced the cash management system to its major consolidated subsidiaries in order for the Company to comprehensively manage the Group's funds. Based on reports from business segments and major subsidiaries and affiliates, the Company timely formulates and updates the fund management plan and controls liquidity risk.

## 2. Matters Related to the Fair Market Value of Financial Instruments

Amounts recorded on the consolidated balance sheet, their fair market value and the difference between them as of March 31, 2021 (balance sheet date of the fiscal year under review) are as shown below. Financial instruments for which the fair market values are considered difficult to calculate are not included in the table. (See Note 2.)

(Millions of yen)

	Amount on the Consolidated Balance Sheet*	Fair Market Value*	Difference
(1) Cash and Deposits	88,050	88,050	-
(2) Notes and Accounts Receivable	282,928	280,345	(2,583)
(3) Investment Securities	11,238	11,238	-
(4) Long-term Loans Receivable	2,658	2,586	(71)
(5) Notes and Accounts Payable	(160,260)	(160,260)	-
(6) Short-term Bank Loans	(31,698)	(31,698)	-
(7) Bonds Payable	(50,000)	(50,182)	182
(8) Long-term Debt	(42,741)	(42,937)	196
(9) Derivatives	(1,773)	(1,814)	(41)

\*Liabilities are indicated in parentheses.

### Notes:

#### 1. Matters related to the calculation method for the fair market value of financial instruments, marketable securities and derivatives

##### (1) Cash and deposits

Because these are settled in the short term, the fair market value is almost equal to the amount indicated in the Balance Sheet. Therefore, the Balance Sheet value has been adopted.

##### (2) Notes and accounts receivable

The fair market value of trade receivables is calculated based on their present value obtained by

discounting the amount of each trade receivable divided for each period using an interest rate that reflects the period until the due date and the credit risk.

(3) Investment securities

Investment securities are stocks and their fair market value is based on their respective prices on the Stock Exchange.

(4) Long-term loans receivable

The fair market value of long-term loans receivable is calculated based on their present value obtained by discounting the future cash flow using an interest rate at which a credit spread is added to an appropriate index such as the government bond yield.

(5) Notes and accounts payable and (6) Short-term bank loans

Because these items are settled in the short term, their fair market values are almost equal to the amounts indicated in the Balance Sheet. Therefore, the Balance Sheet values have been adopted.

(7) Bonds payable

The fair market value of bonds payable issued by the Company is calculated based on their present value obtained by discounting the total of principal and interest using an interest rate that reflects the bonds payable's remaining period and the credit risk.

(8) Long-term debt

The fair market value of long-term debt is calculated based on the present value obtained by discounting the total of principal and interest using an interest rate that is reasonably estimated should a similar new loan be made.

(9) Derivatives

The fair market value of forward exchange contracts is based on forward exchange rates. The fair market values of interest rate swaps and currency swaps are based on the amounts presented by the relevant financial institutions.

2. The stock of non-consolidated subsidiaries and affiliates (¥9,277 million on the Consolidated Balance Sheet), unlisted stocks (¥2,292 million on the same) and securities invested in non-consolidated subsidiaries and affiliates (¥5 million on the same) do not have a market value because it is hard to estimate future cash flows, and it is difficult to obtain their fair market value. Therefore, these are not included in "(3) Investment securities."

## (Notes to Important Subsequent Events)

Not applicable.

## (Other Notes)

### 1. Revaluation of Land

On March 31, 2002, the Company revalued its land used for business operations in accordance with the Act on Revaluation of Land (Act No. 34 promulgated on March 31, 1998) and the Act for Partial Revision of the Act on Revaluation of Land (Act No. 19 promulgated on March 31, 2001).

With respect to the revaluation difference, in accordance with the Act for Partial Revision of the Act on Revaluation of Land (Act No. 24 promulgated on March 31, 1999), the amount of tax relevant to such revaluation difference was stated in the section of liabilities as “Deferred tax liabilities on land revaluation” and the amount of revaluation difference less the amount of such deferred tax liabilities is stated in the section of net assets as “Land revaluation difference.”

Method of revaluation:

While the land value was obtained by making a reasonable adjustment to the appraised amount for purposes of property tax as provided in Article 2, Item 3 of the Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119 promulgated on March 31, 1998), the value of some of the land was obtained based on the licensed real estate appraiser’s appraised value as set forth in Article 2, Item 5 of the Order.

Date of revaluation: March 31, 2002

Difference between the current value of the land at the end of the fiscal year under review and its book value after revaluation: ¥(16,666) million

### 2. Impairment loss

- (1) The Company booked the following impairment losses by asset group in the fiscal year under review.

Application	Location	Type	Amount (Millions of yen)
Business property	Yokosuka-shi, Kanagawa	Building, etc.	4,991
Business property	United States of America	Intangible fixed assets	404
Business property	Nishitokyo-shi, Tokyo, and other locations	Building, etc.	368
Idle property	Takatsuki-shi, Osaka	Building, etc.	6

- (2) Reason for recognizing impairment loss

Mainly due to the decline in profitability, the Company can no longer expect to collect invested amounts. Accordingly, we decided to apply impairment loss to these assets.

- (3) Asset grouping method

The asset grouping for the Group was made based on business segments. However, idle assets with no expected future use were categorized individually.



(4) Method to calculate collectible amounts

The collectible amounts are calculated based on net sale value or value in use. The net sale value is calculated by deducting the asset disposal cost from the asset disposal value. The value in use is calculated by discounting the future cash flow by 17.5%, but as future cash flows are expected to be negative, the use value of some assets are zero.

**3. Matters Related to Business Combination**

Finalization of the provisional treatment for business combination

For the merger with Invertek Drives Ltd. executed on November 7, 2019, the accounting treatment which was conducted provisionally was finalized in the consolidated fiscal year under review.

Due to the finalization of the provisional accounting treatment, an important review of the initial allocation amount of acquisition cost was reflected. As a result, the provisionally calculated amount of goodwill of ¥10,320 million decreased by ¥4,390 million to ¥5,930 million due to the finalization of accounting treatment. The decrease in goodwill is the result of the increase in patent-related assets by ¥4,326 million, customer-related assets by ¥964 million, and deferred tax liabilities by ¥899 million.

**4. Treatment of Fractional Amounts**

Stated amounts are rounded off for fractions less than units.

## Statement of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(Millions of yen)

Shareholder's Equity								
	Common Stock	Retained Earnings		Treasury			Total Shareholders' Equity	
		Capital Reserve	Total Capital Surplus	Legal Reserve of Retained Earnings	Other Retained Earnings Retained Earnings Brought Forward	Total Retained Earnings		Treasury stock
<b>Balance at April 1, 2020</b>	30,872	27,073	27,073	6,295	48,131	54,425	(1,080)	111,290
Changes in the period								
Dividends from surplus					(5,391)	(5,391)		(5,391)
Net income					34,650	34,650		34,650
Acquisition of treasury stock							(21)	(21)
Disposal of treasury stock					(0)	(0)	1	1
Reversal of land revaluation difference					284	284		284
Changes in items other than shareholders' equity in the period (net)								
<b>Total changes in the period</b>	—	—	—	—	29,543	29,543	(20)	29,523
<b>Balance at March 31, 2021</b>	30,872	27,073	27,073	6,295	77,674	83,969	(1,100)	140,813

	Valuation and Translation Adjustments				Total Net Assets
	Unrealized Gains/Losses on Securities	Deferred Gains/Losses on Hedges	Land Revaluation Difference	Total Valuation and Translation Adjustments	
<b>Balance at April 1, 2020</b>	1,954	(483)	40,626	42,097	153,386
Changes in the period					
Dividends from surplus					(5,391)
Net income					34,650
Acquisition of treasury stock					(21)
Disposal of treasury stock					1
Reversal of land revaluation difference					284
Changes in items other than shareholders' equity in the period (net)	2,158	(280)	(284)	1,594	1,594
<b>Total changes in the period</b>	2,158	(280)	(284)	1,594	31,117
<b>Balance at March 31, 2021</b>	4,111	(763)	40,342	43,690	184,504

“English Translation of Financial Statements Originally Issued in the Japanese Language”

Note: Amounts shown in this financial statement have been rounded to the nearest million yen.

**Notes to Financial Statements**

**(Notes Regarding Matters Related to Significant Accounting Policies)**

**1. Basis and Method of Asset Valuation**

(1) Marketable securities

Equity securities issued by subsidiaries and affiliated companies: At moving-average cost  
Other securities:

Those with fair market value: At fair market value on the last day of the fiscal year (Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets. Realized gain on sale of such securities is computed using the moving-average method.)

Those without fair market value: At cost based on the moving-average method

(2) Derivatives: At fair market value

(3) Inventories

Work in process: At cost based on the specific identification method (The balance sheet amount is computed by applying inventory write-downs due to decrease in profitability.)

Finished goods, raw materials and supplies: Principally at cost based on the weighted-average method (The balance sheet amount is computed by applying inventory write-downs due to decrease in profitability.)

**2. Method of Depreciation of Fixed Assets**

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

The straight-line method is employed.  
The estimated useful lives of the tangible assets are as follows:  
Buildings and Structures 10–50 years  
Machinery, vehicles and delivery equipment 5–12 years

(2) Intangible fixed assets (excluding leased assets)

The straight-line method is employed.  
Software for internal use is depreciated based on its estimated useful life in the Company (5 years).

(3) Leased assets

As regards leased assets related to the finance leases other than those by which ownership is considered to pass to the lessees (“ownership non-transfer finance leases”), the lease period is used as the useful life and the straight-line method with a residual value of zero is employed.

**3. Basis for Determination of Allowances**

(1) Allowance for doubtful receivables

In order to provide for possible losses due to uncollectibility of receivables, such allowance is calculated based on historical collection losses incurred in the past. Such allowance for account receivables with default possibility or in bankruptcy or rehabilitation is booked based on an estimation of the uncollectible amount on a case-by-case basis.

(2) Allowance for warranty

In order to provide for expenditures for repair work to be performed free of charge after delivery of products, this amount is stated based on the past experience of such repair work actually performed.

(3) Allowance for losses on construction contracts

With regard to construction contracts that have not yet been delivered and have a high probability of generating losses at the end of the fiscal year under review, and where it is possible to reasonably estimate the amount of such losses, the estimated amount of losses to be incurred in the following fiscal year or thereafter is provided as an allowance for losses on construction contracts.

(4) Allowance for losses on business transfer

Allowance for losses on business transfer is provided at an estimated amount of losses to be incurred in the future in connection with the resort development business transferred.

(5) Allowance for retirement benefits

In order to provide for retirement benefits to be paid to employees, the amount considered to have accrued at the end of the fiscal year under review is stated based on the estimated amount of retirement benefit obligations and pension plan assets at the end of the fiscal year under review.

In calculating the retirement benefit obligations, the benefit formula standard is used to allocate the projected retirement benefits to the years of service up to the end of the fiscal year under review.

The prior service costs are recognized as expenses in the fiscal year in which they arose.

The actuarial gains (losses) are recognized as expenses based on the straight-line method over a period within the average remaining service years of the employees (12 years) commencing with the year following their accrual.

**4. Accounting Procedures Regarding Retirement Benefits**

The accounting procedures for unrecognized actuarial gains or losses on retirement benefits are different from the accounting procedures for the consolidated financial statements.

**5. Standards for Recognition of Income and Expenses**

The percentage-of-completion method has been applied for construction work for which the completion of a certain percentage of the entire work is clearly recognizable by the end of the fiscal year under review (percentage of completion is estimated by the cost proportion method), and the completed-contract method has been applied for other contracts.

**6. Method of Hedge Accounting**

(1) Method of hedge accounting

Deferred hedge accounting is employed.

However, with regard to interest-rate swaps that meet the requirements for exceptional accounting (“*tokurei-shori*”), exceptional accounting is employed.

With regard to forward exchange contracts and currency swaps that meet the requirements for deferral hedge accounting (“*furiate-shori*”), deferral hedge accounting is employed.

(2) Means of hedging and hedged items

<u>Means of hedging</u>	<u>Hedged items</u>
Forward exchange contracts	Foreign currency receivables, foreign currency payables, and future transactions in foreign currency
Interest-rate swaps	Loans

(3) Hedging policy

The purpose of hedging activities is to reduce exchange-rate fluctuation risks and interest-rate fluctuation risks in accordance with the Market Risks Management Rules established by the Board of Directors, and the Company makes it a rule to observe the real demand principle and not to conduct speculative trading.

(4) Method of evaluation of effectiveness of hedging

By comparing every six months the total of cash flow fluctuations or market fluctuations of the hedged items and the total of cash flow fluctuations or market fluctuations of the means of hedging, and based on the amount of fluctuations, etc. in both the hedged items and the means of hedging, the effectiveness of hedging activities is evaluated. However, the evaluation of effectiveness of hedging is omitted for interest-rate swaps for which exceptional accounting is employed.

**7. Accounting for Consumption Tax, etc.**

Consumption tax and local consumption tax are accounted for by the tax-excluded method.

**8. Adoption of Consolidated Tax Payment System**

The consolidated tax payment system is adopted.

**9. Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System**

For the transition to the group tax sharing system established by the Act Partially Amending the Income Tax Act (Act No. 8 of 2020) and items for which the non-consolidated tax payment system has been reviewed in conjunction with the transition to the group tax sharing system, the Company has not applied the provisions of paragraph 44 of Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018), and has recognized the amounts of deferred tax assets and deferred tax liabilities in accordance with the provisions of the tax law prior to revision, based on the treatment of paragraph 3 in Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39, March 31, 2020).

**10. Change to Presentation Methods**

(1) Presentation method of loss on valuation of investment securities (in the statement of income)

“Loss on valuation of investment securities” of “Other expenses” presented separately in the previous fiscal year has been included in “Other net” of “Other expenses” from the fiscal year under review due to a decrease in its quantitative materiality.

(2) Changes due to application of the “Accounting Standard for Disclosure of Accounting Estimates”

The Company has applied the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020, Accounting Standards Board of Japan) effective from the fiscal year under review. As a result, “Notes Regarding Matters Related to Significant Accounting Policies, 11. Material accounting estimates” are stated in “Notes to Financial Statements.”

**11. Material accounting estimates**

(1) Valuation of affiliated company stock

- 1) Amount recorded on the financial statements for the fiscal year under review

Out of the shares of affiliated companies on the balance sheet

- Shares of Sumitomo SHI FW Energie B.V.    ¥23,444 million

- Shares of Lafert S.p.A.    ¥25,035 million

2) Information which is helpful to understand the details of accounting estimates

For stocks, etc. that are recognized as being extremely difficult to ascertain fair value, the Company uses acquisition cost as the balance sheet amount. When the actual price drops significantly due to a deterioration of the financial condition of the issuing company of the stocks, a considerable reduction of the amount will be made, and the valuation difference is treated as a loss for the current fiscal year (impairment treatment). As for the stocks of Sumitomo SHI FW Energie B.V. and Lafert S.p.A., no significant drop in actual price that reflects the excess earning power of both companies was observed at the end of the fiscal year under review. Therefore, we used acquisition cost as the balance sheet amount. However, if there is a significant drop in the actual price due to unpredictable changes in the business environment, etc. in the future, we may record a loss on valuation in the statements for the following fiscal year.

(2) Estimate of total construction cost based on the percentage of completion method

1) Amount recorded in the financial statements for the fiscal year under review

Construction revenue (sales) based on the percentage of completion method recorded as part of the sales on the statement of income:    ¥92,282 million

2) Information which is helpful to understand the details of accounting estimates

Notes are omitted since the information is described in “Notes Regarding Important Basic Matters for Preparing Consolidated Financial Statements, 6. Material accounting estimates” in the “Notes to Consolidated Financial Statements.”

(Notes to Balance Sheet)

**1. Accumulated Depreciation of Property, Plant and Equipment:** ¥130,161 million

**2. Contingent Obligations, etc.**

(1) Guarantee obligations

With regard to borrowings, etc. of other companies from financial institutions, etc., the Company provides guarantee obligations as follows.

	(Millions of yen)
Sumitomo SHI FW Energie B.V.	13,331
Sumitomo Heavy Industries (USA), Inc.	9,012
Sumitomo Construction Machinery Co., Ltd.	8,993
Sumitomo Heavy Industries (China) Financial Leasing, Ltd.	3,369
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.	2,572
Sumitomo (SHI) Demag Plastics Machinery GmbH	1,884
Sumitomo Heavy Industries Environment Co., Ltd.	1,552
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.	986
Others (7 companies)	1,798
<b>Total</b>	<b>43,495</b>

The above figures include guarantee obligations in foreign currencies of 98 million Euro (¥12,789 million), 81 million U.S. dollars (¥9,012 million), 200 million Chinese yuan (¥3,369 million), 56 million Polish zloty (¥1,553 million), 246 million Thai baht (¥872 million), 18 million Brazilian real (¥345 million), and 7 million New Taiwan dollars (¥28 million).

(2) Repurchase obligation due to the liquidation of notes receivable: ¥527 million

**3. Money Claims against and Debt Owed to Affiliated Companies**

Short-term receivables due from affiliated companies	¥42,398 million
Long-term receivables due from affiliated companies	¥0 million
Short-term payable due to affiliated companies	¥76,720 million
Long-term payable due to affiliated companies	¥53,692 million

(Notes to Statement of Income)

**Transactions with Affiliated Companies**

Sales to affiliated companies	¥71,941 million
Purchases from affiliated companies	¥74,534 million
Non-operating transactions with affiliated companies	¥22,471 million

**(Notes to Statement of Changes in Net Assets)**

Class and number of treasury stock held as of the end of the fiscal year under review:

Common stock 397,425 shares

**(Notes Regarding Tax Effect Accounting)**

The principal reasons for the accrual of deferred tax assets are the disallowance of an allowance for retirement benefits, impairment losses, and an allowance for warranty, etc. The principal reason for the accrual of deferred tax liabilities is land revaluation.

**(Notes Regarding Transactions with Related Parties)**

Attribution	Name of Company, etc.	Percentage of Voting Rights Held		Relationship with the Related Party	Content of Transactions	Transaction Amount (Millions of yen)	Account Item	Balance at the End of Fiscal Year (Millions of yen)
Subsidiary	Sumitomo SHI FW Energie B.V.	Directly held	100%	Interlocking officers	Guarantee obligation	13,335	—	—
Subsidiary	Sumitomo Heavy Industries (USA), Inc.	Directly held	100%	No Interlocking officers	Guarantee obligation	9,012	—	—
Subsidiary	Sumitomo Construction Machinery Co., Ltd.	Directly held	100%	Interlocking officers	Guarantee obligation	8,993	—	—

Note: 1. The above transaction amounts do not include consumption tax, etc.

2. With regard to borrowings from banks, the Company provides guarantee obligations.

**(Notes Regarding Amounts Per Share)**

1. Net assets per share ¥1,506.05
2. Net income per share ¥282.83

**(Notes to Important Subsequent Events)**

Not applicable.

**(Other Notes)****1. Revaluation of Land**

On March 31, 2002, the Company revalued its land used for business operations in accordance with the Act on Revaluation of Land (Act No. 34 promulgated on March 31, 1998) and the Act for Partial Revision of the Act on Revaluation of Land (Act No. 19 promulgated on March 31, 2001).

With respect to the revaluation difference, in accordance with the Act for Partial Revision of the Act on Revaluation of Land (Act No. 24 promulgated on March 31, 1999), the amount of tax relevant to such revaluation difference was stated in the section of liabilities as “Deferred tax liabilities on land revaluation” and the amount of revaluation difference less the amount of such deferred tax liabilities is stated in the section of net assets as “Land revaluation difference.”

Method of revaluation:

While the land value was obtained by making a reasonable adjustment to the appraised amount for purposes of property tax as provided in Article 2, Item 3 of the Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119 promulgated on March 31, 1998), the value of



some of the land was obtained based on the licensed real estate appraiser's appraised value as set forth in Article 2, Item 5 of the Order.

Date of revaluation: March 31, 2002

Difference between the current value of the land at the end of the fiscal year under review and its book value after revaluation: ¥(16,666) million

Appropriation of the land revaluation difference to payment of dividends is restricted in accordance with the provisions of Article 158, Item 3 of the Ordinance on Company Accounting.

## 2. Gain on extinguishment of tie-in shares

Since the Company absorbed and merged with Sumiju Plant Engineering Co., Ltd. and one other company, which were consolidated subsidiaries, we posted ¥9,796 million of gain on extinguishment of tie-in shares as extraordinary income.

## 3. Impairment loss

- (1) The Company booked the following impairment losses by asset group in the fiscal year under review.

Application	Location	Type	Amount (Millions of yen)
Business property	Yokosuka-shi, Kanagawa	Building, etc.	4,107
Business property	Nishitokyo-shi, Tokyo, and other locations	Building, etc.	368
Idle property	Takatsuki, Osaka	Building, etc.	6

- (2) Reason for recognizing impairment loss

Mainly due to the decline in profitability, the Company can no longer expect to collect invested amounts. Accordingly, we decided to apply impairment loss to these assets.

- (3) Asset grouping method

The asset grouping for the Group was made based on business segments. However, idle assets with no expected future use were categorized individually.

- (4) Method to calculate collectible amounts

The collectible amounts are calculated based on net sale value. The net sale value is calculated by deducting the asset disposal cost from the asset disposal value. Furthermore, as future cash flows are expected to be negative, the value in use is zero.

## 4. Treatment of Fractional Amounts

Stated amounts are rounded off for fractions less than units.