

Consolidated Financial Statements

Year ended March 31, 2022

 Sumitomo Electric Industries, Ltd.

Five-Year Financial Data and Indexes

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen					Thousands of U.S. dollars
	FY2021	FY2020	FY2019 ⁷	FY2018	FY2017 ⁶	FY2021
	For the years ended Mar. 31, 2022	Mar. 31, 2021	Mar. 31, 2020	Mar. 31, 2019	Mar. 31, 2018	Mar. 31, 2022
For the Year:						
Net sales	¥3,367,863	¥2,918,580	¥3,107,027	¥3,177,985	¥3,082,247	\$27,517,469
Cost of sales	2,793,919	2,387,237	2,553,902	2,593,363	2,507,434	22,828,001
Selling, general and administrative expenses	451,749	417,417	425,909	418,362	401,674	3,691,061
Operating income	122,195	113,926	127,216	166,260	173,139	998,407
Profit before income taxes	159,921	110,340	133,198	181,388	193,337	1,306,651
Profit attributable to owners of the parent	96,306	56,344	72,720	118,063	120,328	786,878
Capital expenditures ¹¹	189,719	172,246	208,834	190,314	171,110	1,550,118
Depreciation and amortization	180,508	168,040	163,581	148,916	146,098	1,474,859
R&D expenses	123,060	118,820	125,449	129,627	117,735	1,005,474
At Year-End:						
Total assets	3,807,390	3,381,914	3,100,260	3,053,263	2,999,903	31,108,669
Total interest-bearing liabilities	859,794	685,087	636,262	540,745	492,567	7,025,035
Total net assets ²	2,052,938	1,892,506	1,766,647	1,776,313	1,764,086	16,773,740
						U.S. dollars
Per Share Data:						
Profit attributable to owners of the parent ³ :						
Basic	¥ 123.49	¥ 72.25	¥ 93.24	¥ 151.38	¥ 154.29	\$ 1.009
Diluted	—	—	—	—	152.88	—
Cash dividends	50.00	32.00	40.00	48.00	46.00	0.409
Owner's equity ⁴	2,269.31	2,088.51	1,946.93	1,988.58	1,973.95	18.542
Weighted average number of shares outstanding (in thousands)	779,884	779,893	779,893	779,897	779,888	
Number of employees (at year-end)	281,075	286,784	283,910	272,796	255,133	
Average number of temporary employees	(48,275)	(38,227)	(37,065)	(40,134)	(38,136)	
Financial Indexes:						
Operating income / net sales (%)	3.6	3.9	4.1	5.2	5.6	
Profit attributable to owners of the parent / net sales (%)	2.9	1.9	2.3	3.7	3.9	
Operating income / invested assets ⁵ (ROIC) (%)	4.5	4.6	5.4	7.3	7.9	
Return on owner's equity (%)	5.7	3.6	4.7	7.6	8.1	
Owner's equity ratio (%)	46.5	48.2	49.0	50.8	51.3	
Current ratio (times)	1.6	1.7	1.7	1.7	1.7	
R&D expenses / net sales (%)	3.7	4.1	4.0	4.1	3.8	

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥122.39 to U.S. \$1.00, the approximate exchange rate prevailing on March 31, 2022.

¹¹ Capital expenditures are recorded as property, plant and equipment.

² See Note 9.

³ From the year ended March 31, 2019 to the year ended March 31, 2022, there were no potentially dilutive common shares.

⁴ Owner's equity is the sum of total shareholders' equity and total accumulated other comprehensive income.

⁵ Invested assets = total assets - interest-free liabilities

⁶ The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) has been adopted from the beginning of the fiscal year ended March 31, 2019. The financial data and indexes for the year ended March 31, 2018 have been adjusted retrospectively to conform to this accounting standard.

⁷ The U.S. consolidated subsidiaries have adopted IFRS to replace U.S. GAAP from the beginning of the fiscal year ended March 31, 2021. The financial data and indexes for the year ended March 31, 2020 have been adjusted retrospectively to reflect the changes in accounting policy.

Management's Discussion and Analysis

Business Conditions in FY2021

With respect to the world economy, the economy in various regions, including Japan, Europe, America, and other Asian countries, recovered moderately with the widespread use of vaccines against COVID-19 during this fiscal year. However, due to the expansion of people infected with variant strains of the virus, measures to restrict economic activity were taken intermittently in various countries. In addition, the global semiconductor supply shortage, soaring material prices, and logistics stagnation have become more serious. Moreover, since February this year, the situation in Ukraine has been tense. Due to such factors mentioned above, the outlook has continued to be uncertain.

Review of Operations in FY2021

The business circumstances of the Sumitomo Electric Group, were challenging due to soaring material prices, logistics cost increases mainly caused by container shortages and harbor congestion, in addition to a decrease in the production of automobiles caused by a shortage of semiconductors and other components. In this environment, we worked to thoroughly reduce costs and maintain our supply chain.

As a result, regarding the consolidated financial results for this fiscal year, net sales were ¥3,367,863 million (preceding fiscal year: ¥2,918,580 million; +15.4%). Operating income was ¥122,195 million (preceding fiscal year: ¥113,926 million; +7.3%), with an operating margin of 3.6% (preceding fiscal year: 3.9%; -0.3 percentage points).

Profit attributable to owners of the parent was ¥96,306 million (preceding fiscal year: ¥56,344 million; +70.9%). In this way, income and profits increased from the preceding fiscal year, on which the impact of COVID-19 was enormous.

Segment Information

Automotive:

Due to an increase in the price of copper and the effect of depreciation of the yen, net sales increased by ¥152,153 million (9.5% compared with the preceding fiscal year) to ¥1,754,195 million. Operating income decreased by ¥35,934 million to ¥12,264 million due to soaring material prices and a significant increase in logistics cost caused by global logistics confusion, and also due to a decline in production efficiency caused by a succession of decreases in the production of automobiles resulting from a short supply of semiconductors and other factors. The operating income margin fell by 2.3 percentage points to 0.7%.

Infocommunications:

Net sales increased by ¥14,574 million (6.5% compared with the preceding fiscal year) to ¥239,150 million as a result of expanding sales of products such as optical wiring equipment for data centers, optical fibers for submarine cables, and access network equipment. Operating income decreased by ¥945 million to ¥23,398 million due to a decline in profitability associated with changes in the composition of product classes of optical/electronic devices. The operating income margin fell by 1.0 percentage points to 9.8%.

Electronics:

Net sales increased by ¥39,891 million (15.8% compared with the preceding fiscal year) to ¥292,509 million as a result of an increase in sales by TECHNO ASSOCIE Co., Ltd., in addition to capturing demands for electronic wire products and irradiation tubes. Operating income increased by ¥9,778 million to ¥19,825 million, mainly due to the improvement of profitability associated with an increase in sales of high-performance products of FPCs (flexible printed circuits) for mobile devices. The operating income margin improved by 2.8 percentage points to 6.8%.

Environment and Energy:

Net sales increased by ¥199,234 million (31.4% compared with the preceding fiscal year) to ¥833,425 million, and operating income increased by ¥19,000 million to ¥44,024 million due to the effect of an increase in the price of copper, in addition to the expansion of sales of power cables, flat magnet wires for electric vehicles, etc.; an increase in Sumitomo Densetsu Co., Ltd.'s electric work; and an increase in demand for substation equipment, etc. from Nissin Electric Co., Ltd. The operating income margin improved by 1.4 percentage points to 5.3%. Meanwhile, orders received for plant and installation work came to ¥369,982 million (the order backlog at end of this fiscal year being ¥384,610 million), a rise of ¥28,304 million (8.3%).

Industrial Materials and Others:

Due to an increase in demand for cemented carbide tools, diamond and CBN tools, sintered powder metal parts, prestressed concrete, steel tire cords, etc., net sales increased by ¥25,359 million (8.4% compared with the preceding fiscal year) to ¥327,883 million. Operating income increased by ¥16,364 million to ¥23,024 million, mainly due to the improvement of profitability associated with an increase in the operation rate of factories. The operating income margin improved by 4.8 percentage points to 7.0%.

Cash Flows

Net cash provided by operating activities recorded ¥76,002 million, a decrease by ¥93,654 million compared with the preceding fiscal year, after adjustment of the fluctuation in working capital made in the cash flow generated by business activities of ¥340,429 million, represented by an addition of depreciation and amortization of ¥180,508 million back in profit before income taxes of ¥159,921 million.

Net cash used in investing activities recorded ¥165,447 million, an increase by ¥2,017 million compared with the preceding fiscal year, due to capital expenditure of ¥174,059 million on the purchase of property, plant and equipment.

Free cash flow, represented by net cash used in investing activities offset against net cash provided by operating activities, was negative ¥89,445 million, while free cash flow was positive ¥6,226 million in the preceding fiscal year.

Cash flow from financing activities recorded an increase of ¥82,816 million, while a decrease of ¥13,099 million was recorded in the preceding fiscal year, due to a net increase in loans payable offset against redemption of bonds and payment of dividends.

Year-end balance of cash and cash equivalents stood at ¥255,540 million, a year-on-year increase of ¥4,099 million (1.6%).

Consolidated Balance Sheet
SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2021	FY2020	FY2021
	As of March 31, 2022	March 31, 2021	March 31, 2022
ASSETS			
Current Assets:			
Cash and time deposits (Notes 3 and 4)	¥ 259,581	¥ 253,668	\$ 2,120,933
Trade notes and accounts receivable (Note 4)	784,647	755,258	6,411,038
Contract assets (Note 22)	30,030	—	245,363
Inventories (Note 7)	844,837	606,343	6,902,827
Other current assets	140,152	116,068	1,145,126
Allowance for doubtful receivables	(2,319)	(1,966)	(18,948)
Total current assets	2,056,928	1,729,371	16,806,340
Non-current Assets:			
Property, Plant and Equipment (Note 8):			
Buildings and structures	786,964	748,670	6,429,970
Machinery, equipment and others	2,113,611	1,948,047	17,269,475
Land	98,637	93,806	805,924
Construction in progress	64,054	62,012	523,360
	3,063,266	2,852,535	25,028,728
Accumulated depreciation	(2,036,482)	(1,871,376)	(16,639,284)
Net property, plant and equipment	1,026,784	981,159	8,389,444
Intangible Assets	36,062	36,232	294,648
Investments and Other Assets:			
Investments in unconsolidated subsidiaries and affiliates (Note 4)	299,986	263,222	2,451,066
Investment securities (Notes 4 and 5)	143,910	144,184	1,175,831
Net defined benefit asset (Note 13)	173,434	158,447	1,417,060
Deferred tax assets (Note 12)	32,329	29,519	264,147
Other	38,810	40,869	317,101
Allowance for doubtful receivables	(853)	(1,089)	(6,970)
Total investments and other assets	687,616	635,152	5,618,237
Total non-current assets	1,750,462	1,652,543	14,302,329
Total assets	¥3,807,390	¥3,381,914	\$31,108,669

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2021 As of March 31, 2022	FY2020 March 31, 2021	FY2021 March 31, 2022
LIABILITIES			
Current Liabilities:			
Trade notes and accounts payable (Note 4)	¥ 444,985	¥ 397,439	\$ 3,635,795
Short-term debt (Notes 4 and 8)	482,212	310,695	3,939,962
Commercial papers (Notes 4 and 8)	8,000	14,000	65,365
Current portion of bonds (Notes 4 and 8)	9,996	10,000	81,673
Accrued income taxes	23,113	25,001	188,847
Contract liabilities (Note 22)	46,355	—	378,748
Other current liabilities	245,433	250,926	2,005,335
Total current liabilities	1,260,094	1,008,061	10,295,727
Non-current Liabilities:			
Bonds (Notes 4 and 8)	84,900	94,873	693,684
Long-term debt (Notes 4 and 8)	222,188	205,113	1,815,410
Deferred tax liabilities (Note 12)	65,068	49,998	531,645
Net defined benefit liabilities (Note 13)	46,037	49,589	376,150
Other non-current liabilities	76,165	81,774	622,314
Total non-current liabilities	494,358	481,347	4,039,203
Total liabilities	1,754,452	1,489,408	14,334,929
Contingent Liabilities (Note 14)			
NET ASSETS (Note 9)			
Shareholders' Equity:			
Common stock:			
Authorized—3,000,000 thousand shares in FY2021 and FY2020	99,737	99,737	814,911
Issued—793,941 thousand shares in FY2021 and FY2020			
Capital surplus	170,539	170,875	1,393,406
Retained earnings	1,346,210	1,281,762	10,999,346
Treasury stock, at cost: 14,060 thousand shares in FY2021 and 14,052 thousand shares in FY2020	(20,781)	(20,769)	(169,793)
Total shareholders' equity	1,595,705	1,531,605	13,037,871
Accumulated Other Comprehensive Income:			
Net unrealized holding gains or losses on available-for-sale securities	76,687	74,866	626,579
Deferred gains or losses on hedges	(1,366)	(1,419)	(11,161)
Foreign currency translation adjustments	38,821	(23,659)	317,191
Remeasurements of defined benefit plans	59,941	47,413	489,754
Total accumulated other comprehensive income	174,083	97,201	1,422,363
Non-controlling Interests			
Total net assets	2,052,938	1,892,506	16,773,740
Total liabilities and net assets	¥3,807,390	¥3,381,914	\$31,108,669

Consolidated Statement of Income

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2021	FY2020	FY2021
	For the years ended March 31, 2022	March 31, 2021	March 31, 2022
Net Sales	¥3,367,863	¥2,918,580	\$27,517,469
Cost of Sales	2,793,919	2,387,237	22,828,001
Gross profit	573,944	531,343	4,689,468
Selling, General and Administrative Expenses	451,749	417,417	3,691,061
Operating income	122,195	113,926	998,407
Other Income (Expenses):			
Interest and dividend income	5,080	4,901	41,507
Interest expense	(5,559)	(5,404)	(45,420)
Loss on claims	(2,887)	(3,881)	(23,589)
Share of profit of investments accounted for using the equity method	20,577	12,519	168,126
Gain on sales of property, plant and equipment	4,683	—	38,263
Gain on sales of investment securities	11,194	16,772	91,462
Gain on sale of shares of subsidiaries	3,409	—	27,854
Gain on change in equity (Note 15)	11,516	—	94,093
Gain on return of assets from retirement benefit trust (Note 16)	6,894	—	56,328
Fire insurance recovery gain (Note 17)	2,668	—	21,799
Loss on disposal of property, plant and equipment (Note 18)	(3,790)	(2,980)	(30,967)
Impairment loss on fixed assets (Note 19)	(6,456)	(9,238)	(52,749)
Restructuring expenses (Note 20)	(5,405)	(8,286)	(44,162)
Loss due to fire (Note 21)	(2,952)	—	(24,120)
Other, net	(1,246)	(7,989)	(10,181)
	37,726	(3,586)	308,244
Profit before Income Taxes	159,921	110,340	1,306,651
Income Taxes (Note 12):			
Current	41,294	40,975	337,397
Deferred	8,925	577	72,923
	50,219	41,552	410,319
Profit for the year	109,702	68,788	896,331
Profit Attributable to Non-controlling Interests	(13,396)	(12,444)	(109,453)
Profit Attributable to Owners of the Parent	¥ 96,306	¥ 56,344	\$ 786,878
	Yen		U.S. dollars (Note 1)
Per Share of Common Stock (Note 10):			
Basic	¥123.49	¥72.25	\$1.009
Diluted	—	—	—
Cash dividends	50.00	32.00	0.409

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statement of Comprehensive Income
SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2021	FY2020	FY2021
	For the years ended March 31, 2022	March 31, 2021	March 31, 2022
Profit for the year	¥109,702	¥ 68,788	\$ 896,331
Other Comprehensive Income (Loss) (Note 11) :			
Net unrealized holding gains or losses on available-for-sale securities	1,250	19,578	10,213
Deferred gains or losses on hedges	43	(888)	351
Foreign currency translation adjustments	63,966	34,310	522,641
Remeasurements of defined benefit plans	11,477	48,086	93,774
Share of other comprehensive income (loss) of affiliates accounted for using equity method	15,164	(7,389)	123,899
Total other comprehensive income (loss)	91,900	93,697	750,878
Comprehensive Income (Loss)	¥201,602	¥162,485	\$1,647,210
Comprehensive income (loss) attributable to:			
Owners of the parent	173,188	136,602	1,415,050
Non-controlling interests	28,414	25,883	232,159

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statement of Changes in Net Assets
SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen									
	Shareholders' Equity				Accumulated Other Comprehensive Income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets (Note 9)
Balance at Beginning of FY2020	¥99,737	¥170,881	¥1,251,595	¥(20,759)	¥57,781	¥ (493)	¥(42,327)	¥ 1,986	¥248,246	¥1,766,647
Cumulative effects of changes in accounting policy			(1,102)						(863)	(1,965)
Restated Balance at Beginning of FY 2020	99,737	170,881	1,250,493	(20,759)	57,781	(493)	(42,327)	1,986	247,383	1,764,682
Cash dividends			(24,963)							(24,963)
Profit attributable to owners of the parent for the year			56,344							56,344
Purchases of treasury stock				(10)						(10)
Disposal of treasury stock		(0)		0						0
Increase by merger										—
Effect arising from net change of scope of consolidation			(112)							(112)
Change in ownership interests arising from transactions with non-controlling shareholders		(6)								(6)
Other					17,085	(926)	18,668	45,427	16,317	96,571
Balance at End of FY2020	¥99,737	¥170,875	¥1,281,762	¥(20,769)	¥74,866	¥(1,419)	¥(23,659)	¥47,413	¥263,700	¥1,892,506
Balance at Beginning of FY2021	¥99,737	¥170,875	¥1,281,762	¥(20,769)	¥74,866	¥(1,419)	¥(23,659)	¥47,413	¥263,700	¥1,892,506
Cumulative effects of changes in accounting policy										—
Restated Balance at Beginning of FY 2021	99,737	170,875	1,281,762	(20,769)	74,866	(1,419)	(23,659)	47,413	263,700	1,892,506
Cash dividends			(31,983)							(31,983)
Profit attributable to owners of the parent for the year			96,306							96,306
Purchases of treasury stock				(12)						(12)
Disposal of treasury stock										—
Increase by merger			125							125
Effect arising from net change of scope of consolidation										—
Change in ownership interests arising from transactions with non-controlling shareholders		(336)								(336)
Other					1,821	53	62,480	12,528	19,450	96,332
Balance at End of FY2021	¥99,737	¥170,539	¥1,346,210	¥(20,781)	¥76,687	¥(1,366)	¥ 38,821	¥59,941	¥283,150	¥2,052,938

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Thousands of U.S. dollars (Note 1)

	Shareholders' Equity				Accumulated Other Comprehensive Income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Net unrealized holding gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total net assets (Note 9)
Balance at Beginning of FY2021	\$814,911	\$1,396,152	\$10,472,767	\$(169,695)	\$611,700	\$(11,594)	\$(193,308)	\$387,393	\$2,154,588	\$15,462,914
Cumulative effects of changes in accounting policy										—
Restated Balance at Beginning of FY 2021	814,911	1,396,152	10,472,767	(169,695)	611,700	(11,594)	(193,308)	387,393	2,154,588	15,462,914
Cash dividends			(261,320)							(261,320)
Profit attributable to owners of the parent for the year			786,878							786,878
Purchases of treasury stock				(98)						(98)
Disposal of treasury stock										—
Increase by merger			1,021							1,021
Effect arising from net change of scope of consolidation										—
Change in ownership interests arising from transactions with non-controlling shareholders		(2,745)								(2,745)
Other					14,879	433	510,499	102,361	158,918	787,090
Balance at End of FY2021	\$814,911	\$1,393,406	\$10,999,346	\$(169,793)	\$626,579	\$(11,161)	\$ 317,191	\$489,754	\$2,313,506	\$16,773,740

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statement of Cash Flows
SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2021	FY2020	FY2021
	For the years ended March 31, 2022	March 31, 2021	March 31, 2022
Cash Flows from Operating Activities:			
Profit before income taxes	¥159,921	¥110,340	\$1,306,651
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	180,508	168,040	1,474,859
Impairment loss on fixed assets	8,832	10,051	72,163
Amortization of goodwill	843	1,148	6,888
Interest and dividend income	(5,080)	(4,901)	(41,507)
Interest expense	5,559	5,404	45,420
Share of loss (profit) of investments accounted for using the equity method	(20,577)	(12,519)	(168,126)
Loss (gain) on change in equity	(11,516)	—	(94,093)
Net loss (gain) on sales of property, plant and equipment	(4,518)	(181)	(36,915)
Net loss (gain) on sales of investment securities	(11,193)	(16,733)	(91,454)
Loss on disposal of property, plant and equipment	5,288	2,980	43,206
Loss (gain) on valuation of investment securities	367	28	2,999
Gain on return of assets from retirement benefit trust	(6,894)	—	(56,328)
(Increase) decrease in trade notes and accounts receivable	(27,414)	(66,334)	(223,989)
(Increase) decrease in inventories	(195,098)	(39,377)	(1,594,068)
Increase (decrease) in trade notes and accounts payable	33,272	28,299	271,852
Increase (decrease) in net defined benefit assets and liabilities	(3,310)	(31,562)	(27,045)
Other, net	(8,464)	37,775	(69,156)
Subtotal	100,526	192,458	821,358
Interest and dividend received	13,725	8,630	112,142
Interest paid	(5,389)	(5,336)	(44,031)
Income taxes paid	(32,860)	(26,096)	(268,486)
Net cash provided by operating activities	76,002	169,656	620,982
Cash Flows from Investing Activities:			
Purchase of property, plant and equipment	(174,059)	(166,831)	(1,422,167)
Proceeds from sales of property, plant and equipment	7,666	1,781	62,636
Purchase of investment securities	(90)	(1,707)	(735)
Proceeds from sales of investment securities	15,155	19,675	123,825
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	1,329	—	10,859
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	—	(1,871)	—
Other, net	(15,448)	(14,477)	(126,219)
Net cash used in investing activities	(165,447)	(163,430)	(1,351,802)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	FY2021	FY2020	FY2021
	For the years ended March 31, 2022	March 31, 2021	March 31, 2022
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term debt	134,065	(13,071)	1,095,392
Increase (decrease) in commercial papers	(6,000)	14,000	(49,024)
Proceeds from long-term debt	77,479	81,612	633,050
Redemption of bonds and repayments of long-term debt	(63,945)	(49,303)	(522,469)
Payments for purchase of treasury stock	(12)	(10)	(98)
Cash dividends paid	(31,983)	(24,963)	(261,320)
Dividends paid to non-controlling interests	(11,576)	(8,103)	(94,583)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(53)	(64)	(433)
Other, net	(15,159)	(13,197)	(123,858)
Net cash used in financing activities	82,816	(13,099)	676,657
Effect of Exchange Rate Changes on Cash and Cash Equivalents	10,578	7,849	86,429
Net Increase (Decrease) in Cash and Cash Equivalents	3,949	976	32,266
Cash and Cash Equivalents at Beginning of Year	251,441	249,011	2,054,424
Increase in Cash and Cash Equivalents from Newly Consolidated Subsidiaries	—	769	—
Increase in Cash and Cash Equivalents Resulting from Merger with Unconsolidated Subsidiaries	150	685	1,226
Cash and Cash Equivalents at End of Year (Note 3)	¥255,540	¥251,441	\$2,087,916

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

SUMITOMO ELECTRIC INDUSTRIES, LTD. AND CONSOLIDATED SUBSIDIARIES

March 31, 2022 and 2021

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Sumitomo Electric Industries, Ltd. (the "Company") and most of its domestic consolidated subsidiaries maintain their accounts and records in Japanese yen and in accordance with the provisions set forth in the Japanese Corporate Law (the "Law"), the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas consolidated subsidiaries and some domestic consolidated subsidiaries are prepared in accordance with International Financial Reporting Standards ("IFRS") with adjustments for the following specified five items as applicable.

- a) Goodwill not subject to amortization
- b) Actuarial gains and losses of defined benefit retirement plans recognized outside profit and loss
- c) Capitalized expenditures for research and development activities
- d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
- e) Subsequent changes in fair value of equity instruments presented as other comprehensive income

The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance in Japan as required by the Japanese Financial Instruments and Exchange Act. Some supplementary information included in the statutory consolidated financial statements prepared in Japanese, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2022, which was ¥122.39 to U.S. \$1.00. These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Amounts in the consolidated financial statements and notes are rounded to the nearest million yen. For translations into U.S. dollars, amounts are rounded to the nearest thousand dollars. As a result, totals shown in the consolidated financial statements and notes do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

The consolidated financial statements include the accounts of the Company and all of its significant subsidiaries. All significant intercompany transactions and balances have been eliminated. The difference between the cost of investments in consolidated subsidiaries and the underlying equity at dates of acquisition is treated as goodwill.

Investments in unconsolidated subsidiaries and affiliates are, with minor exceptions, accounted for using the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for using the equity method are stated at cost.

All of the overseas consolidated subsidiaries that have a fiscal year ending other than March 31 have processed additional annual financial closings for the March-end date for consolidation purposes, aiming at a more appropriate disclosure.

b) Translation of Foreign Currencies

All assets and liabilities of overseas subsidiaries and affiliates are translated into Japanese yen at the respective fiscal year-end exchange rates, revenues and expenses are translated at average exchange rates, and shareholders' equity is translated at historical rates. The resulting foreign currency translation adjustments are shown as a separate component of net assets, net of non-controlling interests.

c) Cash and Time Deposits

Cash and time deposits include cash on hand, readily available deposits and deposits with a maturity of one year or less.

d) Securities

The Company and its domestic consolidated subsidiaries classify and account for securities as follows:

Held-to-maturity debt securities are stated at amortized cost. Investments in unconsolidated subsidiaries and affiliates, excluding those accounted for using the equity method, are stated at cost.

Debt and equity securities not classified as above are classified as available-for-sale securities. Available-for-sale securities other than those without market values are stated at the fair value at the fiscal year end, and unrealized holding gains and losses, net of related taxes and non-controlling interests, are reported as a separate component of net assets. Available-for-sale securities without market values are stated at moving average cost. Realized gains and losses on sales of such securities are computed using moving average cost.

Held-to-maturity debt securities and available-for-sale securities maturing within one year from the fiscal year end and highly liquid investment funds are included in securities in current assets. Other securities are included in investments in unconsolidated subsidiaries and affiliates and investment securities.

e) Derivatives and Hedging Transactions

The Company and its consolidated subsidiaries utilize hedge accounting for foreign currency forward exchange contracts hedging foreign currency monetary assets and liabilities, foreign currency swap contracts hedging foreign currency debt and others, interest rate swap contracts hedging interest on debt and others and commodity forward contracts, etc., hedging raw materials.

Derivative financial instruments are stated at fair value. If the derivative financial instruments meet certain hedging criteria, the Company and its consolidated subsidiaries defer the recognition of gains and losses until the hedged transactions occur. Certain foreign currency forward exchange contracts and foreign currency swap contracts meeting certain conditions are accounted for as a part of translating foreign currency monetary assets and liabilities in the consolidated balance sheet. In cases in which an interest rate swap contract is used as a hedge and meets certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Company and its consolidated subsidiaries utilize hedging instruments to hedge risks of future changes in foreign exchange rates, interest rates and prices of raw materials in accordance with respective internal policies and procedures on risk control.

The Company and its consolidated subsidiaries assess the effectiveness of each hedge contract by comparing the total cash flow fluctuation of hedging instruments and hedged items, except in cases in which interest rate swap contracts are used as hedges and meet certain hedging criteria.

f) Allowance for Doubtful Receivables

The allowance for doubtful receivables is provided based upon estimated uncollectible amounts of individually identified doubtful receivables and historical loss experience for other receivables.

g) Inventories

Inventories are stated mainly at the lower of the cost, using the weighted average method, or net realizable value.

h) Property, Plant and Equipment (excluding leases)

The straight-line method is applied.

i) Goodwill

Goodwill is amortized on a straight-line basis over a period within 20 years (mostly 5 or 10 years).

j) Revenue Recognition

The Company and its consolidated subsidiaries recognize the amount expected to be received in exchange for promised goods or services as revenue at the time when the control of the goods or services is transferred to the customer.

The main businesses of the Company and its consolidated subsidiaries are manufacture and sales of products in the following business segments: Automotive, Infocommunications, Electronics, Environment and Energy and Industrial Materials and Others. Revenue for domestic sales transactions is recognized mainly at the time of the acceptance inspection by the customer or arrival at the customer, and revenue for export sales transactions is recognized mainly at the time when risks are transferred to the customer on the basis of trade terms such as incoterms. In the Environment and Energy segment, the Company and its consolidated subsidiaries operate the business of design and construction, such as the installation of products, as well as the manufacture and sales of the products. For construction contracts in which the performance obligation is satisfied over time, revenue is recognized based on the estimated progress towards the satisfaction of the performance obligation. For other contracts, revenue is recognized mainly on the completion of installation as the performance obligation is satisfied at that point in time. Consideration for the transaction is received mainly within one year from the satisfaction of the performance obligation and does not include a significant financing component.

k) Research and Development

Expenses related to research and development activities are charged to expenses as incurred and totaled ¥123,060 million (US\$1,005,474 thousand) and ¥118,820 million for the years ended March 31, 2022 and 2021, respectively.

l) Retirement Benefits

(1) Method of attributing expected benefits to periods of service

When calculating retirement benefit obligations, a benefit formula basis is used for attributing expected retirement benefits to periods of service.

(2) Method for calculating expenses for actuarial gains and losses and past service cost

The amount of defined benefit liabilities (assets) is based on the benefit obligation and fair value of plan assets at the end of the fiscal year.

Past service cost is amortized on a straight-line basis over certain periods within the average remaining service years of employees (mainly 3 years) from the year in which it arises or accounted for as an expense when it arises at some consolidated subsidiaries.

Actuarial gains and losses are amortized on a straight-line basis over certain periods within the average remaining service years of employees (mainly 14 years) from the year following the year in which they arise. At some consolidated subsidiaries, they are accounted for as an expense when they arise.

m) Income Taxes

Income tax expense comprises current and deferred tax.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is accounted for by the asset-liability method. Deferred tax assets and liabilities are determined based on the financial statements carrying amounts and tax bases of assets and liabilities using the effective tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are also recognized for the estimated future tax effects attributable to operating loss carryforwards.

n) Leases

Leased assets related to finance leases which do not transfer ownership of the lease assets and right-of-use assets in consolidated subsidiaries that apply IFRS 16 "Leases" are depreciated by the straight-line method, assuming the lease period as the useful life and no residual value.

o) Consolidated Statement of Cash Flows

In preparing the consolidated statement of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

p) Appropriation of Retained Earnings

The Company and its domestic consolidated subsidiaries record cash dividends as a charge directly to retained earnings in the fiscal year in which the appropriation of retained earnings is approved at the shareholders' meeting.

q) Use of Estimates

In the preparation of these financial statements in accordance with generally accepted accounting principles, the management has made estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Certain amounts based upon accounting estimates and recorded in the financial statements of the current fiscal year may have a significant effect on the following fiscal year ending March 31, 2023 as follows:

(Large construction projects)

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

The amount of sales in the Environment and Energy segment was ¥833,425 million.

(2) Other information that contributes to the understanding of accounting estimates

In the Environment and Energy segment, the Company and its consolidated subsidiaries operate the business of design and construction such as electrical/power supply work, engineering and installation of products as well as the manufacture and sales of the products.

In the recognition of revenue for construction contracts when the performance obligation is satisfied over time, revenue is recognized over time based on the estimated progress towards the satisfaction of that performance obligation. If it is possible to measure the outcome of the performance obligation reasonably, the method used to estimate the progress

towards the satisfaction of the performance obligation is the input method based on the ratio of the actual costs to the total estimated costs. If it is not possible to measure the outcome of the performance obligation reasonably, revenue is recognized only to the extent of actual costs incurred.

When estimating the total construction cost, the Company and its consolidated subsidiaries calculate the appropriate cost after considering the entire content of the work to be performed according to the customer's specifications, and review the estimate in a timely manner in response to any change in the situation after receiving the order. However, regarding long-term construction projects, such as installation projects of high-voltage direct current cables for interconnections among national and regional power electric utilities or remote island power transmission business and submarine power cables for large commercial offshore wind power generation business, if additional costs that exceed the estimate as of the end of the consolidated fiscal year are incurred because of unexpected circumstances such as an extension of the construction period or additional costs due to the influence of the weather or unforeseen changes in the work content, the profit and loss of the next consolidated fiscal year may be affected.

r) Reclassifications and Restatements

Certain prior year amounts are reclassified and restated to conform to the current year presentation. These reclassifications and restatements have had no effect on previously reported results of operations or retained earnings.

The disclosure provisions of the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and the "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021) have been applied since the beginning of the fiscal year ended March 31, 2022. In accordance with the application, in the consolidated balance sheet, "Trade notes and accounts receivable" which was previously presented in "Current assets" is included in "Trade notes and accounts receivable" and "Contract assets," and "Other current liabilities," which was previously presented in "Current liabilities," is included in "Contract liabilities," and "Other current liabilities." No reclassification has been made for the fiscal year ended March 31, 2021 using the new presentation in accordance with the transitional treatment prescribed in Paragraph 89-4 of the Accounting Standard for Revenue Recognition.

In addition, no note regarding the Revenue Recognition for the fiscal year ended March 31, 2021 has been made in accordance with the transitional treatment prescribed in Paragraph 89-4 of the Accounting Standard for Revenue Recognition.

s) Adoption of Consolidated Taxation System

The Company and its wholly owned domestic consolidated subsidiaries have adopted the consolidated taxation system.

t) Application of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System

The Company and its wholly owned domestic consolidated subsidiaries will transition from the consolidated taxation system to the group tax sharing system in the next consolidated fiscal year. However, regarding the transition to the group tax sharing system established by the "Act for Partial Revision of the Income Tax Act etc." (Act No. 8 of 2020) and its related revision of the taxation system for a stand-alone entity, in accordance with the paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020), the amounts of the deferred tax assets and deferred tax liabilities of the Company and its wholly owned domestic consolidated subsidiaries are based on the tax regulation before the revision without applying the paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018).

From the beginning of the next consolidated fiscal year, the Company and its wholly owned domestic consolidated subsidiaries plan to apply the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No. 42, August 12, 2021), which provides for the accounting treatment and disclosure of corporate tax, local corporate tax and tax effect accounting under the group tax sharing system.

u) Changes in Accounting Policy

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company and its consolidated subsidiaries have applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and the revised other related standards since the beginning of the fiscal year ended March 31, 2022 and have applied the new accounting policy set forth by the Accounting Standard for Fair Value Measurement, etc., prospectively in accordance with the transitional treatment provided in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). The application of these standards has had no effect on the consolidated financial statements.

Notes to the breakdown of fair value of financial instruments by level are provided in "Note 4. Financial Instruments," but do not include information for the prior fiscal year in accordance with the transitional treatment provided in Paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020).

v) Standard Issued but Not Yet Adopted

- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021)

(1) Summary

Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31) published on July 4, 2019 was revised on June 17, 2021.

When the guidance was published, it indicated that because a certain period of time may be required to discuss the fair value measurement of the investment trust with the people involved and in order to consider the notes regarding the fair value of investments in the unions or other organizations reported by net amount of equity on the balance sheet, around 1 year was required for discussion and consideration after publication of Accounting Standard for Fair Value Measurement. As a result the guidance has been revised and published on June 17, 2021.

(2) Planned Adoption Date

The Company and its consolidated subsidiaries will adopt the revised guidance from the beginning of the fiscal year ending March 31, 2023.

(3) Impact of Adoption

The impact of the adoption of the revised guidance on the consolidated statement of income has not yet been determined.

3. CASH AND CASH EQUIVALENTS

a) Reconciliations

The reconciliations between cash and time deposits in the consolidated balance sheet and cash and cash equivalents in the consolidated statement of cash flows as of March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2021	FY2020	FY2021
	As of March 31, 2022	March 31, 2021	March 31, 2022
Cash and time deposits	¥259,581	¥253,668	\$2,120,933
Cash equivalents included in securities	—	724	—
Deposits placed with banks with a maturity of over three months	(4,041)	(2,951)	(33,017)
Cash and cash equivalents	¥255,540	¥251,441	\$2,087,916

4. FINANCIAL INSTRUMENTS

a) Qualitative Information on Financial Instruments

(1) Policies for using financial instruments

The Company and its consolidated subsidiaries finance investment in equipment and operating capital for business mainly through borrowings from banks and the issuance of bonds and commercial papers in accordance with their cash flow planning. Temporary excess cash is managed with low risk financial assets. The Company and its consolidated subsidiaries use derivative transactions only to hedge the risk of future changes in cash flows and fair values and not for trading purpose.

(2) Details of financial instruments used and the exposures to risk and how they arise

Trade notes and accounts receivable are exposed to the credit risks of customers. The Company and its consolidated subsidiaries try to reduce and manage the risk according to rules for credit control. Operating receivables denominated in foreign currencies are exposed to foreign exchange risks. The Company and its consolidated subsidiaries hedge the risks using forward exchange contracts, etc., for the net position of foreign currency operating receivables and payables. Securities and investment securities are held mainly to build and strengthen long-term and stable customer relationships and to facilitate business and technical customer partnerships and are exposed to market value fluctuation risks. The Company and its consolidated subsidiaries review the circumstances periodically and evaluate the fair value of the securities and investment securities and the financial condition of the issuers, which are generally business counterparties.

Payment terms of operating payables such as trade notes and accounts payable are mostly less than one year. Operating payables denominated in foreign currencies are exposed to foreign exchange risks, but it is consistently less than the accounts receivable balance denominated in the same foreign currencies. The main purpose of holding debt and issuing bonds and commercial papers is to secure financing for capital expenditure and working capital. The derivative transactions entered into comprise forward exchange contracts to hedge exchange risks of foreign currency debts and credits, interest swap contracts to hedge fluctuation risks of interest rates and fair value for debt and bonds and commodity forward transactions to hedge the risk of price fluctuation for raw materials. The Company and its consolidated subsidiaries manage and control these risks according to management's rules for derivative transactions.

b) Fair Value of Financial Instruments

The carrying amounts and fair values of the financial instruments on the consolidated balance sheet as of March 31, 2022 and 2021 are set forth in the table below. Securities without market values are not included in "Investment securities." Cash is omitted. In addition, time deposits, trade notes and accounts receivable, securities, trade notes and accounts payable, short-term debt and commercial papers are also omitted because their carrying amounts approximate the fair value because of the short maturity.

	Millions of yen						Thousands of U.S. dollars		
	FY2021			FY2020			FY2021		
	As of	March 31, 2022		March 31, 2021			March 31, 2022		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Investment securities ^{*1}	¥332,042	¥489,076	¥157,034	¥303,378	¥482,220	¥178,842	\$2,712,983	\$3,996,045	\$1,283,062
Total assets	332,042	489,076	157,034	303,378	482,220	178,842	2,712,983	3,996,045	1,283,062
Bonds	94,896	94,603	(293)	104,873	104,996	123	775,357	772,963	(2,394)
Long-term debt	222,188	222,743	555	205,113	207,318	2,205	1,815,410	1,819,944	4,534
Total liabilities	317,084	317,346	262	309,986	312,314	2,328	2,590,767	2,592,908	2,141
Derivative transactions ^{*2}	(5,666)	(5,666)	—	(3,911)	(3,911)	—	(46,295)	(46,295)	—

*1 Securities without market values are as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2021	FY2020	FY2021
	as of March 31, 2022	March 31, 2021	March 31, 2022
Unlisted securities (available-for-sale securities)	¥ 6,242	¥ 6,129	\$ 51,001
Unlisted investments in unconsolidated subsidiaries and affiliates	105,612	97,899	862,914

These financial instruments are not included in "Investment securities."

*2 Please refer to Note 6 about Derivative transactions.

c) Breakdown of fair value of financial instruments by level

The fair values of financial instruments are categorized into three levels on the basis of the observability and the materiality of the valuation inputs used in fair value measurements.

Fair values of Level 1: Fair values measured by quoted prices for the assets or liabilities are given in active markets among observable valuation inputs

Fair values of Level 2: Fair values measured by inputs other than inputs included within Level 1 among observable valuation inputs

Fair values of Level 3: Fair values measured by unobservable valuation inputs

When several inputs that have significant impact on the fair value measurement are used and those inputs are categorized into different levels, the fair value is categorized into the lowest priority level for fair value measurement among the levels in which each of the inputs belongs.

(1) Financial instruments recorded at fair value in the consolidated balance sheet

FY2021	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stock	¥132,413	¥ —	¥5,255	¥137,668
Bonds (other)	—	—	—	—
Other	—	—	—	—
Derivative transactions				
Foreign currency forward exchange and currency option contracts	—	1,415	—	1,415
Interest rate and currency swap contracts	—	—	—	—
Commodity forward and swap contracts	—	1,829	—	1,829
Total assets	132,413	3,244	5,255	140,912
Derivative transactions				
Foreign currency forward exchange and currency option contracts	—	6,651	—	6,651
Interest rate and currency swap contracts	—	31	—	31
Commodity forward and swap contracts	—	2,228	—	2,228
Total liabilities	—	8,910	—	8,910

FY2021	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stock	\$1,081,894	\$ —	\$42,937	\$1,124,830
Bonds (other)	—	—	—	—
Other	—	—	—	—
Derivative transactions				
Foreign currency forward exchange and currency option contracts	—	11,561	—	11,561
Interest rate and currency swap contracts	—	—	—	—
Commodity forward and swap contracts	—	14,944	—	14,944
Total assets	1,081,894	26,505	42,937	1,151,336
Derivative transactions				
Foreign currency forward exchange and currency option contracts	—	54,343	—	54,343
Interest rate and currency swap contracts	—	253	—	253
Commodity forward and swap contracts	—	18,204	—	18,204
Total liabilities	—	72,800	—	72,800

(2) Financial instruments other than those recorded at fair value in the consolidated balance sheet

FY2021	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity debt securities				
Government bonds, Local government bonds	¥ —	¥ —	¥—	¥ —
Bonds (other)	—	—	—	—
Investments in subsidiaries and affiliates				
Investments in affiliates	351,408	—	—	351,408
Total assets	351,408	—	—	351,408
Bonds	—	94,603	—	94,603
Long-term debt	—	222,743	—	222,743
Total liabilities	—	317,346	—	317,346

FY2021	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity debt securities				
Government bonds, Local government bonds	\$ —	\$ —	\$—	\$ —
Bonds (other)	—	—	—	—
Investments in subsidiaries and affiliates				
Investments in affiliates	2,871,215	—	—	2,871,215
Total assets	2,871,215	—	—	2,871,215
Bonds	—	772,963	—	772,963
Long-term debt	—	1,819,944	—	1,819,944
Total liabilities	—	2,592,908	—	2,592,908

(3) Explanation of valuation techniques and valuation inputs used in fair value measurements

Investment securities:

The fair value of listed shares is stated at the fair market value in active markets and is categorized as Level 1.

The fair value of unlisted shares is determined using valuation techniques based on market prices of comparable companies and others and is categorized as Level 3. In measuring the fair value of unlisted shares, unobservable inputs, such as valuation multiples, are used.

Derivative transactions:

The fair value of derivative transactions is measured by the discounted present value method using interest rates in consideration of future cash flow based on prices presented by financial institutions and financial brokers or forward exchange rates, etc., and is categorized as Level 2.

Bonds:

The fair value of bonds is stated at the fair market value and is categorized as Level 2.

Long-term debt:

The fair value of long-term debt is estimated based on the present value of future cash flows using appropriate current discount rates and is categorized as Level 2.

5. SECURITIES

The carrying amounts of securities in current assets and investment securities as of March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	As of	FY2021 March 31, 2022	FY2020 March 31, 2021	FY2021 March 31, 2022
Securities in current assets:				
Available-for-sale securities		¥—	¥727	\$—
Held-to-maturity debt securities		—	—	—
		¥—	¥727	\$—
Investment securities:				
Available-for-sale securities		¥143,910	¥144,184	\$1,175,831
Held-to-maturity debt securities		—	—	—
		¥143,910	¥144,184	\$1,175,831

Available-for-sale securities with fair values or quoted market values included in securities in current assets and investment securities as of March 31, 2022 and 2021 were as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
FY2021				
Equity securities	¥21,043	¥116,955	¥(330)	¥137,668
Other	—	—	—	—
	¥21,043	¥116,955	¥(330)	¥137,668
Millions of yen				
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
FY2020				
Equity securities	¥23,167	¥115,117	¥(229)	¥138,055
Other	727	—	—	727
	¥23,894	¥115,117	¥(229)	¥138,782
Thousands of U.S. dollars				
	Acquisition cost	Gross unrealized gains	Gross unrealized losses	Book value (Fair value)
FY2021				
Equity securities	\$171,934	\$955,593	\$(2,696)	\$1,124,830
Other	—	—	—	—
	\$171,934	\$955,593	\$(2,696)	\$1,124,830

Proceeds from sales of available-for-sale securities were ¥11,935 million (US\$97,516 thousand) and ¥19,664 million for the years ended March 31, 2022 and 2021, respectively. The net realized gains were ¥9,713 million (US\$79,361 thousand) and ¥16,760 million, respectively.

Impairment loss on securities during fiscal year 2021 amounted to ¥367 million (US\$2,999 thousand), which consisted of ¥7 million (US\$57 thousand) for available-for-sale securities, ¥99 million (US\$809 thousand) for investments in unconsolidated subsidiaries, and ¥261 million (US\$2,133 thousand) for investments in affiliated companies not accounted for using the equity method. Impairment loss on securities during fiscal year 2020 amounted to ¥28 million, which consisted of ¥28 million for available-for-sale securities.

6. DERIVATIVE TRANSACTIONS

The Company and its consolidated subsidiaries have entered into foreign currency forward exchange contracts, foreign currency option contracts and foreign currency swap contracts to hedge risks of exchange rate fluctuations in connection with foreign currency monetary assets and liabilities, interest rate swap contracts to hedge risks of interest rate fluctuations and commodity forward contracts, etc., to hedge risks of fluctuations in the price of raw materials. The Company and its consolidated subsidiaries use derivative transactions for managing market risk related to recorded assets and liabilities as well as for future commitments and not for speculation or dealing purposes. The Company and its consolidated subsidiaries deal only with highly rated international financial institutions and trading concerns as counterparties to these transactions to minimize credit risk exposure. Derivative transactions are entered into by each operational division, and the processing of the transactions is controlled and reviewed by administrative divisions in accordance with established policies that restrict dealing in derivatives, including limits on authority and amounts.

Additional information for derivative transactions as of and for the years ended March 31, 2022 and 2021 is as follows:

	Millions of yen									
	FY2021					FY2020				
	Contracts for which hedge accounting is not adopted			Contracts for which hedge accounting is adopted [*]		Contracts for which hedge accounting is not adopted			Contracts for which hedge accounting is adopted [*]	
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value
Foreign currency forward exchange and currency option contracts:										
Buy	¥ 40,633	¥ 1,000	¥ 1,000	¥ 46,983	¥ 410	¥ 28,196	¥ 622	¥ 622	¥ 32,164	¥ (13)
Sell	50,564	(2,085)	(2,085)	248,505	(4,561)	80,646	(1,502)	(1,502)	201,763	(3,013)
Interest rate and currency swap contracts	—	—	—	8,500	(31)	622	(28)	(28)	8,500	(85)
Commodity forward contracts (copper, nickel and aluminum):										
Buy	26,265	389	389	9,501	1,020	16,313	(22)	(22)	425	(12)
Sell	29,344	(828)	(828)	28,395	(1,400)	22,962	(449)	(449)	6,438	86
Commodity swap contracts (copper and silver)	—	—	—	2,232	420	—	—	—	1,887	505
	¥146,806	¥(1,524)	¥(1,524)	¥344,116	¥(4,142)	¥148,739	¥(1,379)	¥(1,379)	¥251,177	¥(2,532)

	Thousands of U.S. dollars				
	FY2021				
	Contracts for which hedge accounting is not adopted			Contracts for which hedge accounting is adopted [*]	
	Contracted amount	Fair value	Recognized gain (loss)	Contracted amount	Fair value
Foreign currency forward exchange and currency option contracts:					
Buy	\$ 331,996	\$ 8,171	\$ 8,171	\$ 383,879	\$ 3,350
Sell	413,138	(17,036)	(17,036)	2,030,435	(37,266)
Interest rate and currency swap contracts	—	—	—	69,450	(253)
Commodity forward contracts (copper, nickel and aluminum):					
Buy	214,601	3,178	3,178	77,629	8,334
Sell	239,758	(6,765)	(6,765)	232,004	(11,439)
Commodity swap contracts (copper and silver)	—	—	—	18,237	3,432
	\$1,199,493	\$(12,452)	\$(12,452)	\$2,811,635	\$(33,843)

* Certain foreign currency forward exchange contracts meeting certain hedging criteria, except forecasted transactions, are excluded from the fair value of the table above for the years ended March 31, 2022 and 2021. Certain interest rate swap contracts in the amount of ¥43,153 million (US\$352,586 thousand) and ¥65,192 million for the years ended March 31, 2022 and 2021, respectively, meeting certain hedging criteria are excluded from the table above.

7. INVENTORIES

Inventories as of March 31, 2022 and 2021 consisted of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2021	FY2020	FY2021
	March 31, 2022	March 31, 2021	March 31, 2022
Merchandise and finished goods	¥321,461	¥218,868	\$2,626,530
Work in process	231,359	176,707	1,890,342
Raw materials and supplies	292,017	210,768	2,385,955
	¥844,837	¥606,343	\$6,902,827

8. INTEREST-BEARING LIABILITIES

a) Short-Term Debt and Bonds in Current Liabilities

Short-term debt and bonds in current liabilities at March 31, 2022 and 2021 consisted of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2021	FY2020	FY2021
	March 31, 2022	March 31, 2021	March 31, 2022
Short-term debt, principally from banks, with a weighted average interest rate of 0.64% at March 31, 2022	¥418,749	¥257,833	\$3,421,431
Current portion of long-term debt, principally from banks and insurance companies, with a weighted average interest rate of 0.61% at March 31, 2022	63,463	52,862	518,531
Commercial papers, with a weighted average interest rate of 0.01% at March 31, 2022	8,000	14,000	65,365
Current portion of bonds	10,000	10,000	81,706
	¥500,212	¥334,695	\$4,087,033

b) Bonds and Long-Term Debt

Bonds and long-term debt at March 31, 2022 and 2021 consisted of the following:

As of	Millions of yen		Thousands of U.S. dollars
	FY2021	FY2020	FY2021
	March 31, 2022	March 31, 2021	March 31, 2022
Unsecured bonds, due 2022 to 2031, with an interest rate of 0.08%-0.936%	¥ 94,896	¥104,873	\$ 775,357
Long-term debt, principally from banks and insurance companies, due 2023 to 2032, with a weighted average interest rate of 0.41% at March 31, 2022	285,651	257,975	2,333,941
	380,547	362,848	3,109,298
Current portion of bonds and long-term debt	(73,463)	(62,862)	(600,237)
	¥307,084	¥299,986	\$2,509,061

The aggregate annual maturities of bonds and long-term debt at March 31, 2022 were as follows:

(Bonds)

March 31	Millions of yen	Thousands of U.S. dollars
2023 (= current portion)	¥10,000	\$ 81,706
2024	—	—
2025	10,000	81,706
2026	—	—
2027	45,000	367,677
2028 and thereafter	30,000	245,118

(Long-term debt)

March 31	Millions of yen	Thousands of U.S. dollars
2023 (= current portion)	¥63,463	\$518,531
2024	50,641	413,767
2025	38,649	315,786
2026	39,811	325,280
2027	534	4,363
2028 and thereafter	92,553	756,214

The following assets were pledged as collateral for short-term debt and long-term debt, including the current portion, at March 31, 2022 and 2021.

	Millions of yen		Thousands of U.S. dollars
	FY2021	FY2020	FY2021
	As of March 31, 2022	March 31, 2021	March 31, 2022
Property, plant and equipment, net of accumulated depreciation	¥1,986	¥2,014	\$16,227

9. NET ASSETS

Under the Law, the entire amount of the issue price of shares is required to be accounted for as common stock. However a company may, by a resolution of the Board of Directors, account for an amount not exceeding 50% of the issue price of the new shares as additional paid-in capital, which is included in capital surplus. However, an increase resulting from a share exchange can be included in capital surplus up to the full amount.

The Law provides that the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve, in cases in which a dividend distribution of surplus is made.

Under the Law, additional paid-in capital may be used to eliminate or reduce a deficit or may be capitalized by a resolution of the shareholders' meeting, and legal earnings reserve may be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that a company can distribute as dividends is calculated based on its non-consolidated financial statements in accordance with the Law.

a) Stock Information

Changes in the number of shares issued and outstanding during the years ended March 31, 2022 and 2021 were as follows:

Common stock outstanding	Thousands of shares	
	FY2021	FY2020
For the years ended	March 31, 2022	March 31, 2021
Balance at beginning of year	793,941	793,941
Balance at end of year	793,941	793,941

Treasury stock outstanding	Thousands of shares	
	FY2021	FY2020
For the years ended	March 31, 2022	March 31, 2021
Balance at beginning of year	14,052	14,044
Increase due to purchase of shares of common stocks	—	—
Increase due to purchase of odd-lot stocks	2	2
Other, net	5	7
Balance at end of year	14,060	14,052

b) Dividend Information

Dividends paid in fiscal year 2021			Total amount	
Resolution	Record date	Effective date	Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 25, 2021	March 31, 2021	June 28, 2021	¥12,481	\$101,977
Board of Directors on November 2, 2021	September 30, 2021	December 1, 2021	¥19,502	\$159,343

Dividends paid after March 31, 2022 with respect to fiscal year 2021			Total amount	
Resolution	Record date	Effective date	Millions of yen	Thousands of U.S. dollars
Shareholders' meeting on June 24, 2022	March 31, 2022	June 27, 2022	¥19,502	\$159,343

Dividends paid in fiscal year 2020			Total amount
Resolution	Record date	Effective date	Millions of yen
Shareholders' meeting on June 25, 2020	March 31, 2020	June 26, 2020	¥12,481
Board of Directors on November 6, 2020	September 30, 2020	December 1, 2020	¥12,481

Dividends paid after March 31, 2021 with respect to fiscal year 2020			Total amount
Resolution	Record date	Effective date	Millions of yen
Shareholders' meeting on June 25, 2021	March 31, 2021	June 28, 2021	¥12,481

10. AMOUNTS PER SHARE

Basic earnings per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is computed based on the weighted average number of shares of common stock outstanding increased by the number of shares which would have been outstanding assuming the conversion of all dilutive bonds and the exercise of all dilutive share warrants at the beginning of the period after giving effect to the dilutive potential of shares. The related interest expense, net of income taxes, has been eliminated for the purpose of this calculation.

In the year ended March 31, 2022 and 2021, there were no potentially dilutive common shares.

Cash dividends per share in the consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the consolidated fiscal year.

11. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Reclassification adjustments and tax effects on other comprehensive income (loss) for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of
			U.S. dollars
	FY2021	FY2020	FY2021
For the years ended	March 31, 2022	March 31, 2021	March 31, 2022
Net Unrealized Holding Gains or Losses on Available-for-Sale			
Securities:			
Increase (decrease) during the year	¥11,568	¥44,194	\$ 94,518
Reclassification adjustments	(9,713)	(16,570)	(79,361)
Subtotal, before tax	1,855	27,624	15,156
Tax effects	(605)	(8,046)	(4,943)
Subtotal, net of tax	¥ 1,250	¥19,578	\$ 10,213
Deferred Gains or Losses on Hedges:			
Increase (decrease) during the year	¥ (1,929)	¥ (2,910)	\$ (15,761)
Reclassification adjustments	1,923	1,771	15,712
Subtotal, before tax	(6)	(1,139)	(49)
Tax effects	49	251	400
Subtotal, net of tax	¥ 43	¥ (888)	\$351
Foreign Currency Translation Adjustments:			
Increase (decrease) during the year	¥65,365	¥34,214	\$534,071
Reclassification adjustments	(1,399)	96	(11,431)
Subtotal, before tax	63,966	34,310	522,641
Tax effects	—	—	—
Subtotal, net of tax	¥63,966	¥34,310	\$522,641
Remeasurements of Defined Benefit Plans			
Increase (decrease) during the year	¥24,712	¥61,299	\$201,912
Reclassification adjustments	(8,575)	7,155	(70,063)
Subtotal, before tax	16,137	68,454	131,849
Tax effects	(4,660)	(20,368)	(38,075)
Subtotal, net of tax	¥11,477	¥48,086	\$ 93,774
Share of Other Comprehensive Income (Loss) of Affiliates			
Accounted for Using Equity Method:			
Increase (decrease) during the year	¥15,010	¥ (7,499)	\$122,641
Reclassification adjustments	154	110	1,258
Subtotal, net of tax	15,164	¥ (7,389)	123,899
Total other comprehensive income (loss)	¥91,900	¥93,697	\$750,878

* Reclassification adjustments of the portion of other comprehensive income (loss) of affiliates accounted for using the equity method include adjustments for the acquisition cost of assets.

12. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to several taxes based on income which, in the aggregate, resulted in a statutory tax rate of approximately 30.6% for the years ended March 31, 2022 and 2021.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended March 31, 2022 and 2021:

	For the years ended	FY2021 March 31, 2022	FY2020 March 31, 2021
Statutory tax rate		30.6%	30.6%
Share of profit of investments accounted for using the equity method		(3.9)	(3.5)
Non-deductible expenses		0.1	0.2
Non-taxable dividend income		(0.2)	(0.2)
Tax credits		(2.3)	(2.3)
Effect of lower tax rates for overseas consolidated subsidiaries		(5.3)	(4.5)
Change in valuation allowance		7.2	9.5
Intercompany profits		(0.0)	(0.5)
Change in undistributed earnings of consolidated subsidiaries and affiliates		2.7	2.7
Amortization of goodwill		0.2	0.3
Foreign income taxes		2.5	3.8
Other		(0.2)	1.6
Effective tax rate		31.4%	37.7%

Deferred tax assets and liabilities included in the consolidated balance sheet at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
As of	FY2021 March 31, 2022	FY2020 March 31, 2021	FY2021 March 31, 2022
Deferred tax assets	¥ 32,329	¥ 29,519	\$ 264,147
Deferred tax liabilities	(65,068)	(49,998)	(531,645)
	¥(32,739)	¥(20,479)	\$(267,497)

Significant components of deferred tax assets and liabilities at March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	As of	FY2021 March 31, 2022	FY2020 March 31, 2021	FY2021 March 31, 2022
Deferred tax assets:				
Net operating loss carryforwards ^{*1}	¥	74,717	¥ 58,108	\$ 610,483
Fixed assets		18,759	17,717	153,272
Accrued expenses		14,687	14,084	120,002
Net defined benefit liabilities		14,606	15,499	119,340
Inventories		12,997	11,423	106,193
Intercompany profits		12,427	12,274	101,536
Foreign tax credits		5,975	5,327	48,819
Investment securities		1,228	518	10,033
Allowance for doubtful receivables		734	707	5,997
Other		37,135	40,467	303,415
		193,265	176,124	1,579,091
Valuation allowance regarding net operating loss carryforwards ^{*1}		(67,944)	(52,874)	(555,143)
Valuation allowance regarding deductible temporary differences		(26,496)	(24,200)	(216,488)
Total valuation allowance		(94,440)	(77,074)	(771,632)
Total deferred tax assets		98,825	99,050	807,460
Deferred tax liabilities:				
Net defined benefit assets		(49,648)	(41,124)	(405,654)
Net unrealized holding gains or losses on available-for-sale securities		(35,483)	(34,879)	(289,917)
Undistributed earnings of consolidated subsidiaries and affiliates		(32,016)	(28,413)	(261,590)
Accelerated depreciation of overseas consolidated subsidiaries		(7,027)	(7,695)	(57,415)
Excess of fair value over the book value of assets and liabilities of consolidated subsidiaries at the acquisition dates		(3,988)	(4,036)	(32,584)
Reserve for tax purpose reduction entry of non-current assets		(836)	(856)	(6,831)
Other		(2,566)	(2,526)	(20,966)
Total deferred tax liabilities		(131,564)	(119,529)	(1,074,957)
Net deferred tax assets (liabilities)	¥	(32,739)	¥ (20,479)	\$ (267,497)

*1 The expiration of net operating loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2022 and 2021 were as follows:

Millions of yen			
FY2021			
March 31	Net operating loss carryforwards ^{*2}	Valuation allowance	Deferred tax assets
2023	¥ 1,192	¥ (863)	¥ 329
2024	1,536	(1,301)	235
2025	1,706	(1,380)	326
2026	1,263	(780)	483
2027	2,517	(846)	1,671
2028 and thereafter	66,503	(62,774)	3,729
	¥74,717	¥(67,944)	¥6,773

Millions of yen			
FY2020			
March 31	Net operating loss carryforwards ^{*2}	Valuation allowance	Deferred tax assets
2022	¥ 2,459	¥ (2,183)	¥ 276
2023	1,243	(1,054)	189
2024	1,634	(1,443)	191
2025	1,537	(1,387)	150
2026	10,496	(8,139)	2,357
2027 and thereafter	40,739	(38,668)	2,071
	¥58,108	¥(52,874)	¥5,234

Thousands of U.S. dollars			
FY2021			
March 31	Net operating loss carryforwards ^{*2}	Valuation allowance	Deferred tax assets
2023	\$ 9,739	\$ (7,051)	\$ 2,688
2024	12,550	(10,630)	1,920
2025	13,939	(11,275)	2,664
2026	10,319	(6,373)	3,946
2027	20,565	(6,912)	13,653
2028 and thereafter	543,370	(512,901)	30,468
	\$610,483	\$(555,143)	\$55,339

*2 This amount is net operating loss carryforwards multiplied by statutory tax rate.

13. RETIREMENT BENEFITS

The Company and most of its domestic consolidated subsidiaries have contributory and noncontributory defined benefit plans and lump-sum retirement benefit plans. The Company and some of its subsidiaries have defined contribution plans and prepaid retirement allowance plans. Some overseas subsidiaries have defined benefit plans and defined contribution plans. Some subsidiaries apply the simplified method for the computation of benefit obligations.

a) Defined Benefit Plans

(1) Movements in retirement benefit obligations, except for plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars	
		FY2021	FY2020	
	For the years ended	March 31, 2022	March 31, 2021	
Balance at beginning of year		¥313,234	¥334,600	\$2,559,310
Service cost		13,727	14,922	112,158
Interest cost		2,478	2,701	20,247
Actuarial gains and losses		(1,761)	3,323	(14,388)
Benefits paid		(13,043)	(19,108)	(106,569)
Decrease due to transfer to defined contribution plan		—	(25,389)	—
Other		2,416	2,185	19,740
Balance at end of year		¥317,051	¥313,234	\$2,590,498

(2) Movements in plan assets, except for plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars	
		FY2021	FY2020	
	For the years ended	March 31, 2022	March 31, 2021	
Balance at beginning of year		¥425,253	¥347,275	\$3,474,573
Expected return on plan assets		7,633	6,127	62,366
Actuarial gains and losses		24,729	67,546	202,051
Contributions paid by the employer		11,595	13,048	94,738
Benefits paid		(9,638)	(12,215)	(78,748)
Return of assets from retirement benefit trust		(15,000)	—	(122,559)
Other		3,281	3,472	26,808
Balance at end of year		¥447,853	¥425,253	\$3,659,229

(3) Movements in net defined benefit liabilities (or assets) for defined benefit plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars	
		FY2021	FY2020	
	For the years ended	March 31, 2022	March 31, 2021	
Balance at beginning of year		¥3,161	¥3,402	\$25,827
Retirement benefit costs		340	336	2,778
Benefits paid		(167)	(585)	(1,364)
Contributions paid by the employer		(110)	(80)	(899)
Other		181	88	1,479
Balance at end of year		¥3,405	¥3,161	\$27,821

(4) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liabilities (assets) in the consolidated balance sheet, including the defined benefit plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
	FY2021	FY2020	FY2021
	As of March 31, 2022	March 31, 2021	March 31, 2022
Funded retirement benefit obligations	¥ 288,175	¥ 284,087	\$ 2,354,563
Plan assets	(450,331)	(427,543)	(3,679,475)
	(162,156)	(143,456)	(1,324,912)
Unfunded retirement benefit obligations	34,759	34,598	284,002
Total net defined benefit liabilities (assets)	¥(127,397)	¥(108,858)	\$ (1,040,910)
Net defined benefit liabilities	¥ 46,037	¥ 49,589	\$ 376,150
Net defined benefit assets	(173,434)	(158,447)	(1,417,060)
Total net defined benefit liabilities (assets)	¥(127,397)	¥(108,858)	\$ (1,040,910)

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	FY2021	FY2020	FY2021
	For the years ended March 31, 2022	March 31, 2021	March 31, 2022
Service cost	¥13,265	¥14,467	\$108,383
Interest cost	2,478	2,701	20,247
Expected return on plan assets	(7,633)	(6,127)	(62,366)
Amortization:			
Actuarial gains and losses	(3,888)	3,913	(31,767)
Past service cost	58	578	474
Retirement benefit costs from plans applying the simplified method	340	336	2,778
Gain on return of assets from retirement benefit trust	(6,894)	—	(56,328)
Other	248	497	2,026
Total retirement benefit costs	¥ (2,026)	¥16,365	\$ (16,554)

1. Employees' contribution to the corporate pension fund is deducted from "Service cost."

2. In addition to the retirement benefit costs listed above, an extra payment of retirement benefits in the amount of ¥1,045 million (US\$8,538 thousand) and ¥2,402 million were recognized as restructuring expenses in the consolidated statement of income for fiscal years 2021 and 2020, respectively.

(6) Remeasurements of defined benefit plans (before tax)

	Millions of yen		Thousands of U.S. dollars
	FY2021	FY2020	FY2021
	For the years ended March 31, 2022	March 31, 2021	March 31, 2022
Past service cost	¥ 1,052	¥ 1,221	\$ 8,595
Actuarial gains and losses	15,085	67,233	123,254
Total	¥16,137	¥68,454	\$131,849

(7) Accumulated remeasurements of defined benefit plans (before tax)

	Millions of yen		Thousands of U.S. dollars	
			FY2021	
	As of	March 31, 2022	March 31, 2021	March 31, 2022
Unrecognized past service cost	¥	872	¥ (180)	\$ 7,125
Unrecognized actuarial gains and losses		80,533	65,448	658,003
Total		¥81,405	¥65,268	\$665,128

(8) Plan assets

1. Plan assets comprise:

	FY2021	FY2020
Equity securities	49.3%	48.6%
Bonds	28.7	25.4
General account	8.3	10.3
Cash and cash equivalents	2.8	4.3
Other	10.9	11.4
Total	100.0%	100.0%

2. Long-term expected rate of return

Current and target asset allocations and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

The principal actuarial assumptions at March 31, 2022 and 2021 (expressed as weighted averages) were as follows:

	FY2021	FY2020
Discount rate	0.9%	0.8%
Long-term expected rate of return	1.9	1.8

The Company and some of its consolidated subsidiaries do not apply expected rates of pay raises to calculate retirement benefit obligations because they have adopted a point basis.

b) Defined Contribution Plans and Prepaid Retirement Allowance Plans

The amount of required contributions to the defined contribution plans and the prepaid retirement allowance plans of the Company and its consolidated subsidiaries was ¥7,194 million (US\$58,779 thousand) and ¥5,953 million for FY2021 and FY2020, respectively.

14. CONTINGENT LIABILITIES

Contingent liabilities as of March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2021	FY2020	FY2021
	As of March 31, 2022	March 31, 2021	March 31, 2022
Notes receivable endorsed	¥47	480	\$384

FY2021 As of March 31, 2022	Millions of yen	Thousands of U.S. dollars
Guarantees: Debt guarantees and similar agreements		
Jiaxing SEI-Futong Optical Fiber Co., Ltd.	¥1,000	\$8,171
Daeheung SumiRiko Rubber Material (Yancheng) Co., Ltd.	859	7,019
Sumiden International Trading (Shanghai) Co., Ltd.	567	4,633
Employees	112	915
Others	432	3,530

FY2020 As of March 31, 2021	Millions of yen
Guarantees: Debt guarantees and similar agreements	
Jiaxing SEI-Futong Optical Fiber Co., Ltd.	¥1,771
Daeheung SumiRiko Rubber Material (Yancheng) Co., Ltd.	867
Sumiden International Trading (Shanghai) Co., Ltd.	247
Employees	136
Others	222

15. GAIN ON CHANGE IN EQUITY IN EXTRAORDINARY INCOME

In fiscal year 2021, the gain on change in equity in extraordinary income was due to the change in the Company's equity in an overseas affiliate accounted for by the equity method resulting from a business combination in which the overseas affiliate was the combined company.

16. GAIN ON RETURN OF ASSETS FROM RETIREMENT BENEFIT TRUST

In fiscal year 2021, gain on return of assets from retirement benefit trust in extraordinary income resulted from amortization of unrecognized actuarial gains and losses related to the return of a portion of retirement benefit trust of the Company.

17. FIRE INSURANCE RECOVERY GAIN IN EXTRAORDINARY INCOME

In fiscal year 2021, the fire insurance recovery gain in extraordinary income was the insurance income for damages caused by a fire which occurred at a distribution center to which a consolidated subsidiary outsource product storage and other operations.

18. LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Loss on disposal of property, plant and equipment for the years ended March 31, 2022 and 2021 was as follows:

	Millions of yen		Thousands of U.S. dollars
	FY2021	FY2020	FY2021
	For the years ended March 31, 2022	March 31, 2021	March 31, 2022
Buildings and structures	¥ 570	¥ 566	\$ 4,657
Machinery, equipment and others	2,604	1,853	21,276
Other	537	477	4,388

19. IMPAIRMENT LOSS ON FIXED ASSETS

The Company and its consolidated subsidiaries grouped long-lived assets into asset groups by business segment and conducted impairment tests with the conclusion that the carrying amounts should be reduced to the recoverable amounts by ¥8,832 million (US\$72,163 thousand) and ¥10,051 million in FY2021 and FY2020, respectively. The recoverable amount is mainly the net selling price.

Impairment loss on fixed assets for each reportable segment is disclosed in Note 23 b) (4), for the years ended March 31, 2022 and 2021.

Impairment loss on fixed assets for the years ended March 31, 2022 and 2021 was as follows:

FY2021	Millions of yen	Thousands of U.S. dollars
Machinery, equipment and others	¥5,587	\$45,649
Construction in progress	835	6,822
Buildings and structures	808	6,602
Intangible assets	803	6,561
Other	799	6,528
	¥8,832	\$72,163*

* The amount of ¥2,376 million (US\$19,413 thousand) is included in "Restructuring expenses" (Note 20) in the consolidated statement of income for fiscal year 2021.

FY2020	Millions of yen
Machinery, equipment and others	¥ 7,257
Buildings and structures	1,024
Land	736
Other	1,034
	¥10,051*

* The amount of ¥813 million is included in "Restructuring expenses" (Note 20) in the consolidated statement of income for fiscal year 2020.

20. RESTRUCTURING EXPENSES

In fiscal year 2021, restructuring expenses of ¥5,405 million (US\$44,162 thousand) were related to the partial review of R&D themes and the reorganization of the business locations, etc., to strengthen profitability and to make the production structure more efficient.

In fiscal year 2020, restructuring expenses of ¥8,286 million were related to the reorganization and closing of business locations, etc., to strengthen profitability and to make the production structure of the anti-vibration rubber business, optical devices business, wiring harness business, FPC business, etc., more efficient.

Major expenses for the years ended March 31, 2022 and 2021 were as follows:

FY2021	Millions of yen	Thousands of U.S. dollars
Impairment loss on fixed assets (Note 19)	¥2,376	\$19,413
Loss on disposal of fixed assets	1,498	12,240

FY2020	Millions of yen
Loss related to transfer of shares of subsidiary	¥2,698
Extra payment of retirement benefits	2,402
Impairment loss on fixed assets (Note 19)	813

21. LOSS DUE TO FIRE IN EXTRAORDINARY LOSSES

In fiscal year 2021, the loss due to fire in extraordinary losses was due to the loss of products, etc., caused by a fire which occurred at a distribution center to which a consolidated subsidiary outsource product storage and other operations.

22. REVENUE RECOGNITION

a) Disaggregation of revenue

The Company and its consolidated subsidiaries derive revenue primarily from contracts with customers. The following table shows the disaggregation of revenue attributable to each reportable segment and its main products. Revenues from other sources are not material.

	Millions of yen	Thousands of U.S. dollars
	FY2021	FY2021
For the year ended	March 31, 2022	March 31, 2022
Automotive segment		
Wiring harnesses, car electronic components	¥1,304,349	\$10,657,317
Sumitomo Riko and others	449,846	3,675,513
Subtotal	1,754,195	14,332,829
Infocommunications segment		
Optical fiber cables, telecommunication cables and equipment, fusion splicers	100,334	819,789
Optical and electronic devices	79,194	647,063
Access network equipment	39,752	324,798
Others	19,870	162,350
Subtotal	239,150	1,954,000
Electronics segment		
Electronic wires	87,395	714,070
Flexible printed circuits	61,549	502,892
Electric beam irradiation products, fluorine resin products	22,802	186,306
Techno Associe	86,019	702,827
Others	34,744	283,879
Subtotal	292,509	2,389,975
Environment and Energy segment		
Electric conductors	143,989	1,176,477
Power transmission wires, cables, equipment, work and engineering	213,721	1,746,229
Sumitomo Densetsu	167,590	1,369,311
Nissin Electric	132,128	1,079,565
Magnet wires and others	175,997	1,438,001
Subtotal	833,425	6,809,584
Industrial Materials and Others segment		
Tensioning materials for prestressed concrete, precision spring steel wires, steel tire cord	94,557	772,588
Cemented carbide tools, diamond and CBN tools, laser optics	102,040	833,728
Sintered powder metal parts	67,475	551,311
A.L.M.T.	42,617	348,207
Others	21,194	173,168
Subtotal	327,883	2,679,002
Adjustments	(79,299)	(647,921)
Total	¥3,367,863	\$27,517,469

b) Contract balances

The following table shows the balances of receivables from contracts with customers, contract assets and contract liabilities.

As of	Millions of yen		Thousands of
	FY 2021	FY 2020	U.S. dollars
	March 31, 2022	March 31, 2021	FY 2021 March 31, 2022
Receivables from contracts with customers	¥784,647	¥719,321	\$6,411,038
Contract assets	30,030	35,937	245,363
Contract liabilities	46,355	33,920	378,748

The increase in contract assets was caused mainly by revenue recognition and the decrease in contract assets was caused mainly by their transfer to trade receivables.

The increase in contract liabilities was caused mainly by the receipt of advances from customers and the decrease in contract liabilities was caused mainly by revenue recognition.

Of the revenue recognized during the fiscal year ended March 31, 2022, ¥25,619 million (US\$209,323 thousand) was included in contract liabilities at the beginning of the fiscal year. And revenue recognized in relation to performance obligations satisfied or partially satisfied in past periods was not material.

c) Transaction price allocated to remaining performance obligations

The following table shows the total amounts of transaction price allocated to the remaining performance obligations and the period when the revenues were expected to be recognized in the Environment and Energy segment. There were no significant amounts of consideration arising from contracts with customers that were not included in the transaction price.

Except for those of some consolidated subsidiaries, transactions with initial expected contract terms of less than one year were not included in the amounts below.

In some consolidated subsidiaries, the transaction price in a contract in which the schedule of installation was not determined as of the end of the fiscal year ended March 31, 2022, is classified by the timing for the completion of the installation.

The segments except Environment and Energy, which have contracts in which initial expected terms are mainly one year or less are not included in this disclosure.

As of	Thousands of	
	Millions of yen	U.S. dollars
	FY 2021	FY 2021
March 31, 2022	March 31, 2022	
Environment and Energy segment		
Within 1 year	¥186,656	\$1,525,092
Later than 1 year	124,124	1,014,168
Total	310,780	2,539,260

23. SEGMENT INFORMATION

a) Reportable Segments

The reportable segments of the Company are business areas for which separate financial information is available for the President, the supreme decision maker in the Company, to make decisions regarding resource allocation and to evaluate business results.

The Company has adopted a business unit system based upon similarities in each product category, methods for manufacturing, sales markets, etc., and devises comprehensive strategies for the Company and its affiliates by dividing businesses such as product development, manufacturing, sales and supplementary services into the following five classifications: "Automotive," "Infocommunications," "Electronics," "Environment and Energy" and "Industrial Materials and Others." Therefore, the Company considers the above five classifications as reportable segments.

The methods used to account for sales, profit or loss, assets and other items by reportable segment are in accordance with the accounting policies stated in Note 2. Intersegment sales are stated at current market value.

Automotive:

Wiring harnesses, anti-vibration rubbers, automotive hoses, and car electronic components

Infocommunications:

Optical fiber cables, telecommunication cables and equipment, fusion splicers, optical/wireless devices such as optical transceiver modules/wireless communication devices, and access network equipment (GE-PON/set-top box/CATV-related products, etc.)

Electronics:

Electronic wires, electric beam irradiation products, flexible printed circuits, fluorine resin products, fasteners, metal parts, and chemical products

Environment and Energy:

Electric conductors, power transmission wires/cables/equipment, magnet wires, air cushions for railroad vehicles, power system equipment such as substation equipment/control systems, charged beam equipment and processing, electrical/power supply work and engineering, and porous metals

Industrial Materials and Others:

Tensioning materials for prestressed concrete, precision spring steel wires, steel tire cord, cemented carbide tools, diamond and CBN tools, laser optics, sintered powder metal parts, and semiconductors heat-spreader materials

Reportable segment information for the years ended March 31, 2022 and 2021 was as follows:

	Millions of yen						Consolidated
	Automotive	Infocommunications	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	
FY2021							
Sales to customers	¥1,752,341	¥235,434	¥258,936	¥809,624	¥311,528	¥ —	¥3,367,863
Intersegment sales	1,854	3,716	33,573	23,801	16,355	(79,299)	—
Net sales	¥1,754,195	¥239,150	¥292,509	¥833,425	¥327,883	¥ (79,299)	¥3,367,863
Segment profit or loss	¥ 12,264	¥ 23,398	¥ 19,825	¥ 44,024	¥ 23,024	¥ (340)	¥ 122,195
Segment assets	¥1,760,585	¥299,847	¥265,261	¥913,024	¥868,725	¥(300,052)	¥3,807,390
Depreciation and amortization	¥ 98,687	¥ 19,299	¥ 17,208	¥ 20,375	¥ 24,939	¥ —	¥ 180,508
Amortization of goodwill	66	—	—	2	775	—	843
Investments in equity method affiliates	225,387	5,874	1,027	7,107	48,343	—	287,738
Amount of increase in tangible and intangible fixed assets	113,455	20,880	20,042	29,720	18,174	—	202,271

	Millions of yen						
FY2020	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
Sales to customers	¥1,600,778	¥219,760	¥227,954	¥616,677	¥253,411	¥ —	¥2,918,580
Intersegment sales	1,264	4,816	24,664	17,514	49,113	(97,371)	—
Net sales	¥1,602,042	¥224,576	¥252,618	¥634,191	¥302,524	¥ (97,371)	¥2,918,580
Segment profit or loss	¥ 48,198	¥ 24,343	¥ 10,047	¥ 25,024	¥ 6,660	¥ (346)	¥ 113,926
Segment assets	¥1,535,415	¥283,164	¥238,291	¥764,852	¥773,646	¥(213,454)	¥3,381,914
Depreciation and amortization	¥ 90,442	¥ 19,970	¥ 14,612	¥ 19,219	¥ 23,797	¥ —	¥ 168,040
Amortization of goodwill	66	—	—	1	1,081	—	1,148
Investments in equity method affiliates	192,908	7,575	972	6,554	42,583	—	250,592
Amount of increase in tangible and intangible fixed assets	95,486	25,813	12,642	31,286	17,271	—	182,498

	Thousands of U.S. dollars						
FY2021	Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Consolidated
Sales to customers	\$14,317,681	\$1,923,638	\$2,115,663	\$6,615,116	\$2,545,371	\$ —	\$27,517,469
Intersegment sales	15,148	30,362	274,312	194,469	133,630	(647,921)	—
Net sales	\$14,332,829	\$1,954,000	\$2,389,975	\$6,809,584	\$2,679,002	\$ (647,921)	\$27,517,469
Segment profit or loss	\$ 100,204	\$ 191,176	\$ 161,982	\$ 359,703	\$ 188,120	\$ (2,778)	\$ 998,407
Segment assets	\$14,385,040	\$2,449,931	\$2,167,342	\$7,459,956	\$7,098,006	\$(2,451,606)	\$31,108,669
Depreciation and amortization	\$ 806,332	\$ 157,684	\$ 140,600	\$ 166,476	\$ 203,767	\$ —	\$ 1,474,859
Amortization of goodwill	539	—	—	16	6,332	—	6,888
Investments in equity method affiliates	1,841,548	47,994	8,391	58,068	394,991	—	2,350,993
Amount of increase in tangible and intangible fixed assets	926,996	170,602	163,755	242,830	148,493	—	1,652,676

1. Segment profit or loss included in Adjustments of ¥(340) million or US\$(2,778) thousand and ¥(346) million for FY2021 and FY2020, respectively, consists mainly of unrealized profits caused by intersegment transactions.
2. Segment assets included in Adjustments of ¥(300,052) million or US\$(2,451,606) thousand and ¥(213,454) million as of March 31, 2022 and 2021, respectively, consist mainly of elimination of receivables caused by intersegment transactions, cash and time deposits and investment securities owned by the Company.
3. Segment profit or loss is reconciled with operating income in the consolidated statement of income.

b) Related Information

(1) Information about products and services

	Millions of yen		
FY2021	Wiring harnesses	Others	Total
Sales to customers	¥1,304,349	¥2,063,514	¥3,367,863

	Millions of yen		
FY2020	Wiring harnesses	Others	Total
Sales to customers	¥1,197,615	¥1,720,965	¥2,918,580

	Thousands of U.S. dollars		
FY2021	Wiring harnesses	Others	Total
Sales to customers	\$10,657,317	\$16,860,152	\$27,517,469

(2) Information about geographical areas

Sales to customers

FY2021	Millions of yen						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
Sales to customers	¥1,403,325	¥598,278	¥456,004	¥423,051	¥139,162	¥348,043	¥3,367,863

FY2020	Millions of yen						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
Sales to customers	¥1,246,166	¥574,369	¥313,207	¥345,424	¥123,662	¥315,752	¥2,918,580

FY2021	Thousands of U.S. dollars						Consolidated
	Japan	Asia		Americas		Europe and Others	
		China	Others	U.S.	Others		
Sales to customers	\$11,466,010	\$4,888,292	\$3,725,827	\$3,456,581	\$1,137,037	\$2,843,721	\$27,517,469

Net property, plant and equipment

FY2021	Millions of yen						Consolidated
	Japan	Asia		Americas	Europe and Others		
		China	Others				
Net property, plant and equipment	¥493,210	¥117,653	¥204,163	¥104,586	¥107,172	¥1,026,784	

FY2020	Millions of yen						Consolidated
	Japan	Asia		Americas	Europe and Others		
		China	Others				
Net property, plant and equipment	¥495,795	¥99,928	¥177,249	¥106,816	¥101,371	¥981,159	

FY2021	Thousands of U.S. dollars						Consolidated
	Japan	Asia		Americas	Europe and Others		
		China	Others				
Net property, plant and equipment	\$4,029,823	\$961,296	\$1,668,135	\$854,531	\$875,660	\$8,389,444	

(3) Information about major customers

This information is omitted because the Company does not have any major customers that account for 10% or more of net sales in the consolidated statement of income for FY2021 or FY2020.

(4) Information about impairment loss on fixed assets by reportable segment

		Millions of yen						
		Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Total
FY2021								
Impairment loss on fixed assets		¥4,858	¥48	¥378	¥248	¥3,300	¥—	¥8,832
		Millions of yen						
		Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Total
FY2020								
Impairment loss on fixed assets		¥4,443	¥126	¥5,243	¥84	¥155	¥—	¥10,051
		Thousands of U.S. dollars						
		Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Adjustments	Total
FY2021								
Impairment loss on fixed assets		\$39,693	\$392	\$3,088	\$2,026	\$26,963	\$—	\$72,163

(5) Information about goodwill by reportable segment

		Millions of yen					
		Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
FY2021							
Amortization		¥66	¥—	¥—	¥2	¥775	¥843
Balance at end		¥68	¥—	¥—	¥6	¥—	¥74
		Millions of yen					
		Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
FY2020							
Amortization		¥66	¥—	¥—	¥1	¥1,081	¥1,148
Balance at end		¥134	¥—	¥—	¥8	¥1,503	¥1,645
		Thousands of U.S. dollars					
		Automotive	Infocommuni- cations	Electronics	Environment & Energy	Industrial Materials & Others	Total
FY2021							
Amortization		\$539	\$—	\$—	\$16	\$6,332	\$6,888
Balance at end		\$556	\$—	\$—	\$49	\$—	\$605

24. RELATED PARTY INFORMATION

a) Related party transactions

Transactions with the corporate pension for employees

FY2021

(Millions of yen)

Relationship	Name of company	Location	Paid-in-Capital or Advance	Description of business	Share of voting rights (%)	Relations with related parties	Description of transaction	Amount of transactions	Financial statement line item	Amount outstanding at end of year
Corporate pension	Employee pension trust	—	—	—	—	Pension assets of retirement benefit accounting	Return of assets from retirement benefit trust	15,000	—	—

b) Notes on Significant Affiliates

Condensed financial information for a significant affiliate, Sumitomo Rubber Industries, Ltd., that has a fiscal year ending December 31, at the end of FY2021 is as follows:

	Millions of yen	Thousands of U.S. dollars
FY2021		
Total current assets	¥533,081	\$4,355,593
Total non-current assets	553,088	4,519,062
Total current liabilities	296,585	2,423,278
Total non-current liabilities	276,041	2,255,421
Total equity	513,543	4,195,956
Sales revenue	936,039	7,648,002
Profit before tax	44,765	365,757
Profit for the year attributable to: Owners of the parent company	29,470	240,788

Condensed financial information for a significant affiliate, Sumitomo Rubber Industries, Ltd., that has a fiscal year ending December 31, at the end of FY2020 is as follows:

	Millions of yen
FY2020	
Total current assets	¥436,652
Total non-current assets	538,153
Total current liabilities	246,128
Total non-current liabilities	261,580
Total equity	467,097
Sales revenue	790,817
Profit before tax	29,771
Profit for the year attributable to: Owners of the parent company	22,596

25. OTHER

The Company is in negotiations with some automakers for damages regarding violation of competition law in the Automotive segment.



Independent auditor's report

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

We determined that the Company's estimate of total costs for large-scale construction contracts is a key audit matter in our audit of the consolidated financial statements for the current fiscal year.

The Company's valuation of fixed assets used in the Electronics business was one of the key audit matters in our audit of the consolidated financial statements for the previous fiscal year. As that business improved its profitability, we determined that this matter was not a key audit matter in our audit of the consolidated financial statements of the current period.

Appropriateness of the estimate of the total construction costs for large-scale contracts

The key audit matter	How the matter was addressed in our audit
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As described in Note 2 – j), “Revenue recognition” to the consolidated financial statements, Sumitomo Electric Industries, Ltd. (the “Company”) and its consolidated subsidiaries recognized revenue, in the consolidated financial statements for the current fiscal year, from performance obligations as they are satisfied over time, mainly for construction contracts in the Environment & Energy segment, based on the estimated progress towards complete satisfaction of those performance obligations. The progress towards the completion of construction is estimated based on a proportion of construction costs incurred to the total construction costs in the project budgets. The order backlog in the Environment & Energy segment amounted to ¥384,610 million at the end of the current fiscal year.

Installation constructions of the high-voltage direct current cables for interconnections among national and regional power electric utilities, remote island power transmission business, and the submarine power cables for large commercial offshore wind power generation business within the Environment & Energy segment are characterized by (1) long construction periods and individually unique conditions; (2) frequent changes in construction periods and tasks subsequent to accepting orders due to changes in circumstances; and (3) the resulting revisions to the total construction costs at multiple times throughout the period until completion. Accordingly, it is important that the estimate of the total construction costs is revised in a timely manner in response to changes in circumstances and that all the costs required to complete the construction are reflected in the project budgets. In addition, the estimate of the total construction costs includes the following estimate involving uncertainties:

- additional costs to be incurred as a result of changes in construction tasks during construction.

We, therefore, determined that our

With respect to the Company’s estimate of the total construction costs used to calculate the progress towards the completion of large-scale contracts for power cable installation for revenue recognition in the Environment & Energy segment, we performed the following audit procedures with direct involvement of the senior members of the engagement team:

- (1) We tested the design and operating effectiveness of certain of the Company’s internal controls related to the project budgets for construction contracts. In this assessment, we focused our testing on the following internal controls:
 - controls relevant to risk assessment at the order acceptance;
 - controls relevant to approvals of the project budgets; and
 - controls relevant to monitoring of the project budgets.
- (2) In order to assess whether the project budgets for construction contracts used to estimate the progress towards the completion of construction were appropriately prepared, we primarily:
 - inspected the construction contracts to understand important terms and conditions;
 - inquired of the construction project managers regarding the progress of construction and any changes in the project budgets as well as additional questions, as necessary, regarding their judgment as to whether the project budgets should be revised thoroughly by exercising our professional skepticism, and inspected the documents supporting their responses;
 - inspected the materials for the project progress meetings in which revisions to the project budgets were discussed on a quarterly basis, inquired of the construction project managers, the personnel responsible for the Planning & Administrative Department and the personnel responsible for the Accounting Department, among others, regarding their judgment on costs to be included in the project budgets, and assessed whether their responses were consistent;
 - assessed the precision of the project budgets

assessment of the appropriateness of the Company's estimate of the total construction costs used to calculate the progress towards the completion of large-scale contracts for revenue recognition was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

by comparing planned costs for the current fiscal year included in the project budget with actual costs incurred, and evaluated whether any differences were properly reflected in the revisions to the project budgets.

Other Information

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Daisuke Harada
Designated Engagement Partner
Certified Public Accountant

Toshiyuki Maeda
Designated Engagement Partner
Certified Public Accountant

Mitsuhiro Matsumoto
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
June 24, 2022

Notes to the Reader of Independent Auditor's Report:

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