

Sumitomo Heavy Industries, Ltd.

CONSOLIDATED FINANCIAL REPORT

For the Nine-Month Period from April 1 to December 31, 2021

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

Summary of Consolidated Financial Results
For the Nine-Month Period from April 1 to December 31, 2021
 Presented January 31, 2022

Sumitomo Heavy Industries, Ltd.

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Scheduled date for submitting quarterly report	February 8, 2022
Scheduled date of payment of cash dividends	—
Availability of supplementary explanations for quarterly financial statement	No
Holding of meeting to explain quarterly financial statement	No

1. FY2021 Third Quarter Consolidated Results (April 1, 2021, to December 31, 2021)

(1) Business Results

(Units: millions of yen)

	Third Quarter April 1 to December 31, 2021		Third Quarter April 1 to December 31, 2020	
		% change		% change
Net sales	681,108	13.5	599,871	(4.1)
Operating profit	44,146	21.5	36,341	(3.9)
Ordinary profit	42,871	27.7	33,561	(5.9)
Profit attributable to owners of parent	28,308	37.2	20,635	(9.8)
Profit attributable to owners of parent ratio (yen)	231.08		168.43	
Fully diluted profit attributable to owners of parent ratio	—		—	

Note: Comprehensive income:

Third quarter ended December 31, 2021: 43,963 million yen, 129.4 %

Third quarter ended December 31, 2020: 19,165 million yen, 36.2%

(2) Financial Position

(Units: millions of yen)

	End of Third Quarter As of December 31, 2021	End of Previous Full Year March 31, 2021
Total assets	1,064,539	1,030,684
Total net assets	536,790	504,928
Equity ratio (%)	49.1	47.6

Reference: Equity:

Third quarter ended December 31, 2021: 522,429 million yen
Fiscal year ended March 31, 2021: 490,697 million yen

2. Dividends

(Unit: yen)

	Year Ended March 31, 2021	Year Ended March 31, 2022	Year Ending March 31, 2022 (forecast)
Annual dividends per share			
First quarter	—	—	
Second quarter	9.00	35.00	
Third quarter	—	—	
End of term	56.00		55.00
Annual dividends	65.00		90.00

(Note) Changes from the most recent dividend forecast: None

3. FY 2021 Consolidated Forecasts (April 1, 2021, to March 31, 2022)

(Units: millions of yen)

	Full Year April 1, 2021, to March 31, 2022	
		% change
Net sales	950,000	11.9
Operating profit	60,000	16.9
Ordinary profit	57,000	15.0
Profit attributable to owners of parent	34,000	27.0
Profit attributable to owners of parent ratio (yen)	277.54	

(Note) Changes from the most recent consolidated forecast: None

Additional Notes

(1) Transfers of important subsidiaries during the nine months ended December 31, 2021: None

(moves of specific subsidiaries due to change in scope of consolidation)

Newly consolidated: —

Excluded from consolidation: —

(2) Special accounting measures applied in the quarterly consolidated financial report: Applicable

(3) Changes to accounting policies, changes to accounting estimates, and retrospective restatements

(i) Changes to accounting policies due to revisions to accounting standards: Yes

(ii) Changes to accounting policies not otherwise stated in (i): None

(iii) Changes to accounting estimates: None

(iv) Retrospective restatements: None

(4) Number of shares issued (share capital)

(i) Number of shares issued at end of fiscal period (including treasury shares):

As of December 31, 2021 122,905,481 shares

As of March 31, 2021 122,905,481 shares

(ii) Number of treasury shares at end of fiscal period:

As of December 31, 2021 403,765 shares

As of March 31, 2021 397,425 shares

(iii) Average number of shares during fiscal period (cumulative quarterly period):

As of December 31, 2021 122,504,436 shares

As of December 31, 2020 122,512,730 shares

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

* Explanations and Other Special Items regarding the Proper Use for the Earnings Forecast

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

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I. Qualitative Information regarding Current Quarterly Consolidated Business Performance

1. Explanation of Business Performance

As for the business environment surrounding the Group during the third quarter of the current consolidated fiscal year under review, there were signs of recovery in capital investments mainly in the manufacturing sector in Japan, although the impact of the spread of COVID-19 infections still remained. Turning to overseas regions, recovery of capital investments was seen due to an economic upturn in the US, Europe, etc. These factors resulted in a global uptick in demand for machinery. On the other hand, in some regions and sectors that were still affected by the spread of COVID-19 infections, the pace of recovery was slow, indicating a polarized gap in the global economy. Also, uncertainty over the global economy remained mainly due to higher prices of raw materials and procured products, strains in their supply-demand conditions, escalation of trade disputes between the US and China, ongoing geopolitical risks, fluctuations in oil prices and their slump in addition to the aforementioned factors.

In this business environment, the Group formulated the “Medium-Term Management Plan 2023,” aimed to increase corporate value in a sustainable manner by solving social issues through products and services, and moved forward with measures, such as constructing a robust entity, making changes for improvement of corporate value, expanding contribution to SDGs and strengthening initiatives for reducing environmental burdens.

As a result, the Group’s orders and net sales amounted to JPY789.8 billion and JPY681.1 billion, respectively. In terms of profitability, the Group posted operating profit of JPY44.1 billion and ordinary profit of JPY42.9 billion and quarterly profit attributable to owners of parent came to JPY28.3 billion.

The situation by segment is described below.

Note that, taking into consideration the policy set forth in the “Medium-Term Management Plan 2023,” we have decided to make changes in reporting segments starting from the fiscal year ending March 31, 2022. As a result, the reporting segments of the Group were changed from “Machinery Components,” “Precision Machinery,” “Construction Machinery,” “Industrial Machinery,” “Ships” and “Environmental Facilities & Plants” to “Mechatronics,” “Industrial Machinery,” “Logistics & Construction” and “Energy & Lifelines.” Also, figures for the third quarter of the previous consolidated fiscal year (the same period of the previous year) were reclassified into each new segment category.

(i) Mechatronics

Orders, sales and operating profit all increased due to a rise in demand for small-to-medium sized gear reducers, precision gears for robot articulations and motors in Japan, Europe and the US. As a result, orders increased by 47% as compared to the previous fiscal year to finish at JPY146.5 billion, while sales increased by 21% as compared to the previous fiscal year to finish at JPY117.6 billion. Further, the segment posted operating profit of JPY4.8 billion (up 109% from the previous fiscal year).

(ii) Industrial Machinery

For Plastic machinery business, orders, sales and operating profit all increased due to a rise in demand in China for electrical and electronics-related products and high demand from Europe. For other machine models, orders increased due to a rise in demand for semiconductor-related products, but both sales and operating profit decreased because there were less backlogs of orders for semiconductor-related products than in the previous year. As a result, orders increased by 58% as compared to the previous fiscal year to finish at JPY199.2 billion, sales came to JPY163.7 billion, up 11% from the previous fiscal year, and operating profit was JPY13.2 billion, up 1% from the previous fiscal year.

(iii) Logistics & Construction

With regard to the hydraulic excavator business, orders, sales and operating profit all increased because the Japanese market was strong and demand increased in the North America region. Turning to other businesses, the mobile crane business saw increases in all of orders, sales and operating profit as demand was recovering in Japan and the North America region. However, in the material handling business, all of orders, sales and operating profit decreased due partly to a delay in recovery of demand related to shipbuilding and steel products. As a result of the above, orders across the segment increased by 50% as compared to the previous fiscal year to finish at JPY297.9 billion, while sales increased by 18% as compared to the previous fiscal year to finish at JPY249.1 billion. The segment posted an operating profit of JPY13.3 billion, a 16% increase as compared to the previous fiscal year.

(iv) Energy & Lifelines

Orders in the energy plant business increased partly because orders were received for large-scale projects for biomass-fueled power generation plants, and both sales and operating profit increased due to a backlog of orders. For other businesses, orders increased but sales decreased and operating profit remained unchanged from the previous fiscal year. As a result of the above, orders across the segment increased by 6% as compared to the previous fiscal year to finish at JPY141.5 billion, while sales increased by 5% as compared to the previous fiscal year to finish at JPY146.3 billion. The segment posted an operating profit of JPY11.1 billion, a 35% increase as compared to the previous fiscal year.

(v) Others

Orders increased by 9% to JPY4.7 billion, sales increased by 1% to JPY4.5 billion, and operating profit increased by 37% to JPY1.8 billion from the previous fiscal year, respectively.

2. Explanation of the Group's Consolidated Financial Position

1. Condition of Assets, Liabilities, and Net Assets

Total assets at the end of the third quarter of the current consolidated fiscal year under review (ended December 31, 2021) amounted to JPY1,064.5 billion, an increase of JPY33.9 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to increases of JPY29.0 billion and JPY12.5 billion in inventory assets and tangible fixed assets, respectively, as compared to the end of the previous consolidated fiscal year, while cash and deposits decreased by JPY10.2 billion.

Total liabilities rose to JPY527.7 billion, an increase of JPY2.0 billion as compared to the end of the previous consolidated fiscal year. This was partly attributable to an increase of JPY9.2 billion in notes and accounts payable-trade while interest-bearing liabilities decreased by JPY4.4 billion.

Net assets amounted to JPY536.8 billion, an increase of JPY31.9 billion as compared to the end of the previous consolidated fiscal year. This was because foreign currency translation adjustments increased by JPY15.8 billion, while retained earnings increased by JPY17.0 billion.

As a result of the above, the shareholders' equity ratio increased by 1.5 points from the end of the previous consolidated fiscal year to finish at 49.1%.

2. Cash Flow Condition

Cash and cash equivalents at the end of the third quarter of the current consolidated fiscal year under review came to JPY86.0 billion, a decrease of JPY10.3 billion from the end of the previous consolidated fiscal year. Cash flows for the nine months ended December 31, 2021 and the factors contributing to increases or decreases in cash flows are as follows.

(Cash Flow from Operating Activities)

Cash flow from operating activities increased by JPY39.8 billion during the nine months ended December 31, 2021 and increased by JPY23.9 billion from the same period of the previous fiscal year. This is partly attributable to an increase in notes and accounts payable and quarterly profit before income taxes.

(Cash Flow from Investing Activities)

Cash flow from investing activities decreased by JPY35.3 billion during the nine months ended December 31, 2021 and cash outflow increased by JPY0.4 billion from the same period of the previous fiscal year.

(Cash Flow from Financing Activities)

Cash flow from financing activities decreased by JPY18.3 billion during the nine months ended December 31, 2021 and cash outflow increased by JPY22.3 billion from the same period of the previous fiscal year. The main reason for the cash outflow was a decrease in interest-bearing debts.

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

The consolidated earnings forecast for the fiscal year ending March 31, 2022 that was announced in the financial report dated October 29, 2021 has not been revised.

II. Quarterly Consolidated Financial Statements and Key Explanatory Notes

1. Quarterly Consolidated Balance Sheets

(Units: millions of yen)

	End of Full Year As of March 31, 2021	End of Third Quarter As of December 31, 2021
	Amount	Amount
Assets		
Current assets		
Cash and deposits	99,518	89,289
Notes and accounts receivable	282,928	—
Notes and accounts receivable - trade and contract assets	—	280,650
Inventory assets	200,155	229,199
Other	34,276	35,297
Allowance for doubtful accounts	(3,258)	(4,068)
Total current assets	613,620	630,368
Fixed assets		
Tangible fixed assets		
Land	108,305	108,992
Other (net)	167,499	179,324
Total tangible fixed assets	275,804	288,317
Intangible fixed assets		
Goodwill	29,364	32,260
Other	47,432	47,181
Total intangible fixed assets	76,796	79,440
Investments and other assets		
Other	68,021	70,061
Allowance for doubtful accounts	(3,556)	(3,648)
Total investments and other assets	64,465	66,414
Total Fixed assets	417,064	434,171
Total assets	1,030,684	1,064,539

(Units: millions of yen)

	End of Full Year As of March 31, 2021	End of Third Quarter As of December 31, 2021
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable - trade	160,260	169,500
Short-term loans payable	31,698	20,453
Current portion of long-term loans payable	3,270	8,122
Commercial Papers	—	13,000
Provision for construction warranties	18,192	15,634
Other provision amount	2,857	2,268
Other	124,885	122,869
Total current liabilities	341,162	351,847
Non-current Liabilities		
Bonds payable	50,000	50,000
Long-term debt due after one year	39,471	28,443
Allowance	151	154
Defined benefit liability	51,662	53,058
Deferred income taxes on revaluation	20,437	20,434
Other	22,873	23,812
Total non-current liabilities	184,594	175,901
Total liabilities	525,756	527,748

	End of Full Year As of March 31, 2021	End of Third Quarter As of December 31, 2021
	Amount	Amount
Net assets		
Shareholders' equity		
Share capital	30,872	30,872
Capital surplus	26,071	26,071
Retained earnings	390,336	407,359
Treasury shares	(1,100)	(1,120)
Total Shareholders' equity	446,179	463,182
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,030	4,952
Deferred gains or losses on hedges	(834)	(1,176)
Revaluation reserve for land	40,342	40,442
Foreign currency translation adjustments	1,016	16,768
Remeasurements of defined benefit plans	(1,035)	(1,739)
Total accumulated other comprehensive income	44,518	59,247
Non-controlling interests	14,230	14,361
Total net assets	504,928	536,790
Total liabilities and net assets	1,030,684	1,064,539

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

Quarterly Consolidated Income Statements

Nine months ended December 31, 2021

(Units: millions of yen)

	Previous Third Quarter April 1, 2020 to December 31, 2020	Present Third Quarter April 1, 2021 to December 31, 2021
	Amount	Amount
Net sales	599,871	681,108
Cost of sales	465,380	528,417
Gross income	134,492	152,691
Selling, general and administrative expenses	98,151	108,545
Operating profit	36,341	44,146
Non-operating profit		
Interest income	652	561
Dividend income	284	375
Foreign exchange profit	—	145
Other	1,451	2,258
Total non-operating profit	2,386	3,340
Non-operating expenses		
Interest expenses	732	570
Foreign exchange losses	1,331	—
Patent-related expenses	739	877
Other	2,365	3,168
Total non-operating expenses	5,166	4,616
Ordinary profit	33,561	42,871
Extraordinary losses		
Impairment loss	—	370
Total extraordinary losses	—	370
Profit before income taxes	33,561	42,501
Income taxes	11,714	13,771
Profit	21,847	28,730
Profit attributable to no-controlling interests	1,213	422
Profit attributable to owners of parent	20,635	28,308

Quarterly Consolidated Statement of Comprehensive Income
Nine months ended December 31, 2021

(Units: millions of yen)

	Previous Third Quarter April 1, 2020 to December 31, 2020	Present Third Quarter April 1, 2021 to December 31, 2021
	Amount	Amount
Profit	21,847	28,730
Other comprehensive income		
Valuation difference on available-for-sale securities	1,722	(81)
Deferred gains or losses on hedges	621	(340)
Foreign currency translation adjustments	(5,396)	16,358
Adjustment to retirement benefits	364	(712)
Share of other comprehensive income of entities accounted for using equity method	7	7
Total other comprehensive income	(2,682)	15,233
Comprehensive income	19,165	43,963
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	18,017	42,937
Quarterly comprehensive income attributable to non-controlling interests	1,148	1,026

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

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

There are no applicable items.

(Notes regarding Significant Fluctuations to Shareholders' Equity)

There are no applicable items.

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

(Calculation of tax expenses)

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

(Changes to Accounting Policies)

(Application of the Accounting Standard for Revenue Recognition)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 of March 31, 2020; hereinafter referred to as the "Accounting Standard for Revenue Recognition"), etc. has been applied since the beginning of the first quarter of the current consolidated fiscal year under review. Due to this, when promised goods or services are transferred to customers, revenue is to be recognized in an amount which we expect to receive in exchange for those goods or services.

Sales incentives and late payment charges arising in the course of performance of contracts were previously recorded as "cost of goods sold," "selling, general and administrative expenses" or "non-operating expenses" but as a result of the application mentioned above, we have changed the method so that those incentives and charges are deducted from sales and are recognized as variable consideration or consideration paid to customers, taking into account the actual state of transactions.

Furthermore, previously, the percentage-of-the-completion method was applied to construction contracts for which outcomes for a portion completed are deemed certain and the completed-contract method was applied to other construction contracts. However, we have changed the methods so that with regard to obligations that are fulfilled over a certain period, the progress of work related to fulfillment of the obligations is estimated and revenue is recognized based on such estimate of the progress over that certain period. In the case of obligations that are not fulfilled over a certain period, revenue is recognized when obligations are fully fulfilled with such obligations deemed to be fulfilled at a certain point in time.

The application of the Accounting Standard for Revenue Recognition, etc. is subject to the transitional treatment set forth in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retrospectively applying the new accounting policy to periods prior to the beginning of the first quarter of the current consolidated fiscal year under review was added to or subtracted from the beginning balance of retained earnings for the first quarter of the current consolidated fiscal year under review, and thus the new accounting policy was applied from such beginning balance. However, the new accounting policy was not retrospectively applied to contracts where almost all amounts of revenue for periods prior to the beginning of the first quarter of the current consolidated fiscal year under review were recognized in accordance with the previous treatment, by applying the method set forth in Paragraph 86 of the

Accounting Standard for Revenue Recognition.

The effect of this change on profits and losses and the beginning balance of retained earnings for the third quarter of the current consolidated fiscal year under review is minor.

Due to the application of the Accounting Standard for Revenue Recognition, etc., “Notes and accounts receivable - trade” which were included in “Current assets” in the consolidated balance sheets for the previous consolidated fiscal year, are included in “Notes and accounts receivable - trade and contract assets” from the first quarter of the current consolidated fiscal year under review. In accordance with the transitional treatment set forth in Article 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous consolidated fiscal year have not been restated in accordance with the new approach to presentation.

(Application of the Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 of July 4, 2019; hereinafter referred to as the “Accounting Standard for Fair Value Measurement”), etc. has been applied since the beginning of the first quarter of the current consolidated fiscal year under review. In accordance with the transitional treatment set forth 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 of July 4, 2019), the new accounting policy set forth in the Accounting Standard for Fair Value Measurement, etc. is to be applied going forward. Note that this change has no effect on financial statements for the third quarter of the current consolidated fiscal year under review.

(Subsequent Events of Significant Importance)

There are no applicable items.

III. Supplemental Information

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

As described in “I. 1. Explanation of Business Performance,” the reporting segments have been changed since the fiscal year ending March 31, 2022.

(1) Orders Received

(Units: millions of yen)

Segment	April 1, 2020 to December 31, 2020	April 1, 2021 to December 31, 2021	Y/Y Change	
	Amount	Amount	Amount	%
Mechatronics	99,775	146,520	46,745	46.9
Industrial Machinery	126,084	199,185	73,101	58.0
Logistics & Construction	198,480	297,897	99,417	50.1
Energy & Lifelines	133,117	141,513	8,396	6.3
Others	4,324	4,721	397	9.2
Total	561,780	789,836	228,056	40.6

(2) Sales and operating profit/loss

(Units: millions of yen)

Segment	April 1, 2020 to December 31, 2020		April 1, 2021 to December 31, 2021		Y/Y Change	
	Sales	Operating profit/loss	Sales	Operating profit/loss	Sales	Operating profit/loss
Mechatronics	97,363	2,272	117,586	4,756	20,223	2,484
Industrial Machinery	147,857	13,106	163,661	13,205	15,084	99
Logistics & Construction	211,394	11,431	249,099	13,275	37,705	1,843
Energy & Lifelines	138,790	8,188	146,265	11,073	7,475	2,885
Others	4,467	1,412	4,497	1,846	29	434
Adjustment	-	(69)	-	(7)	-	61
Total	599,871	36,341	681,108	44,146	81,237	7,805

(3) Balance of Orders Received

(Units: millions of yen)

Segment	End of Full Year As of March 31, 2021	April 1, 2021 to December 31, 2021	Y/Y Change	
	Amount	Amount	Amount	%
Mechatronics	46,449	75,383	28,934	62.3
Industrial Machinery	85,179	120,702	35,524	41.7
Logistics & Construction	125,711	174,509	48,798	38.8
Energy & Lifelines	275,528	270,776	(4,752)	(1.7)
Others	1,120	1,344	224	20.0
Total	533,987	642,714	108,727	20.4

Business segments of the Company are categorized as follows.

Businesses	Main Products
Mechatronics	Power transmission, control equipment, motors, inverters, laser processing systems, precision positioning equipment, control components
Industrial Machinery	Plastics machinery, film forming machines, cryogenic equipment, precision forgings, semiconductor production equipment, ion accelerators, medical machines and equipment, forging press machines, machining tools, air-conditioning equipment, defense equipment
Logistics & Construction	Hydraulic excavators, mobile cranes, road machinery, material handling systems, logistics systems, automated parking systems
Energy & Lifelines	Private power generation facilities, boilers, air pollution control equipment, water and sewage treatment systems, industrial waste treatment facilities, turbines, pumps, process equipment, pressure vessels, mixing vessels, food processing machinery, ship

2. (Summary) Quarterly Consolidated Cash Flows Statement

(Units: millions of yen)

	Previous Second Quarter April 1, 2020 to December 31, 2020	Present Second Quarter April 1, 2021 to December 31, 2021	Y/Y Change
Profit before income taxes	33,561	42,501	8,939
Depreciation	22,272	22,909	637
(Increase) decrease in notes and accounts receivable	1,049	9,563	8,514
(Increase) decrease in inventories	(16,869)	(25,123)	(8,253)
Increase (decrease) in notes and accounts payable - trade	(13,231)	3,172	16,402
Payments for income taxes	(12,375)	(16,030)	(3,655)
Other	1,567	2,844	1,278
Cash flows from operating activities	15,974	39,836	23,862
Purchase of fixed assets	(30,614)	(30,633)	(19)
Other	(4,243)	(4,616)	(373)
Cash flows from investing activities	(34,857)	(35,250)	(393)
Increase (decrease) in loans payable	11,523	(6,054)	(17,577)
Cash dividends paid	(5,394)	(11,129)	(5,736)
Other	(2,110)	(1,114)	996
Cash flows from financing activities	4,019	(18,298)	(22,317)
Other	(476)	3,461	3,937
Cash and cash equivalents at beginning of year	83,630	96,242	12,612
Cash and cash equivalents at end of quarter	68,290	85,992	17,702