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Sumitomo Heavy Industries, Ltd.

Informational Materials for the 130th Ordinary General Meeting of Shareholders

(Matters excluded in accordance with laws and regulations and the Company's Articles of Incorporation from paper-based documents delivered in response to a request for delivery of documents stating matters subject to measures for electronic provision)

Fiscal Year 2025 (January 1, 2025 through December 31, 2025)

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In accordance with the provisions of laws and regulations and Article 16 of the Company's Articles of Incorporation, the above matters are excluded from the paper-based documents delivered to shareholders who have made a request for delivery of such documents.

Major Lenders (as of December 31, 2025)

Name	Loans Outstanding (Millions of yen)
Sumitomo Mitsui Banking Corporation	49,642
Sumitomo Mitsui Trust Bank, Limited	20,861
Mizuho Bank, Ltd.	9,948
MUFG Bank, Ltd.	8,837

Employees (as of December 31, 2025)

Segment	Number of Employees	Increase or Decrease from End of Last Fiscal Year
Mechatronics	8,746	(115)
Industrial Machinery	5,522	(38)
Logistics & Construction	5,512	62
Energy & Lifeline	3,607	(178)
Corporate Operations & Others	1,736	55
Total	25,123	(214)

* The Company reorganized business between the Mechatronics Segment and the Industrial Machinery Segment effective from the fiscal year under review. Accordingly, increase or decrease from the end of the last fiscal year is presented on a comparable basis by reclassifying the figures for the previous fiscal year to conform to the revised segments.

Major Places of Business and Plants (as of December 31, 2025)

The Company	Head office	1-1, Osaki 2-chome, Shinagawa-ku, Tokyo, Japan
	Business offices	Chubu Office (Nagoya-shi), Kansai Office (Osaka-shi), Kyushu Office (Fukuoka-shi)
	Plants	Tanashi Works (Nishitokyo-shi, Tokyo), Chiba Works (Chiba-shi), Yokosuka Works (Yokosuka-shi, Kanagawa Pref.), Nagoya Works (Obu-shi, Aichi Pref.), Okayama Works (Kurashiki-shi, Okayama Pref.), Niihama Plant of Ehime Works (Niihama-shi, Ehime Pref.), Saijo Plant of Ehime Works (Saijo-shi, Ehime Pref.)
	Laboratories	Technology Research Center (Yokosuka-shi, Kanagawa Pref.)
Subsidiaries	Plants	Sumitomo Construction Machinery Co., Ltd., Chiba Works (Chiba-shi) Sumitomo Heavy Industries Marine & Engineering Co., Ltd., Yokosuka Shipyard (Yokosuka-shi, Kanagawa Pref.) Sumitomo Heavy Industries Construction Cranes Co., Ltd., Nagoya Plant (Obu-shi, Aichi Pref.) Sumitomo Heavy Industries Gearbox Co., Ltd., Head Plant (Kaizuka-shi, Osaka Pref.) Nihon Spindle Manufacturing Co., Ltd., Head Office and Head Plant (Amagasaki-shi, Hyogo Pref.) Shin Nippon Machinery Co., Ltd., Kure Works (Kure-shi, Hiroshima Pref.) Sumitomo Heavy Industries Material Handling Systems Co., Ltd., Niihama Plant (Niihama- shi, Ehime Pref.) Sumitomo Heavy Industries Ion Technology Co., Ltd., Ehime Plant (Saijo-shi, Ehime Pref.) Sumitomo Heavy Industries Process Equipment Co., Ltd., Head Office and Head Plant (Saijo-shi, Ehime Pref.) Sumitomo Machinery Corporation of America (U.S.A.) Link-Belt Cranes, L.P., LLLP (U.S.A.) Invertek Drives Ltd. (U.K.) Sumitomo (SHI) Demag Plastics Machinery GmbH (Germany) Sumitomo (SHI) Cyclo Drive Germany GmbH (Germany) Lafert S.p.A. (Italy) PT Sumitomo Construction Machinery Indonesia (Indonesia) Sumitomo Construction Machinery (Tangshan) Co., Ltd. (China) Sumitomo (SHI) Cyclo Drive China, Ltd. (China) Ningbo Sumiju Machinery, Ltd. (China) Sumitomo Heavy Industries (Vietnam) Co., Ltd. (Vietnam)

Note: On January 1, 2026, Sumitomo Heavy Industries Ion Technology Co., Ltd. changed its trade name to Sumitomo Heavy Industries Material Solutions Co., Ltd.

Independent Auditor

- (1) Name: KPMG AZSA LLC
- (2) Amount of compensation, etc., and reason that the Board of Corporate Auditors agreed to such compensation, etc.

(i) Amount of compensation, etc. to be paid to the Independent Auditor related to this fiscal year	¥184 million
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(ii) Total amount of money and other economic benefits to be paid by the Company and its subsidiaries to the Independent Auditor	¥306 million

Notes: 1. The compensation for auditing under the Companies Act and auditing under the Financial Instruments and Exchange Act is not clearly differentiated in the Audit Agreement between the Company and the Independent Auditor and cannot be differentiated as a practical matter. Accordingly, the above-indicated amount of compensation, etc. to be paid to the Independent Auditor related to this fiscal year includes the total of such compensation amounts.

2. Among the major subsidiaries of the Company, LBX Company, LLC, Sumitomo Machinery Corporation of America, LBCE Holdings, Inc., Invertek Drives Ltd., 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. (China) and Sumitomo Heavy Industries (Vietnam) Co., Ltd. were audited by auditing firms other than the Independent Auditor engaged by the Company.

- (iii) Reason that the Board of Corporate Auditors agreed to the compensation, etc. of the Independent Auditor

Having confirmed and considered the contents of the audit plan, the previous audit status and compensation record, and the grounds for calculation of the estimated compensation, etc. provided by the related internal departments and Independent Auditor, the Board of Corporate Auditors of the Company has determined that the compensation, etc. of Independent Auditor related to the fiscal year under review is appropriate, and therefore the agreement pursuant to Article 399, Paragraph 1 of the Companies Act was made.

- (3) Details of non-audit duties
 - We pay the Independent Auditor consideration for “preparation of a comfort letter,” which is a service other than those set forth in Article 2, paragraph (1) of the Certified Public Accountants Act (non-audit service).

- (4) Policy for determination to dismiss or not to reappoint Independent Auditor
 - The Board of Corporate Auditors shall dismiss the Independent Auditor upon the consent of all Corporate Auditors in the event that it is determined that any item under Article 340, Paragraph 1 of the Companies Act applies to the Independent Auditor. In this case, a Corporate Auditor appointed by the Board of Corporate Auditors shall report the dismissal and the reason thereof at the General Meeting of Shareholders first called after such dismissal. In addition, if it is determined that it is difficult for the Independent Auditor to perform their duties appropriately, the Board of Corporate Auditors shall determine the content of an agenda item regarding the dismissal or non-reappointment of the Independent Auditor to be submitted to a General Meeting of Shareholders.

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.
 - (d) The Company shall also make the Directors of the Company submit a pledge to observe specific compliance requirements.
- 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 shall establish the Risk Management Committee, which is chaired by the President, formulate the Company's risk management policy, and promote 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 receives 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 Executive Officers and all managerial staff submit a pledge to observe specific compliance requirements.
 - (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 receives 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 in-house whistleblower systems based on the Company's in-house whistleblower system. Whistleblower reports about subsidiaries shall be shared with the corporate auditors of the company concerned.
 - (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 inform or 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 Head Office 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

For the establishment of internal control systems regarding reliable financial reporting, the Company deploys persons responsible for internal control and the promotion thereof to each business segment. 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 or 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 January 1, 2025 to December 31, 2025)

(Millions of yen)

	Shareholder's Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury stock	Total Shareholders' Equity
Balance at January 1, 2025	30,872	25,203	428,776	(11,207)	473,644
Changes in the period					
Dividends from surplus			(15,031)		(15,031)
Net income attributable to shareholders of the parent company			30,937		30,937
Acquisition of treasury stock				(14)	(14)
Disposal of treasury stock		(13)	(46)	76	18
Reversal of land revaluation difference			325		325
Change in scope of consolidation			(372)		(372)
Change in ownership interest of parent due to transactions with non-controlling interests		(1,130)			(1,130)
Changes in items other than shareholders' equity in the period (net)					
Total changes in the period	—	(1,143)	15,814	62	14,733
Balance at December 31, 2025	30,872	24,060	444,590	(11,146)	488,376

	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		
Balance at January 1, 2025	7,953	(1,233)	40,307	96,993	23,017	167,037	5,737	646,418
Changes in the period								
Dividends from surplus								(15,031)
Net income attributable to shareholders of the parent company								30,937
Acquisition of treasury stock								(14)
Disposal of treasury stock								18
Reversal of land revaluation difference								325
Change in scope of consolidation								(372)
Change in ownership interest of parent due to transactions with non-controlling interests								(1,130)
Changes in items other than shareholders' equity in the period (net)	1,057	643	(914)	7,345	18,122	26,253	(1,179)	25,073
Total changes in the period	1,057	643	(914)	7,345	18,122	26,253	(1,179)	39,806
Balance at December 31, 2025	9,011	(591)	39,392	104,338	41,139	193,290	4,557	686,223

“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: 134

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 Ion Technology Co., Ltd.
Sumitomo Heavy Industries Environment Co., Ltd.
Sumitomo Heavy Industries Process Equipment Co., Ltd.
LBX Company, LLC
Sumitomo Machinery Corporation of America
LBCE Holdings, Inc.
Invertek Drives Ltd.
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 Heavy Industries (Vietnam) Co., Ltd.

Effective the fiscal year under review, Laser Systems & Solutions of Europe SASU, whose shares have been newly acquired, and two other companies have been included in the scope of consolidation. In addition, Sense Corporation, which was dissolved through an absorption-type merger, and five other companies have been excluded from the scope of consolidation.

Note: On January 1, 2026, Sumitomo Heavy Industries Ion Technology Co., Ltd. changed its trade name to Sumitomo Heavy Industries Material Solutions Co., Ltd., and Laser Systems & Solutions of Europe SASU changed its trade name to Sumitomo (SHI) Material Solutions Europe SASU.

- (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: 2

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

Non-consolidated subsidiaries (Sumitomo (SHI) Cryogenics Taiwan Co., Ltd., etc.) and affiliated companies (Krones-Izumi Processing Pte. Ltd., etc.) 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 (The straight-line method)

Other securities:

Those other than stocks, etc. without fair market value:

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

Stocks, etc. without fair market value:

At moving-average cost

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.

(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 accounts receivable 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) Provision for bonuses

In order to provide for expenditures for bonuses paid to employees, the burden in the fiscal year under review of the estimated amount of payments is recorded.

3) 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.

4) 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.

5) Provision for business restructuring

In order to provide for losses to be incurred in connection with business restructuring, the estimated amount of such losses is recorded.

(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 mainly 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 Company Group sells and provides services for power transmission and control equipment, plastic injection molding machines, hydraulic excavators, material handling systems, energy plant equipment, ships, etc. The content of major performance obligations and the ordinary timing for recognizing income in main businesses are as follows.

For sales of products, income is usually recognized at the time of delivery of goods, judging that the performance obligation is mainly fulfilled at the time of delivery of goods when the customer obtains the control over such goods. For products that do not carry an obligation of installation, an alternative treatment of materiality, etc. is applied, and income is recognized upon the time of shipment in cases when the period from the time of shipment until the time that control of the products is transferred to the customer is a typical period. For the execution of construction agreements and provision of services, income is recognized by estimating the

progress toward the fulfillment of the performance obligation for the customer, judging that such performance obligation is mainly fulfilled over a certain period of time. The cost-to-cost method is primarily used to calculate the progress of construction work. 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.

(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

<u>Means of hedging</u>	<u>Hedged items</u>
Forward exchange contracts	Foreign currency receivables and contract assets, 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 internal regulations, 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 three 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) 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.

(8) Adoption of the group tax sharing system

The Company and certain domestic consolidated subsidiaries have adopted the group tax sharing system.

4. Change to Accounting Policies

(Application of “Accounting Standards for Corporation Tax, Resident Tax, Business Tax, etc.”) “Accounting Standards for Corporation Tax, Resident Tax, Business Tax, etc.” (ASBJ Statement No. 27, issued on October 28, 2022; hereinafter referred to as “2022 Revised Accounting Standards”), along with other guidance, have been applied from the beginning of the fiscal year under review.

In connection with the amendment to the accounting classification of corporation taxes, etc. (taxation on other comprehensive income), the Company follows the transitional treatments set forth in the proviso to Paragraph 20-3 of the 2022 Revised Accounting Standards and in the proviso to Paragraph 65-2 (2) of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, issued on October 28, 2022; hereinafter referred to as the “2022 Revised

Implementation Guidance”). This change in accounting policy has no impact on the consolidated financial statements for the fiscal year under review.

In addition, regarding the amendments related to the revision of the treatment in consolidated financial statements when gains or losses from the sale of subsidiary shares, etc., between consolidated companies are deferred for tax purposes, the 2022 Revised Implementation Guidance has been applied from the beginning of the fiscal year under review. Please note that since the impact of this change in accounting policy on prior periods is minimal, no retroactive application or modification of retained earnings, etc., at the beginning of the fiscal year under review has been made. In addition, the impact of this change on consolidated financial statements for the fiscal year under review is minimal.

5. Change to Presentation Methods

(Consolidated statement of income)

“Loss on retirement of non-current assets,” which was included in “Other – net” of “Other expenses” in the previous fiscal year, has been presented separately from the fiscal year under review due to an increase in its quantitative materiality.

“Income taxes for prior periods” presented separately in the previous fiscal year has been included in “Income tax – current” from the fiscal year under review due to a decrease in its quantitative materiality.

(Notes Regarding Income Recognition)

1. Information on the breakdown of income arising from the contracts with customers

Net sales of the Company Group are mainly income arising from the contracts with customers, and the breakdown of the Company Group's reporting segments by region is as follows:

(Millions of yen)

	Reportable Segment					Other (Note 1)	Total
	Mechatronics	Industrial Machinery	Logistics & Construction	Energy & Lifeline	Total		
North America	59,738	18,994	141,151	13,373	233,255	—	233,255
Europe	58,146	28,244	15,090	32,076	133,556	—	133,556
Asia (excluding China)	34,331	33,523	50,159	23,094	141,107	—	141,107
China	28,955	44,358	6,967	1,926	82,205	50	82,255
Other	19,794	5,911	12,976	8,585	47,266	—	47,266
Overseas	200,964	131,029	226,342	79,054	637,389	50	637,439
Japan	70,227	91,593	162,566	98,572	422,958	6,484	429,442
Sales to external customers (Note 2)	271,190	222,623	388,908	177,626	1,060,347	6,533	1,066,881

Notes: 1. The "Other" category represents the business segments not included in the reporting segments, which include the real estate business, the software-related business and other businesses.

2. "Sales to external customers" includes income arising from the contracts with customers and income arising from other sources. Income arising from other sources includes lease-related income and income from the real estate business, but the amount is not material.

2. Information for the basis of understanding income

For the contracts with customers, income is recognized as the amount of consideration to be entitled to in exchange for goods and services when the control over the promised goods and services is transferred to customers.

Income is recognized to the extent where economic benefits are likely to flow into the Company Group and their amount can be measured with certainty, and is measured at fair value of consideration received or receivable, taking into account contractual payment conditions. The transaction price does not include material financial components.

When recognizing income, performance obligations are identified for sales of the Company Group's products, contracts of construction work and provision of services based on the contracts with customers, and income is usually recognized with the performance obligations deemed to be fulfilled at the following point of time:

(1) Income from sales of products

Income from sales of products includes sales of power transmission and control equipment, plastic injection molding machines, and hydraulic excavators, and income is recognized at the stage when the customer obtains the control over such products upon delivery, judging that the performance obligations are fulfilled at such point of time. For products that do not carry an obligation of installation, an alternative treatment of materiality, etc. is applied, and income is recognized upon the time of shipment in cases when the period from the time of shipment until the time that control of the products is transferred to the customer is a typical period.

(2) Income from contracts of construction work and provision of services

Income from contracts of construction work primarily includes construction and manufacture of energy plant equipment, material handling systems, and ships. Income is recognized over a

certain period of time as performance obligations are fulfilled, and the progress is estimated for the fulfillment of such performance obligations provided to customers. The cost-to-cost method is primarily used to calculate the progress of construction work. 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. For contracts of construction work with an extremely short construction period, income is recognized when performance obligations are completely fulfilled.

3. Information to understand the amount of income for the fiscal year under review, next fiscal year and beyond

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

The balances of receivables, contract assets and liabilities arising from the contracts with customers are as follows:

(Millions of yen)

	Fiscal year under review	
	Balance at beginning of period	Balance at end of period
Receivables arising from the contracts with customers		
Notes receivable	26,062	21,911
Accounts receivable	232,172	248,173
Total	258,235	270,084
Contract assets	49,189	43,577
Contract liabilities	36,351	35,098

Among the beginning balance of contract liabilities for the fiscal year under review, income of ¥27,487 million was recognized during the fiscal year under review.

For the fiscal year under review, no income recognized from the performance obligations fulfilled (or partly fulfilled) during the past periods is material.

Contract assets are concerning the consideration for works that have been completed but not yet billed as of the end of the fiscal year under review.

Contract assets are reclassified to receivables when the right to payment becomes unconditional.

Contract liabilities mainly concern advances received on contracts from customers.

(2) Transaction prices allocated to the remaining performance obligations

At the end of the fiscal year under review, the total amount of transaction prices allocated to the remaining performance obligations was ¥89,018 million. The transaction prices allocated to such performance obligations mainly belong to the business of individually ordered products, while about 90% of them are transactions for the contract of construction work whose performance obligation is fulfilled within three years and about 10% are to be fulfilled over a long period of over three years.

(Notes Regarding Accounting Estimates)

1. Estimate of total construction cost for the performance obligations to be fulfilled over a certain period of time

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

Construction revenue (sales) for the performance obligations to be fulfilled over a certain period of time as part of the net sales of ¥1,066,881 million on the consolidated statement of income was as follows.

Construction revenue (sales) for the performance of obligations to be fulfilled over a certain period of time: ¥141,073 million

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

In each segment of “Industrial Machinery,” “Logistics & Construction” and “Energy & Lifeline,” the Company Group estimates the progress in the fulfillment of performance obligations for those to be fulfilled over a certain period of time, and recognizes income over a certain period of time based on such progress. For the method of estimating the progress in the fulfillment of performance obligations, we primarily use 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. While an estimate of the total construction cost is based on the construction work operating budget, there are uncertainties at the time of preparation and revision of the construction work operating budget, as the contents of construction work differ considerably for each contract. Specifically, an estimate of the total construction cost is materially affected by the judgement of the Company Group, including the judgement on whether or not all work contents necessary for the conclusion of construction agreements are identified and their estimated costs are included in the construction work operating budget, and on whether or not the construction work operating budget appropriately reflects in a timely manner more-than-initially-estimated costs due to changes in the economic situation that could not be expected initially, or confusion, etc. of design and manufacturing process as well as the payment of penalties, etc. due to problems in the performance or delivery of products. 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 aforementioned events affecting judgments by the Company Group, etc., it could affect the amount to be recorded as construction revenue (sales) for the following fiscal year.

2. Impairment of fixed assets

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

The consolidated balance sheet as of the end of the fiscal year under review records property, plant and equipment of ¥373,237 million, intangible fixed assets of ¥33,083 million, and investments and other assets of ¥127,425 million, of which the amount of Persimmon Technologies Corporation is as follows.

Account item	Balance at end of fiscal year under review (Millions of yen)
Property, plant and equipment	4,576
Intangible fixed assets	463
Investments and other assets	5,772

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

In the fiscal year under review, Persimmon Technologies Corporation continuously posted negative operating income as net sales failed to reach projected levels partly due to the stagnant semiconductor market, amid persisting expansion in its business scale. As there were signs of impairment in the company’s asset group, we assessed the necessity of recognizing an impairment loss.

As a result of the assessment of the necessity of recognizing an impairment loss, it was determined that no impairment loss should be recognized because the net sale value exceeded the book value of the asset group.

The net sale value is based on the evaluation by an external expert real estate appraiser, and key assumptions in real estate appraisals include the level of rental rates in the real estate market and inflation rates. Therefore, if the net sale value decreases due to factors such as future trends in the real estate market, it may be necessary to recognize an impairment loss in the consolidated financial statements for the following fiscal year.

(Notes to Consolidated Balance Sheet)

1. Assets Pledged and Liabilities Subject to the Pledge

(1) Assets pledged

	(Millions of yen)
Buildings and structures	873
Investment Securities	5
<u>Total</u>	<u>878</u>

(2) Liabilities subject to the pledge

	(Millions of yen)
Long-term debt due within one year	77
Long-term debt	77
<u>Total</u>	<u>155</u>

2. **Accumulated Depreciation of Property, Plant and Equipment:** ¥432,242 million

3. Contingent Obligations, etc.

(1) Guarantee obligations

With regard to borrowings, etc. of companies other than consolidated subsidiaries from financial institutions, etc., the Company guarantees the following.

		(Millions of yen)
Sumitomo Mitsui Finance & Leasing Company Limited	(Lease contract-related guarantee for purchase)	2,225
Diamond Construction Equipment Corp.	(Lease contract-related guarantee for purchase)	640
NTT TC Leasing Co., Ltd.	(Lease contract-related guarantee for purchase)	633
Mizuho Leasing Company, Limited	(Lease contract-related guarantee for purchase)	323
ITOCHU TC Construction Machinery Co., Ltd.	(Lease contract-related guarantee for purchase)	41
Others (7 lenders)	(Lease contract-related guarantee for purchase)	107
<u>Total</u>		<u>3,969</u>

The above figures include guarantee obligations in foreign currencies of 5 million Chinese yuan (¥114 million), and 2 million Thai baht (¥10 million).

(2) Repurchase obligation due to the liquidation of notes receivable: ¥3,657 million

4. Notes Maturing at the Fiscal Year End

Notes maturing at the fiscal year end are settled on the clearing date.

However, since the last day of the fiscal year under review was a bank holiday, the following notes maturing at the fiscal year end are included in the balance at the end of the fiscal year under review.

	(Millions of yen)
Notes receivable	90
Notes payable	397

5. 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:

¥(15,831) million

(Notes to Consolidated Statement of Income)

1. Business restructuring expenses

The estimated amounts of extra retirement payments and other expenses incurred in connection with the restructuring of consolidated subsidiaries are recorded.

2. Impairment Losses

(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 assets	Yokosuka-shi, Kanagawa	Machinery, equipment, etc.	904
Business assets	Kurashiki-shi, Okayama	Machinery, equipment, etc.	151

(2) Reason for recognizing impairment losses

Impairment losses were recognized because it was not expected to recover their investment because of a decline in profitability, etc.

(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, applying zero to assets that are not likely to be used in the future and difficult to sell.

The value in use is zero because future cash flows are expected to be negative.

(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	2,725,562	80,158	81,638	2,724,082
Total	2,725,562	80,158	81,638	2,724,082

Notes: 1. The number of shares of treasury stock of common stock includes the Company's shares held in the trust account (66,000 shares as of the beginning of the fiscal year under review; 135,900 shares as of the end of the fiscal year under review) related to the board benefit trust which was established for the stock-based remuneration system for Directors, etc.

2. The increase of 80,158 shares in treasury stock of common stock represents an increase of 75,700 shares due to the board benefit trust and an increase of 4,458 shares due to the buyback requests for odd-lot shares.

3. The decrease of 81,638 shares in treasury stock of common stock represents a decrease of 138 shares due to the sale of odd-lot shares and a decrease of 81,500 shares due to the board benefit trust.

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 March 28, 2025	Common stock	7,816	65	December 31, 2024	March 31, 2025
Meeting of Board of Directors held on August 5, 2025	Common stock	7,215	60	June 30, 2025	September 1, 2025
Total		15,031	—		

Notes: 1. The total dividend amount resolved at the Ordinary General Meeting of Shareholders held on March 28, 2025 includes ¥4 million of dividends paid to the trust account related to the board benefit trust which was established for the stock-based remuneration system for Directors, etc.

2. The total dividend amount resolved at the Meeting of Board of Directors held on August 5, 2025 includes ¥4 million of dividends paid to the trust account related to the board benefit trust which was established for the stock-based remuneration system for Directors, etc.

(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 March 27, 2026.

- 1) Total amount of dividends ¥7,821 million
- 2) Dividend per share ¥65.00
- 3) Record date December 31, 2025
- 4) Effective date March 30, 2026 (Planned)

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

Note: The total dividend amount resolved at the Ordinary General Meeting of Shareholders to be held on March 27, 2026 includes ¥9 million of dividends paid to the trust account related to the board benefit trust which was established for the stock-based remuneration system for Directors, etc.

(Notes Regarding Financial Instruments)

1. Matters Related to Financial Instruments

(1) Policy for handling financial instruments

The Company Group is a comprehensive 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) 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.

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 "(6) Method of important hedge accounting" stated in "3. Matters Related to Accounting Policies" in the "Notes Regarding Important Basic Matters for Preparing Consolidated Financial Statements" in the "Notes to Consolidated Financial Statements."

(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 in order to reduce redemption risk.

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

In compliance with the internal 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. At those major consolidated subsidiaries that also hold trade receivables and payables in foreign currencies, in conformity with the internal 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. 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 the end of the fiscal year under review are as shown below. Moreover, notes are omitted for cash, and also omitted for deposits, notes and accounts receivable, notes and accounts payable, and short-term bank loans whose fair market value is close to their book value because they are settled in a short period of time.

(Millions of yen)

	Amount on the Consolidated Balance Sheet	Fair Market Value	Difference
(1) Investment Securities	15,767	15,767	—
(2) Bonds Payable	60,000	60,597	597
(3) Long-term Debt	80,821	81,245	424
(4) Derivatives*	(5,778)	(5,894)	(116)

* Net receivables and payables arising from derivatives are presented on a net basis, and value of a net payable after totaling of receivables and payables is shown in parentheses.

Notes:

1. Description of valuation techniques and inputs used for the calculation of fair market value

Fair market value of financial instruments is classified into the following three levels, according to the observability and materiality of inputs for the calculation of fair market value:

Level 1 fair market value: Fair market value calculated using the market prices of assets or liabilities eligible for the calculation of such fair market value formulated in active markets, among inputs for the calculation of observable fair market value

Level 2 fair market value: Fair market value calculated using inputs other than those for Level 1, among inputs for the calculation of observable fair market value

Level 3 fair market value: Fair market value calculated using inputs for the calculation of unobservable fair market value

If using more than one input that has a material impact on the calculation of fair market value, the fair market value is classified into the lowest level of priority in the calculation of fair market value to which such inputs belong, respectively.

Investment securities

Market price is used for the valuation of listed stocks. Since listed stocks are traded in active markets, their fair market value is classified into Level 1 fair market value.

Bonds payable

The fair market value of bonds payable issued by the Company is calculated using discounted cash flow model based on the total of principal and interest and an interest rate that reflects the bonds payable's remaining period and the credit risk, and is classified as the level 2 fair market value.

Long-term debt

The fair market value of long-term debt is calculated by the discounted present value method based on the total of principal and interest, using an interest rate that reflects the long-term debt's remaining period and the credit risk. The fair market value thus calculated is classified into Level 2 fair market value.

Derivatives

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

2. Stocks, etc. without fair market value (stock of non-consolidated subsidiaries and affiliates (¥4,789 million on the Consolidated Balance Sheet), unlisted stocks (¥2,812 million on the same) and securities invested in non-consolidated subsidiaries and affiliates (¥5 million on the same)) are not included in "(1) Investment Securities."

(Notes Regarding Amounts Per Share)

1. Net assets per share ¥5,671.98
2. Net income per share ¥257.42

Note: The Company has introduced a stock-based remuneration system using a trust for Directors, etc. In the calculation of net assets per share, 135,900 of the Company's shares held in the trust account are included in treasury stock deducted from the total number of issued shares at the fiscal year end. Furthermore, 92,083 of the Company's shares held in the trust account are included in treasury stock that is deducted in the calculation of the average number of shares for the fiscal year, which forms the basis for calculation of net income per share.

(Notes to Important Subsequent Events)

(Acquisition of Treasury Stock)

At the Board of Directors meeting held on February 10, 2026, the Company resolved to establish a treasury stock repurchase program totaling ¥10,000 million.

1. Reasons for repurchase of treasury stock

The Company will repurchase treasury stock to enhance shareholder returns and improve capital efficiency in accordance with the capital policy outlined in the Medium-Term Management Plan 2026.

2. Details of repurchase

- i. Type of shares subject to repurchase: Common stock of the Company
- ii. Total number of shares that may be repurchased: 4,000,000 shares (upper limit)
Ratio to total number of issued shares (excluding treasury stock): 3.32%
- iii. Total amount for repurchase of shares: ¥10.0 billion (upper limit)
- iv. Period of repurchase: March 2, 2026 to November 30, 2026
- v. Method of repurchase: Purchases will be made on the Tokyo Stock Exchange

(Transfer of Shares of a Consolidated Subsidiary)

At the Board of Directors meeting held on February 10, 2026, the Company resolved to transfer all shares of Shin Nippon Machinery Co., Ltd. (hereinafter, “SNM”), a consolidated subsidiary of the Company, to Torishima Pump Mfg. Co., Ltd. On the same date, a share transfer agreement was executed. As a result of this share transfer, SNM and its wholly owned subsidiary Shin Nichizo Engineering Co., Ltd. will no longer be subsidiaries of the Company.

1. Reasons for the transfer

The Company has been working to improve capital efficiency and strengthen the mobility of growth investment. To achieve this, we are further accelerating our “selection and concentration” approach to advance portfolio reform, which is a key strategy in the Medium-Term Management Plan 2026. SNM possesses advanced technologies and a strong track record in steam turbines, pumps, and after-sales services, for which it has earned a high reputation in Japan and overseas, particularly in the energy and petrochemical sectors. SNM’s equipment, human resources, and service platform are highly valuable assets. On the other hand, the opportunities for coordination between segments and the business integration we had assumed are limited within the Group. Therefore, we have concluded that, in order to fully realize SNM’s potential, it would be more effective for the company to operate under a comprehensive manufacturer of fluid rotating equipment—one with strengths in social-infrastructure applications such as high-temperature, high-pressure, and large-flow-rate pumps, and with an established global sales and service network. We have determined that combining with Torishima Pump Mfg. Co., Ltd.—given its extensive customer base and operational expertise in the pump business—represents the best option for strengthening SNM’s competitiveness and maximizing its value by leveraging the complementary technologies and product portfolios of both companies. Through this transfer, the Company will further advance its selection-and-concentration strategy, improve capital efficiency, and accelerate growth investments, thereby sustainably enhancing shareholder value.

2. Overview of the subsidiaries to be transferred

Name	Description of business
(1) Shin Nippon Machinery Co., Ltd.	Manufacturing and sales business for steam turbines and process pumps
(2) Shin Nichizo Engineering Co., Ltd.	Service business for steam turbines and process pumps in Japan

3. Overview of the transferee

Name	Description of business
Torishima Pump Mfg. Co., Ltd.	High-tech pump business, project business, service business, and new energy/environment business

4. Share transfer closing date

July 1, 2026 (Planned)

5. Number of shares to be transferred and ownership status before and after

(1) Number of shares owned before the transfer	17,397,200 shares (ratio of voting rights held: 100.0%)
(2) Number of shares to be transferred	17,397,200 shares
(3) Transfer price	Shin Nippon Machinery Co., Ltd.: ¥14.9 billion (estimated)
(4) Number of shares owned after the transfer	0 shares (ratio of voting rights held: 0.0%)

6. Future Outlook

In connection with this share transfer, the Company expects to record a loss on sales of stock of subsidiaries and affiliates of approximately ¥2.5 billion in the fiscal year ending December 31, 2026.

(Other Notes)

Treatment of Fractional Amounts

Stated amounts are rounded off for fractions less than units.

Statement of Changes in Net Assets

(From January 1, 2025 to December 31, 2025)

(Millions of yen)

	Shareholder's Equity										
	Common Stock	Capital Surplus			Retained Earnings					Treasury stock	Total Share- holders' Equity
		Capital Reserve	Other Capital Surplus	Total Capital Surplus	Legal Reserve of Retained Earnings	Other Retained Earnings			Total Retained Earnings		
						Open Innovation Promotion Funds	Retained Earnings Brought Forward	Total Other Retained Earnings			
Balance at January 1, 2025	30,872	27,073	13	27,086	6,295	—	73,021	73,021	79,316	(11,207)	126,066
Changes in the period											
Dividends from surplus							(15,031)	(15,031)	(15,031)		(15,031)
Net income							32,943	32,943	32,943		32,943
Acquisition of treasury stock										(14)	(14)
Disposal of treasury stock			(13)	(13)			(46)	(46)	(46)	76	18
Reversal of land revaluation difference							325	325	325		325
Provision for open innovation promotion funds						100	(100)	—	—		—
Changes in items other than shareholders' equity in the period (net)											
Total changes in the period	—	—	(13)	(13)	—	100	18,092	18,192	18,192	62	18,241
Balance at December 31, 2025	30,872	27,073	—	27,073	6,295	100	91,113	91,213	97,508	(11,146)	144,307

	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	
Balance at January 1, 2025	7,776	(1,120)	40,307	46,963	173,029
Changes in the period					
Dividends from surplus					(15,031)
Net income					32,943
Acquisition of treasury stock					(14)
Disposal of treasury stock					18
Reversal of land revaluation difference					325
Provision for open innovation promotion funds					—
Changes in items other than shareholders' equity in the period (net)	1,031	655	(914)	772	772
Total changes in the period	1,031	655	(914)	772	19,013
Balance at December 31, 2025	8,807	(465)	39,392	47,735	192,041

“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 other than stocks, etc. without fair market value:

At fair market value (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.)

Stocks, etc. without fair market value:

At moving-average cost

(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:

Primarily 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) Provision for bonuses

In order to provide for expenditures for bonuses paid to employees, the burden in the fiscal year under review of the estimated amount of payments is recorded.

(3) 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.

(4) 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.

(5) Provision for loss on guarantees

In preparation for future losses such as those for pertaining to guarantee obligations to subsidiaries and affiliates, we record the estimated burden of losses, taking into account financial conditions, etc. of subsidiaries and affiliates.

(6) 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 Company sells and provides services for power transmission and control equipment, plastic injection molding machines, energy plant equipment, etc. The content of major performance obligations and the ordinary timing for recognizing income in main businesses are as follows.

For sales of products, income is usually recognized at the time of delivery of goods, judging that the performance obligation is mainly fulfilled at the time of delivery of goods when the customer obtains the control over such goods. For products that do not carry an obligation of installation, an alternative treatment of materiality, etc. is applied, and income is recognized upon the time of shipment in cases when the period from the time of shipment until the time that control of the products is transferred to the customer is a typical period. For the execution of construction agreements and provision of services, income is recognized by estimating the progress toward the fulfillment of the performance obligation for the customer, judging that such performance obligation is mainly fulfilled over a certain period of time. The cost-to-cost method is used to

calculate the progress of construction work. 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.

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

Means of hedging

Forward exchange contracts

Interest-rate swaps

Hedged items

Foreign currency receivables, contract assets and loans receivable, 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 internal regulations, 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 three 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. Adoption of the Group Tax Sharing System

The group tax sharing system has been adopted.

8. Change to Accounting Policies

(Application of “Accounting Standards for Corporation Tax, Resident Tax, Business Tax, etc.” etc.)

“Accounting Standards for Corporation Tax, Resident Tax, Business Tax, etc.” (ASBJ Statement No. 27, issued on October 28, 2022; hereinafter referred to as “2022 Revised Accounting Standards”), along with other guidance, have been applied from the beginning of the fiscal year under review.

In connection with the amendment to the accounting classification of corporation taxes, etc., the Company follows the transitional treatments set forth in the proviso to Paragraph 20-3 of the 2022 Revised Accounting Standards. This change in accounting policy has no impact on the consolidated financial statements for the fiscal year under review.

9. Change to Presentation Methods

(Statement of income)

“Loss on retirement of non-current assets,” which was included in “Other – net” of “Other expenses” in the previous fiscal year has been presented separately from the fiscal year under review due to an increase in its quantitative materiality.

“Income taxes for prior periods” presented separately in the previous fiscal year has been included in “Income tax – current” from the fiscal year under review due to a decrease in its quantitative materiality.

(Notes Regarding Income Recognition)

Notes are omitted for the information that is the basis for understanding income as the same information is described in “Notes Regarding Income Recognition” in the “Notes to Consolidated Financial Statements.”

(Notes Regarding Accounting Estimates)

1. Estimate of total construction cost for the performance obligations to be fulfilled over a certain period of time

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

Construction revenue (sales) for the performance obligations to be fulfilled over a certain period of time as part of the net sales of ¥230,163 million on the statement of income for the fiscal year under review is as follows.

Construction revenue (sales) for the performance obligations to be fulfilled over a certain period of time: ¥27,892 million

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

Notes are omitted since the information is described in “Notes Regarding Accounting Estimates” in the “Notes to Consolidated Financial Statements.”

2. Valuation of investments and loans to subsidiaries and affiliates

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

The balance sheet at the end of the fiscal year under review records the following allowance for long-term loans receivable from subsidiaries and affiliates to Persimmon Technologies Corporation and guarantees of its lease contracts.

Account item	Balance at end of period (Millions of yen)
Stock of subsidiaries and affiliates	—
Long-term loans receivable from subsidiaries and affiliates	18,037
(Allowance for doubtful receivables)	(18,037)
Provision for loss on guarantees	3,448

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

Because Persimmon Technologies Corporation is insolvent, an allowance for doubtful receivables has been recorded for the entire amount of loans extended to the company, and a provision for loss on guarantees has been recorded for a portion of the Company’s guarantees of its debt.

As described in “Notes Regarding Accounting Estimates” in the “Notes to Consolidated Financial Statements,” as there were signs of impairment in the company’s fixed assets in the fiscal year under review, as a result of the assessment of the necessity of recognizing an impairment loss, it was determined that no impairment loss should be recognized because the net sale value exceeded the book value of the asset group. The net sale value is based on the evaluation by an external expert real estate appraiser, and key assumptions in real estate appraisals include the level of rental rates in the real estate market and inflation rates. Therefore, if the net sale value decreases due to factors such as future trends in the real estate market, an impairment loss may be incurred in the following fiscal year, which could significantly impact the amounts of the Company’s provisions.

(Notes to Balance Sheet)

1. Accumulated Depreciation of Property, Plant and Equipment: ¥145,751 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 Heavy Industries (USA), Inc.	37,301
Sumitomo SHI FW Energie B.V.	16,607
Persimmon Technologies Corporation	11,716
Sumitomo Construction Machinery Co., Ltd.	6,681
Sumitomo (SHI) Demag Plastics Machinery GmbH	4,596
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.	2,953
SHI Manufacturing and Services (Philippines), Inc.	1,800
Sumitomo Construction Machinery Sales Co., Ltd.	1,300
Others (7 companies)	1,600
Total	84,553

The above figures include guarantee obligations in foreign currencies of 314 million U.S. dollars (¥49,102 million), 103 million Euro (¥18,942 million), 36 million Polish zloty (¥1,572 million), 151 million Thai baht (¥748 million), and 5 million Brazilian real (¥141 million).

(2) Repurchase obligation due to the liquidation of notes receivable: ¥1,958 million

3. Money Claims against and Debt Owed to Affiliated Companies

Short-term receivables due from affiliated companies	¥64,963 million
Short-term payables due to affiliated companies	¥64,061 million
Long-term payables due to affiliated companies	¥29,251 million

4. Notes Maturing at the Fiscal Year End

Notes maturing at the fiscal year end are settled on the clearing date.

However, since the last day of the fiscal year under review was a bank holiday, the following notes maturing at the fiscal year end are included in the balance at the end of the fiscal year under review.

Notes receivable	¥5 million
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5. 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: ¥(15,831) 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 Regulations for Corporate Accounting.

(Notes to Statement of Income)

1. Transactions with Affiliated Companies

Sales to affiliated companies	¥58,244 million
Purchases from affiliated companies	¥75,787 million
Non-operating transactions with affiliated companies	¥36,611 million

2. Provision of Allowance for Doubtful Receivables for Subsidiaries and Affiliates

This is for receivables owed to the Company's consolidated subsidiaries.

3. Impairment Losses

(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 assets	Yokosuka-shi, Kanagawa	Machinery, equipment, etc.	611

(2) Reason for recognizing impairment losses

Regarding business assets, impairment losses were recognized because it was not expected to recover their investment due to a decline in profitability, etc.

(3) Asset grouping method

The asset grouping for the Company 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, applying zero to assets that are not likely to be used in the future and difficult to sell.

The value in use is zero as future cash flows are expected to be negative.

(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 2,724,082 shares

Note: The number of shares of treasury stock as of the end of the fiscal year under review includes the Company's shares held in the trust account (66,000 shares as of the beginning of the fiscal year under review; 135,900 shares as of the end of the fiscal year under review) related to the board benefit trust which was established for the stock-based remuneration system for Directors, etc.

(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 a loss on valuation of inventories, etc. The principal reason for the accrual of deferred tax liabilities is land revaluation.

In addition, the Company accounts for and discloses corporation taxes, local corporation taxes and the related tax effect accounting in accordance with the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (Practical Solution No. 42, August 12, 2021).

Following enactment of the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 13 of 2025) by the Diet on March 31, 2025, the “Special Corporate Tax for Defense” will be imposed effective from fiscal years beginning on or after April 1, 2026. Accordingly, the statutory effective tax rate used for calculating deferred tax assets and deferred tax liabilities associated with temporary differences, etc. expected to be reversed in fiscal years beginning on or after January 1, 2027 has been changed from 30.62% to 31.52%.

(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)
		Directly held	Indirectly held					
Subsidiary	Sumitomo Heavy Industries (USA), Inc.	Directly held	100%	No interlocking officers	Guarantee obligation (Note 1)	37,301	—	—
Subsidiary	Sumitomo SHI FW Energie B.V.	Directly held	100%	Interlocking officers and providing loans	Guarantee obligation (Note 1)	16,607	—	—
					Providing loans (Note 2)	2,157	Long-term loans receivable from subsidiaries and affiliates	10,714
Subsidiary	Persimmon Technologies Corporation	Directly held	100%	Interlocking officers and providing loans	Guarantee obligation (Note 3)	11,716	—	—
					Providing loans (Note 2)	5,385	Long-term loans receivable from subsidiaries and affiliates (Note 4)	18,037
Subsidiary	Sumitomo Construction Machinery Co., Ltd.	Directly held	100%	Interlocking officers	Guarantee obligation (Note 1)	6,681	—	—

Notes: 1. With regard to borrowings from banks, etc., the Company provides guarantee obligations.

2. For providing loans, the interest rate is reasonably determined based on market interest rates. Transactions amounts are presented as net amounts.

3. The Company provides guarantee obligations for lease contracts. The Company has recorded a provision for loss on guarantees of ¥3,448 million for these guarantees.

4. The Company has recorded an allowance for doubtful receivables of ¥18,037 million with respect to long-term loans receivable from subsidiaries and affiliates provided to this company.

(Notes Regarding Amounts Per Share)

1. Net assets per share ¥1,597.93
2. Net income per share ¥274.11

Note: From the fiscal year under review, the Company has introduced a stock-based remuneration system using a trust for Directors, etc. In the calculation of net assets per share, 135,900 of the Company's shares held in the trust account are included in treasury stock deducted from the total number of issued shares at the fiscal year end. Furthermore, 92,083 of the Company's shares held in the trust account are included in treasury stock that is deducted in the calculation of the average number of shares for the fiscal year, which forms the basis for calculation of net income per share.

(Notes to Important Subsequent Events)

(Acquisition of Treasury Stock)

At the Board of Directors meeting held on February 10, 2026, the Company resolved to establish a treasury stock repurchase program totaling ¥10,000 million.

1. Reasons for repurchase of treasury stock

The Company will repurchase treasury stock to enhance shareholder returns and improve capital efficiency in accordance with the capital policy outlined in the Medium-Term Management Plan 2026.

2. Details of repurchase

- i. Type of shares subject to repurchase: Common stock of the Company
- ii. Total number of shares that may be repurchased: 4,000,000 shares (upper limit)
Ratio to total number of issued shares (excluding treasury stock): 3.32%
- iii. Total amount for repurchase of shares: ¥10.0 billion (upper limit)
- iv. Period of repurchase: March 2, 2026 to November 30, 2026
- v. Method of repurchase: Purchases will be made on the Tokyo Stock Exchange

(Transfer of Shares of a Subsidiary)

At the Board of Directors meeting held on February 10, 2026, the Company resolved to transfer all shares of Shin Nippon Machinery Co., Ltd. (hereinafter, "SNM"), a subsidiary of the Company, to Torishima Pump Mfg. Co., Ltd. On the same date, a share transfer agreement was executed.

1. Reasons for the transfer

The Company has been working to improve capital efficiency and strengthen the mobility of growth investment. To achieve this, we are further accelerating our "selection and concentration" approach to advance portfolio reform, which is a key strategy in the Medium-Term Management Plan 2026. SNM possesses advanced technologies and a strong track record in steam turbines, pumps, and after-sales services, for which it has earned a high reputation in Japan and overseas, particularly in the energy and petrochemical sectors. SNM's equipment, human resources, and service platform are highly valuable assets. On the other hand, the opportunities for coordination between segments and the business integration we had assumed are limited within the Group. Therefore, we have concluded that, in order to fully realize SNM's potential, it would be more effective for the company to operate under a comprehensive manufacturer of fluid rotating equipment—one with strengths in social-infrastructure applications such as high-temperature, high-pressure, and large-flow-rate pumps, and with an established global sales and service network. We have determined that combining with Torishima Pump Mfg. Co., Ltd.—given its extensive customer base and operational expertise in the pump business—represents the best option for strengthening SNM's competitiveness and maximizing its value by leveraging the complementary technologies and product portfolios of both companies. Through this transfer, the Company will further advance its selection-and-concentration strategy, improve capital efficiency, and accelerate growth investments, thereby sustainably enhancing shareholder value.

2. Overview of the subsidiary to be transferred

Name	Description of business
Shin Nippon Machinery Co., Ltd.	Manufacturing and sales business for steam turbines and process pumps

3. Overview of the transferee

Name	Description of business
Torishima Pump Mfg. Co., Ltd.	High-tech pump business, project business, service business, and new energy/environment business

4. Share transfer closing date

July 1, 2026 (Planned)

5. Number of shares to be transferred and ownership status before and after

(1) Number of shares owned before the transfer	17,397,200 shares (ratio of voting rights held: 100.0%)
(2) Number of shares to be transferred	17,397,200 shares
(3) Transfer price	Shin Nippon Machinery Co., Ltd.: ¥14.9 billion (estimated)
(4) Number of shares owned after the transfer	0 shares (ratio of voting rights held: 0.0%)

6. Future Outlook

In connection with this share transfer, the Company expects to record a gain on sales of stock of subsidiaries and affiliates of approximately ¥9.0 billion in the fiscal year ending December 31, 2026.

(Other Notes)

Treatment of Fractional Amounts

Stated amounts are rounded off for fractions less than units.