

# 2021 Annual Report

(Year ended March 31, 2021)



# Sumitomo's Business Philosophy

Sumitomo's Business Philosophy grew out of the guiding principles set down by the founding father of the Sumitomo family, Masatomo Sumitomo (1585-1652), in Monjuin Shiigaki (the Aphorisms of Monjuin, which describes how a merchant should conduct his business). Sumitomo's Business Philosophy has been passed down and elaborated through the long history of Sumitomo. The essence of the Philosophy was distilled in the "Business Principles" established in 1891, from which the 1928 Sumitomo "Business Rules" took over the two articles below.

## Sumitomo's Business Philosophy

### Business Principles

- 1 Sumitomo shall achieve prosperity based on solid foundation by placing prime importance on integrity and sound management in the conduct of its business.
- 2 Sumitomo's business interest must always be in harmony with public interest; Sumitomo shall adapt to good times and bad times but will not pursue immoral business.

Note: Further details of Sumitomo's history and Sumitomo's Business Philosophy are available at the website of the Sumitomo Group Public Affairs Committee.

# Corporate Principles of the Sumitomo Precision Products Group

Following the Sumitomo's Business Philosophy, the Sumitomo Precision Products group conducts business on the following corporate principles. In so doing, we fulfill our responsibilities for diversified stakeholders in ensuring sustained business development and an increase in corporate value.

## "Toward a Promising Future" Our Corporate Principles

Sumitomo Precision Products will continue to increase its global presence with innovative technology, and will pave its way toward a prosperous tomorrow.

### ① COMPLIANCE

Complying with laws and regulations, we will conduct all business activities based on the highest ethical standards.

### ② CUSTOMER SATISFACTION

Focusing intensely on market demands and clients' needs, we will continue to offer quality products and services to achieve the highest customer satisfaction possible.

### ③ CHANGE & CHALLENGE

Responding sensitively to global trends, we will boldly try to fully meet these changes and keep our eyes open to new opportunities that accompany this changing atmosphere.

### ④ HUMAN RESOURCES

Respecting our human resources, we will provide a supportive environment that encourages each individual's fulfillment and harmony among all employees.

### ⑤ COEXISTENCE WITH SOCIETY

By playing an active role in society, we will promote good citizenship with our community and harmony with the surrounding environment.



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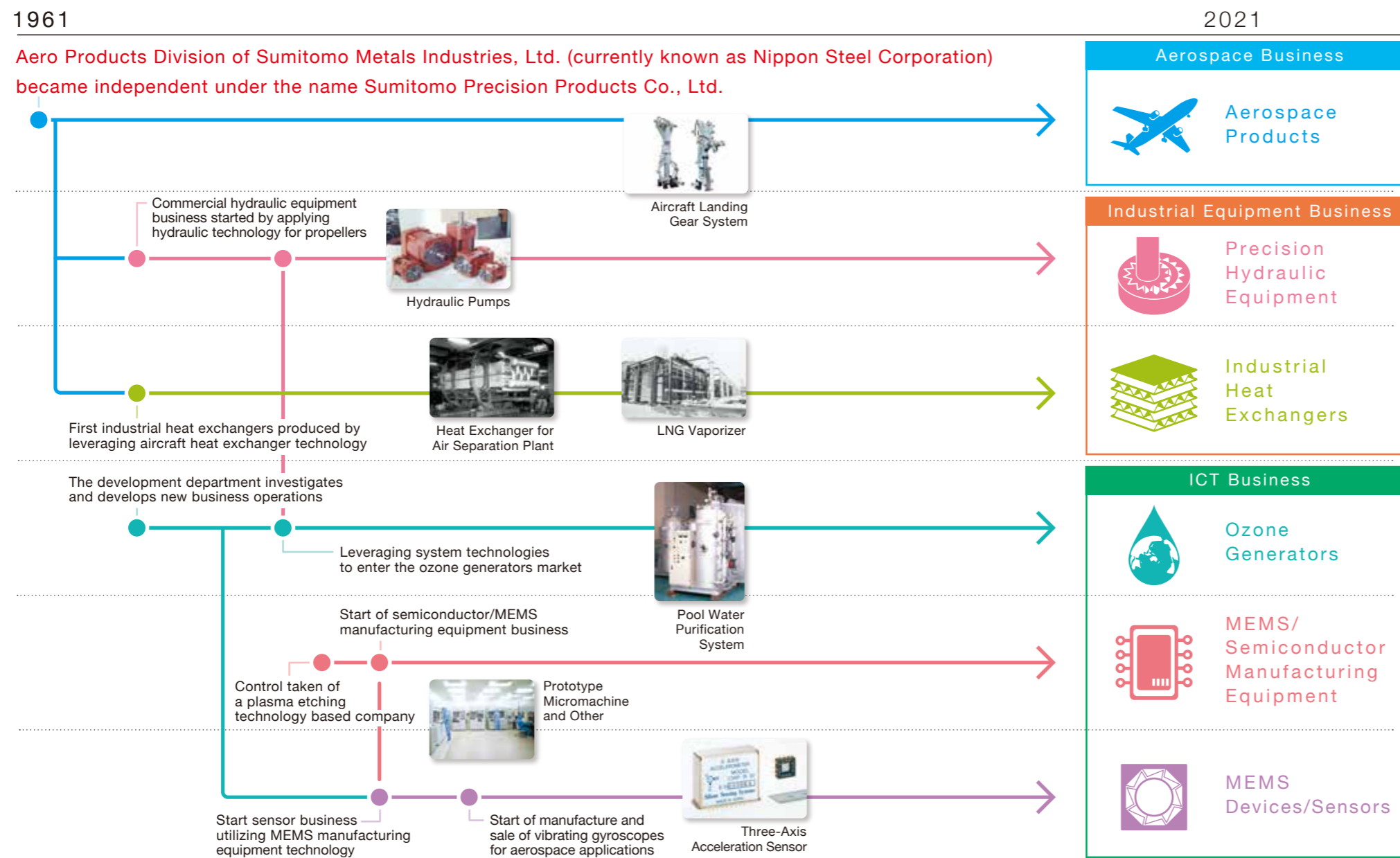
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# Growth History

**With precision technologies and precision manufacturing, we innovate the world's highest quality of "Precision" that supports a sustainable society, ahead of anyone else.**

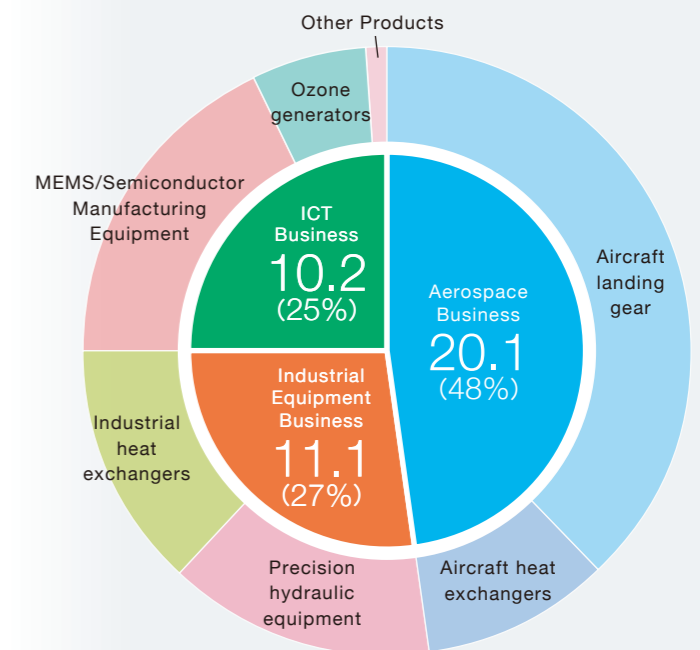
We started our business with a focus on precision machining technology applied to high-strength metallic materials used in aerospace products. With the aim of becoming a company that solves social issues and serves society, we have grown while pursuing and developing precision technology and precision manufacturing in the Aerospace, Industrial Equipment, and ICT businesses.

- ▶ Contributions to Japanese sovereign security by providing legs for supporting aircraft owned by the Ministry of Defense as the sole manufacturer of aircraft landing gear systems in Japan.
- ▶ Advanced heat management technology applied to heat exchangers for aircraft engines helps improve the fuel economy in aircraft.
- ▶ Industrial heat exchangers available in an extensive product lineup contribute globally to the safe supply of energy and industrial gases and to the cooling of electronic devices ever evolving toward higher performance with higher heat generated.
- ▶ Precision hydraulic equipment with superb durability in harsh environments, low consumption, and low-noise operation contributes to global manufacturing in the field of injection molding machines.
- ▶ MEMS and semiconductor manufacturing equipment incorporating our proprietary deep reactive ion etching of silicon and other technologies help improve safety and convenience in people's lives by improving the sensitivity and detection accuracy of diverse kinds of electronic devices.



## ▶ Business Mix (results for fiscal 2020)

**Net Sales 41.5 billion yen**



\* Starting in fiscal 2020, we have reorganized our business portfolio for greater sophistication in management and governance, and revised our reporting segments.

### Notes on forward-looking statements

Information provided in this annual report contains certain forward-looking statements concerning performance forecasts and projections made by Sumitomo Precision Products using information available at present (performance forecasts for fiscal 2021 are the figures announced on May 14) and is subject to various risks and uncertainties. Due to various changes, actual results may vary from those projected in the forward-looking statements.

# Message from the President

The Sumitomo Precision Products Group (the Group) has set the Mid-term Management Plan for Fiscal 2021 to 2023.

The slogan in the Mid-term Management Plan is “With precision technologies and precision manufacturing, we innovate the world’s highest quality of ‘Precision’ that supports a sustainable society, ahead of anyone else.” Under this slogan, the Group pursues our precise technology in manufacturing and sustainable growth by solving social issues through our differentiated products and know-how in production.



Representative Director,  
President

*H. Takahashi*

## Overview of Business Performance in Fiscal 2020

In fiscal 2020, the Group had consolidated net sales of ¥41.45 billion by decreasing 18.7% from last year, operating loss of ¥0.5 billion and ordinary loss of ¥0.44 billion with the impact of order decrease under COVID-19 and rebound after high level of backorder at beginning of fiscal 2019.

The Group estimated and recorded ¥1.48 billion as provision for customer compensation expenses in fiscal 2020 in addition to ¥1 billion already recorded in last year. This expense is related to the incident found in December 2019 caused by non-conformity issues in plate-fin type heat exchanger production. While the Group paid some compensation to the customers during this fiscal year, the Group also recognized additional compensation expense as seen progress of negotiation with the customers.

As a result the Group had loss of ¥2.57 billion attributable to owners of parent in fiscal 2020.

We regret that the Group decided to suspend our year-end dividend for fiscal 2020. The Group needs to focus on solid financial foundation and ensures short-term liquidity during uncertain situation with new threat caused by various novel coronavirus. We sincerely apologize our decision to our shareholders.

## Outlook for Fiscal 2021

The Group made a consolidated financial forecast for fiscal 2021. The Group will expect ¥44.66 billion in sales, ¥0.36 billion in operating income, ¥0.6 billion in ordinary income and ¥0.33 billion in income attributable to owners of parent. The Group forecasts sales decrease in Aerospace Business due to continuous negative impact by COVID-19 for commercial aircraft and the rebound from temporary increase of sales in fiscal 2020 for defense equipment, meanwhile sales increase is expected in Industrial Equipment Business and ICT Business due to recovery trend seen in Chinese Economy and customer’s investment in automotive and semiconductor sectors.

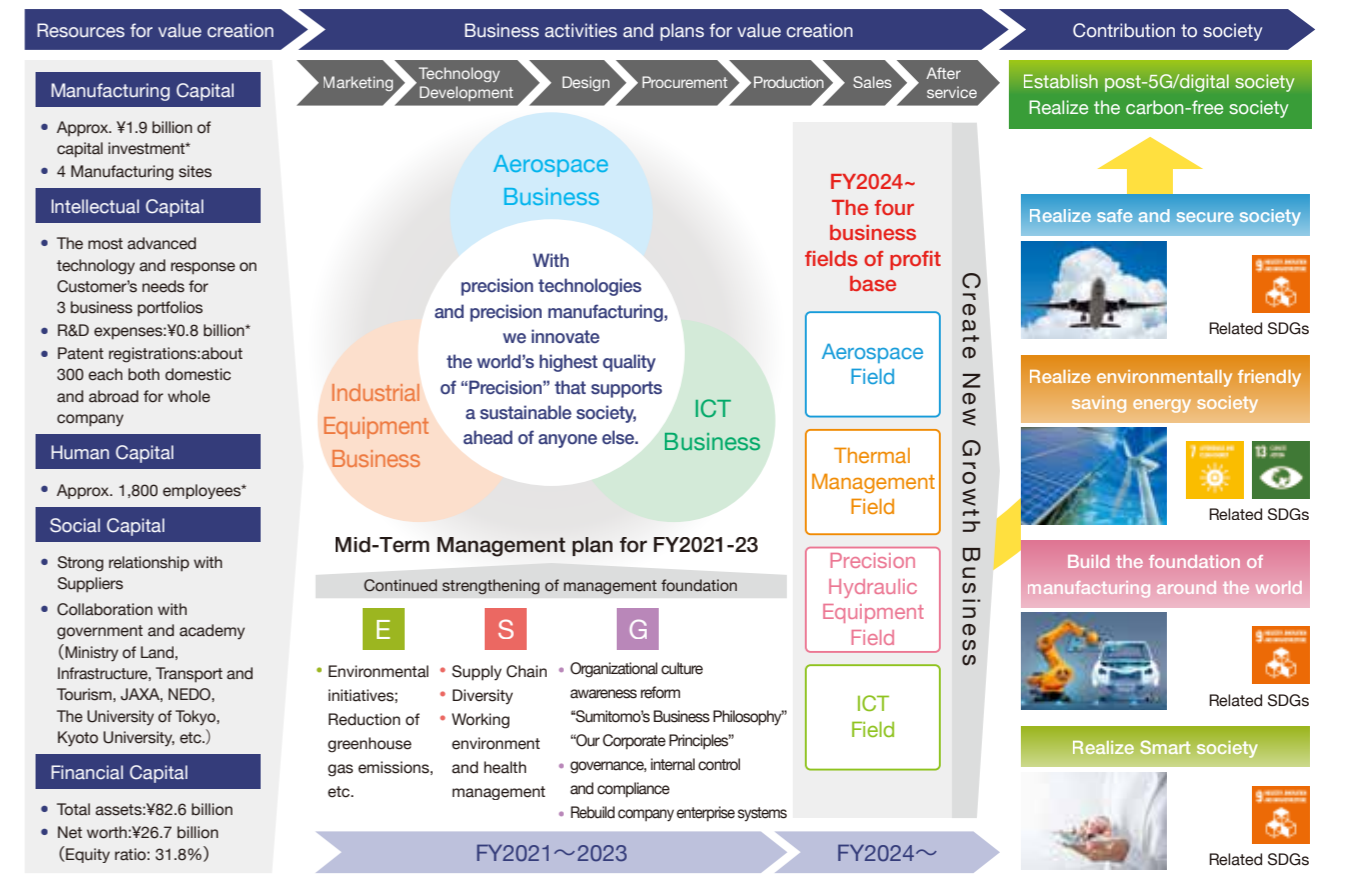
The Group plans to suspend its interim dividend and pay ¥25 per share as the year-end dividend for fiscal 2021.

## Mid-term Management Plan

### Sumitomo Precision Products Group’s Growth Strategy (for the period from the present until 2030)

We have the Mid-term Management Plan for fiscal 2021 to 2023 to conduct our business activities in the current three domains of “Aerospace Business,” “Industrial Equipment Business,” and “ICT Business.” Under the slogan “With precision technologies and precision manufacturing, we innovate the world’s highest quality of ‘Precision’ that supports a sustainable society, ahead of anyone else,” we intend to solve various social issues by pursuing and developing precision technology and precision manufacturing, or in other words, by virtue of our differentiated technologies and manufacturing expertise. For this goal, we will make optimal use of the capital goods of the Group. For the future, we will use our precision technology and precision manufacturing to (1) realize safe and secure society, (2) realize environmentally

friendly saving energy society, (3) build the foundation of manufacturing around the world, and (4) realize Smart society. To contribute to society through these achievements, we will strive for sustainable growth while creating new growth businesses across the frameworks of the aforementioned current three businesses, with our four target markets in mind, which are aerospace, thermal management, precision hydraulic equipment, and ICT field.



# Message from the President

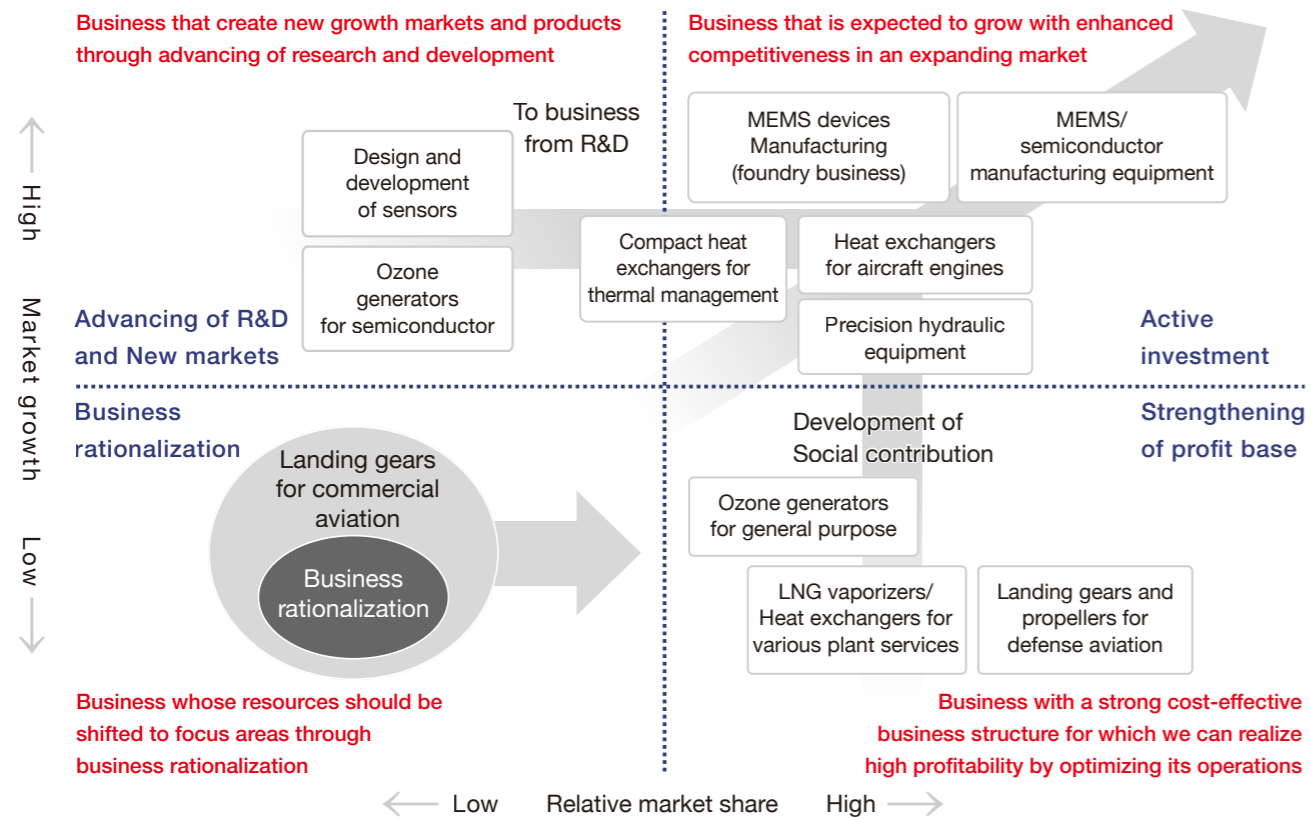
## Business portfolio

To make the Mid-term Management Plan, we created a business portfolio, organizing our aerospace, industrial equipment, and ICT products by their application. The portfolio defines our desired roles of each of these businesses.

With its differentiated technologies, Sumitomo Precision Products intends to grow the businesses with enhanced competitiveness in an expanding market plotted in the upper right quadrant of the portfolio map below, which are MEMS/semiconductor manufacturing equipment, MEMS devices manufacturing (foundry business), heat exchangers for aircraft engines, compact heat exchangers for thermal management, and precision hydraulic equipment. Next, in the businesses plotted in the upper left quadrant, i.e. design and development of sensors and ozone generators for semiconductor, Sumitomo Precision Products will create new growth markets and products

through advancing of research and development. Additionally, Sumitomo Precision Products will realize high profitability by optimizing its operations in a strong cost-effective businesses plotted in the lower right quadrant, which are landing gears and propellers for defense aviation, LNG vaporizers/heat exchangers for various plant services, and ozone generators for general purpose, in which the company has long contributed, and will further contribute, to society by supplying its products for infrastructure. Finally, in landing gears for commercial aviation plotted in the lower left quadrant, Sumitomo Precision Products intends to shift the resources to focus areas through business rationalization.

As described above, Sumitomo Precision Products will execute the Mid-term Management Plan by clearly defining expected roles.



## Our businesses and products (by application)

Business	Product	Application
Aerospace Business	Aircraft landing gear business	Landing gears for commercial aviation Landing gears and propellers for defense aviation
	Aircraft heat exchangers business	Heat exchangers for aircraft engines
Industrial Equipment Business	Industrial heat exchangers business	Compact heat exchangers for thermal management LNG vaporizers/Heat exchangers for various plant services
	Precision Hydraulic Equipment business	Precision hydraulic equipment/ Coolant pumps
	MEMS/Semiconductor Manufacturing Equipment business	MEMS/Semiconductor Manufacturing Equipment (Deep reactive ion etching of silicon/ etching of compounds for 5G applications)
ICT Business	MEMS devices/Sensor business	MEMS devices manufacturing (foundry business) Design and development of Sensors
	Ozone Generators business	Ozone generators for semiconductor /general purpose

## Financial Targets

Under the previous Mid-term Management Plan (FY 2018–2020), with the aim of achieving an operating income of ¥4 billion for fiscal 2020, we discontinued or downsized business in unprofitable divisions and have placed new investment under strict control. Consequently, an operating income of ¥3.3 billion was achieved in fiscal 2019. However, operating income turned to loss in fiscal 2020 principally due to decreasing orders under the impact of the spread of COVID-19.

Under the current Mid-term Management Plan, we will make the most of

### Financial Targets

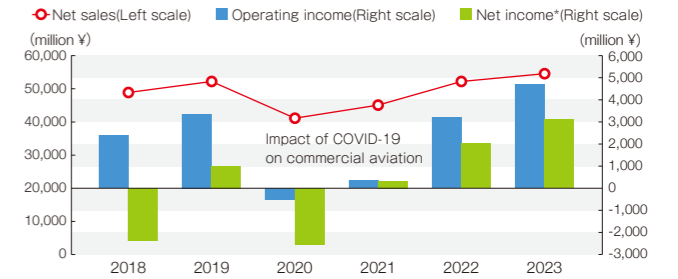
	2021	2022	2023
Net sales	¥44.6billion	¥52.0billion	¥54.5billion
Operating income	¥0.36billion	¥3.2billion	¥4.7billion
Net income*	¥0.33billion	¥2.0billion	¥3.1billion

\* Net income attributable to owners of the parent

the capital in hand by conducting business activities selectively and intensively so as to recover, on a company-wide basis, the amount of sales lost under the impact of the spread of COVID-19. We also strengthen our profit base by creating a business portfolio.

The current Mid-term Management Plan sets company goals of achieving net sales of ¥44.6 billion, ¥52.0 billion, and ¥54.5 billion, operating income of ¥0.36 billion, ¥3.2 billion, and ¥4.7 billion, and net income of ¥0.33 billion, ¥2.0 billion, and ¥3.1 billion for fiscal 2021, 2022, and 2023, respectively.

### Result and Target for Net Sales and profit from FY2018-2023



\* Net income attributable to owners of the parent

Regarding profitability, financial discipline, and dividends, until fiscal 2020, net assets were undermined due to the incident of overcharged defense equipment, the non-conformity issues concerning plate-fin heat exchangers, which should comply with the High Pressure Gas Safety Act, and the resolving of the issue of insufficient funding for retirement benefit obligation. In this situation, we have wound up unprofitable businesses, programs, and affiliates and reduced assets. Moreover, we have been affected by the spread of COVID-19. Thus, considering strengthening of our financial standing and ensuring short-term liquidity to be of the highest priority, we have decided to suspend our year-end dividend for fiscal 2020.

For fiscal 2021 and subsequent years, while continuing to reduce assets, we will make investment for growth, aiming to achieve compatibility between growth and financial strength and to ensure stable and continued dividends.

A profitability target of 9% ROE is set for fiscal 2023. A financial discipline target of turning cumulative free cash flow for three years into a positive, with the D/E ratio at the end of fiscal 2023 being no more than 0.8.

Regarding financial discipline, strict investment criteria are established based among others on NPV and IRR to place new investment under discipline.

Our basic dividend policy is to stably and continuously pay dividends to our shareholders. While adhering to this basic policy, we intend to pay attention to

internal reserves for enhancing our corporate strength and for future business development. Additionally, we will assess our business performance trends and the business environment around Sumitomo Precision Products in an integrated manner. For fiscal 2021, we plan to pay an annual dividend of ¥25 per share (suspended interim dividend and ¥25 year-end dividend).

Profitability target	Financial discipline
fiscal 2023 ROE 9%	<ul style="list-style-type: none"> <li>Turning cumulative free cash flow for three years into a positive</li> <li>The D/E ratio at the end of fiscal 2023 being no more than 0.8 (Net D/E ratio 0.55)</li> </ul>
Basic dividend policy	
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# Message from the President

## Financial Targets (by Business)

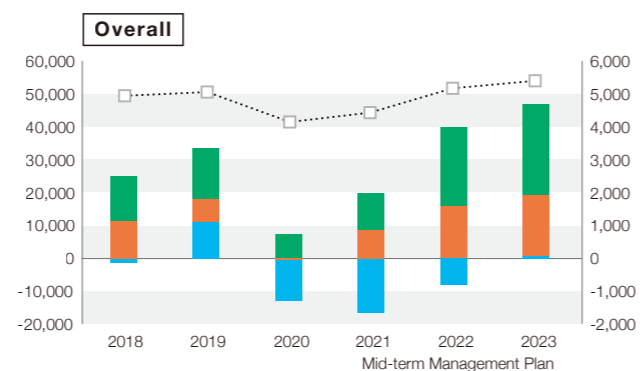
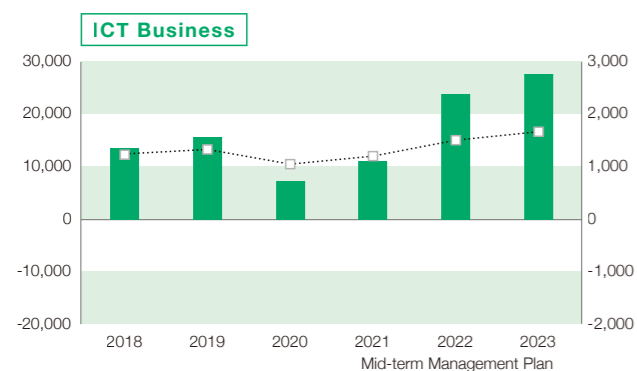
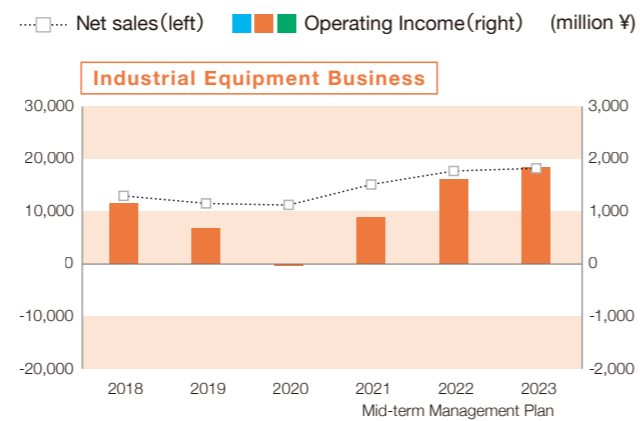
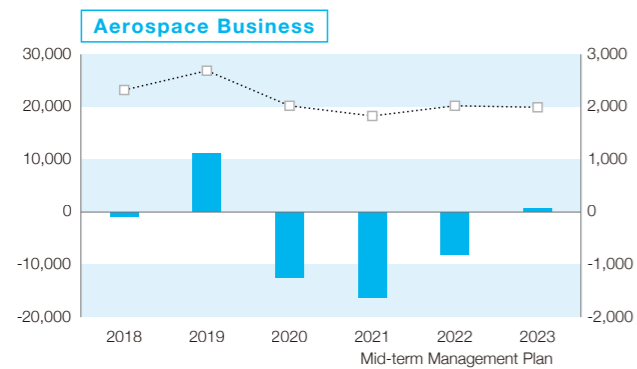
In fiscal 2021, the Aerospace Business is expected to be in the loss by more than ¥1 billion under the impact of the spread of COVID-19. However, we will pull it back into the profits by the end of fiscal 2023 by cutting fixed costs in the commercial aviation business and taking other thorough rationalization while earning stable profits in the defense aviation business. We will develop a framework that will boost income from resurging demand for flights after COVID-19 subsidies.

In the Industrial Equipment Business, we move forward with production activities in customer business relation in fiscal 2021. In fiscal 2022, sales in this business should return to the level recorded before the non-conformity issues. In the precision hydraulic equipment business, we intend to secure

a larger share in the injection molding machine market in China to stably make profits.

In the ICT Business, customer investment in MEMS and semiconductor manufacturing equipment was off-peak season in fiscal 2020. Both sales and operating income are expected to increase in fiscal 2021 and subsequent years. During the period of the current Mid-term Management Plan, we will make continuous profits in the ICT Business.

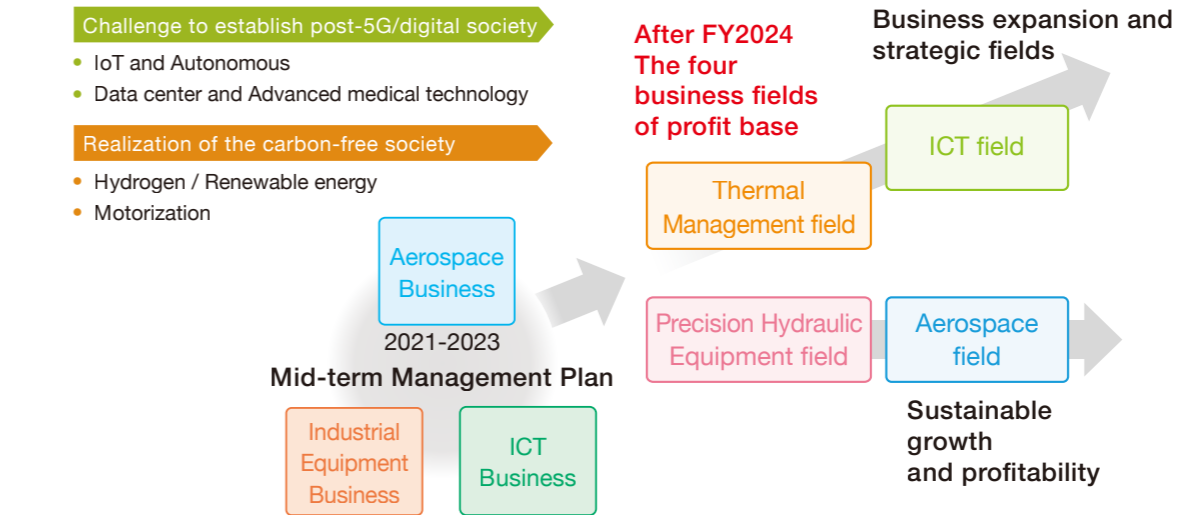
As described above, we have plans to enhance the earning power of the Sumitomo Precision Products Group by conducting business activities selectively and intensively.



## The four business fields of our profit base ~ establish post-5G/digital society and realize the carbon-free society

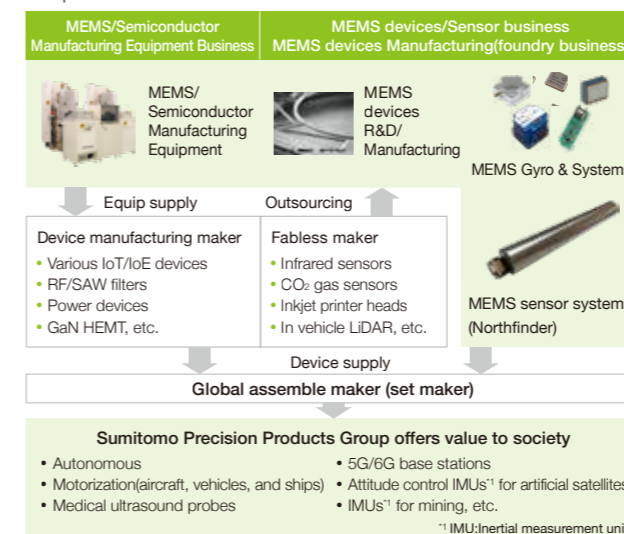
Envisioning our business after the Mid-term Management Plan, we should address the aerospace field, the thermal management field, the precision hydraulic equipment field, and the ICT field. With these four markets in mind, we will strive for achieving sustainable growth across the frameworks of our current businesses. In particular, ICT and thermal management will be

viewed as business expansion and strategic fields. With this notion, we will create new growth businesses by pursuing and developing our precision technology and manufacturing capability to establish post-5G/digital society and realize the carbon-free society.



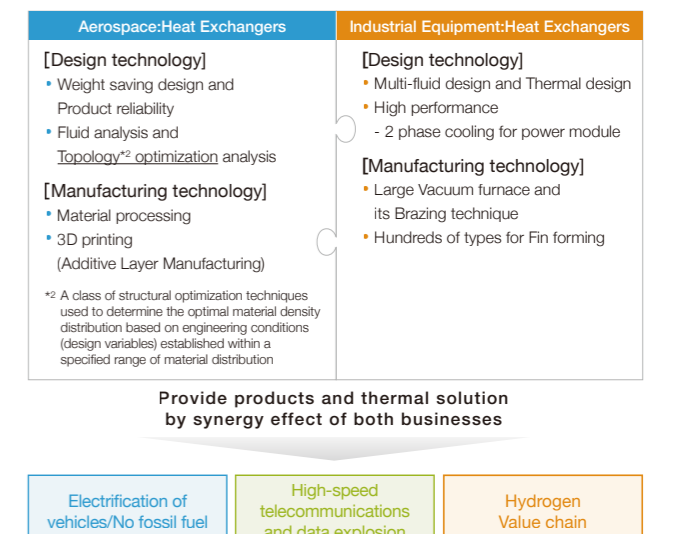
### ICT Field

In order to develop high-speed communications for various devices and systems in anticipation of motorization, energy saving and advanced medical technology, we will contribute to establishing post-5G/digital society and realizing the carbon-free society while providing our technology strength and also products and services.



### Thermal Management Field

We'll challenge to the thermal management market, and provide new products and thermal solutions by bring our technologies and knowledge in order to meet the rapidly increasing needs for thermal control under the situation of accelerating the trend of digital transformation and carbon neutral.



The Sumitomo Precision Products Group will continue to contribute to establishing post-5G/digital society and realizing the carbon-free society by identifying future market needs and trends, pursuing and developing the

Group's proprietary technologies and manufacturing expertise, and drawing on synergy between its businesses.

# Financial Highlights

For the year ended March 31, 2021

## Results for Fiscal 2020

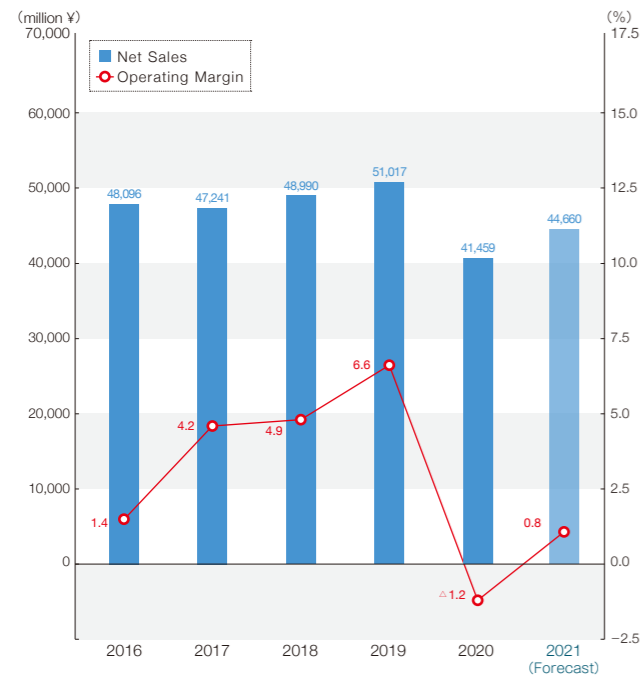


\* Net income attributable to owners of the parent

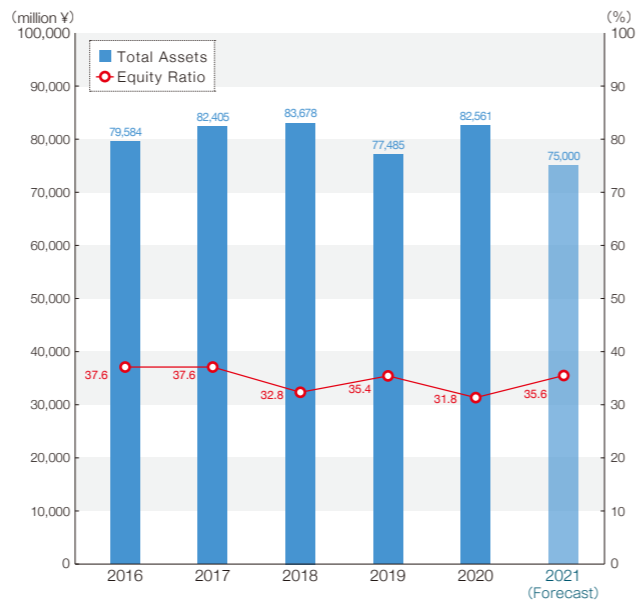
	2016	2017	2018	2019	2020	2021 (Forecast)
Net sales (million ¥)	48,096	47,241	48,990	51,017	41,459	44,660
Operating income (million ¥)	679	1,969	2,390	3,353	△ 500	360
Operating margin (%)	1.4	4.2	4.9	6.6	△ 1.2	0.8
Net income attributable to owners of the parent (million ¥)	△ 1,552	508	△ 2,360	1,002	△ 2,576	330
Total assets (million ¥)	79,584	82,405	83,678	77,485	82,561	75,000
Equity ratio (%)	37.6	37.6	32.8	35.4	31.8	35.6
Per share						
Net income (¥)	△ 293.23	96.03	△ 446.00	189.36	△ 486.87	62.36
Cash dividends (¥)	50	50	25	0	0	25

\* The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) and other standards will be applied at the beginning of the fiscal year ending March 2022. Accordingly, the financial forecasts for fiscal 2021 present figures determined after application of these standards.  
 \* The Group found an error in the accounting treatment in the previous fiscal years, thus we made corrections on September 4, 2020. The figures from fiscal 2016 to fiscal 2018 reflect the corrections.  
 \* Effective October 1, 2018, we conducted a reverse stock split at a ratio of 1 share for every 10 shares of common stock.  
 \* "Net income per share" and "Cash dividends per share" are calculated on the assumption that the reverse stock split was carried out at the beginning of fiscal 2016.

### Net Sales / Operating Margin



### Total Assets / Equity Ratio



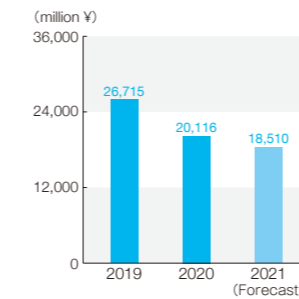
# Segment Overview

## At a Glance

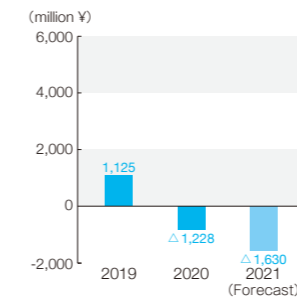
### Aerospace Business

Net sales breakdown **48.5%**

#### Net Sales



#### Operating income



#### Overview of Fiscal 2020

We had net sales of ¥20.11 billion decreased by 24.7% from last year and operating loss of ¥1.22 billion due to order decrease for commercial aircraft equipment.

#### Outlook for Fiscal 2021

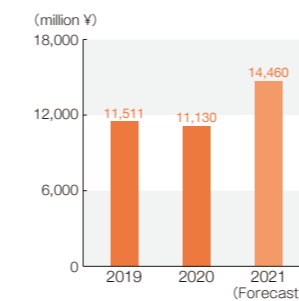
We forecast decreasing net sales of ¥18.51 billion and operating loss of ¥1.63 billion due to continuous slack with COVID-19 for commercial aircraft equipment in addition to rebound from temporary increased of sales in fiscal 2020 for defense equipment.

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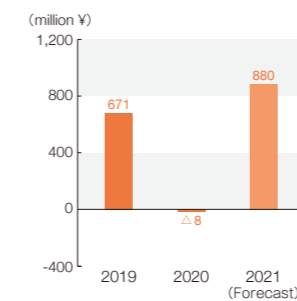
### Industrial Equipment Business

Net sales breakdown **26.9%**

#### Net Sales



#### Operating income



#### Overview of Fiscal 2020

We had net sales of ¥11.13 billion decreased by 3.3% from last year and operating loss of ¥8 million. We had demand increased for precision hydraulic equipment owing to recovery of Chinese economy. However this was not sufficient to cover temporary suspended sales of industrial plate-fin heat exchangers caused by non-conformity issues.

#### Outlook for Fiscal 2021

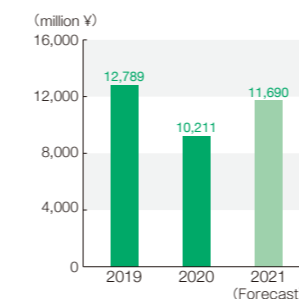
We forecast increasing net sales of ¥14.46 billion and operating income of ¥0.88 billion with continuous demand for precision hydraulic equipment and order increase for industrial plate-fin heat exchangers due to resuming production.

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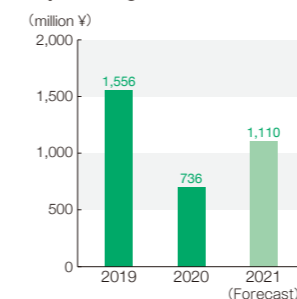
### ICT Business

Net sales breakdown **24.6%**

#### Net Sales



#### Operating income



#### Overview of Fiscal 2020

We had net sales of ¥10.21 billion decreased by 20.2% from last year and operating income of ¥0.73 billion due to temporary decrease of customer's investment in MEMS and semiconductor manufacturing equipment.

#### Outlook for Fiscal 2021

We forecast increasing net sales of ¥11.69 billion and operating income of ¥1.11 billion with recovery of customer's investment in MEMS and semiconductor manufacturing equipment.

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## Business Profile

The Aerospace Business has grown as we developed landing gear systems and heat management systems for engines and air-conditioning equipment and improved our design and manufacturing technologies for aerospace products, in addition to pursuing our inherited business of manufacture and repair of propeller products for the Ministry of Defense. Our products are incorporated in about 80% of the Defense Ministry's air fleet, long contributing to Japanese sovereign security.

Based on our experience in the design and manufacture of products for the Ministry of Defense, we entered the commercial aircraft equipment market and

have established a track record. Regarding the landing gear systems business, we won orders for, and have continuously shipped, landing gear systems for the regional jet CRJ700 manufactured by Bombardier in Canada. In the segment of heat management systems for aircraft engines, our products are used in almost all commercial aircraft engines manufactured by Rolls-Royce for the Boeing 787 and Airbus A350 among others. Moreover, we manufacture and ship heat management systems for air-conditioning systems and auxiliary power systems as well as aircraft engine starters, consistently contributing to the safety of transportation by air as a manufacturer of key aircraft equipment.

## Business Strategy

For aerospace products for the Ministry of Defense, we will maintain or improve our dependable production and repair processes and production technology to assist the safe and systematic operation of aircraft. While adhering to this principle, we will achieve improvements in productivity to ensure a healthy profit base as a private corporation. For equipment for commercial aircraft, the business is affected by the substantial downturn in the aircraft market due to COVID-19. Nevertheless, we will strive for increased orders for products designed for small to medium-sized aircraft, with which the market is expected to recover quickly, while rationalizing the business operations by cutting fixed costs and inventory assets.

In the defense field, we will begin efforts to take part in development of landing gear systems and heat management systems for future fighter aircraft. In the commercial aircraft market segment, we intend to work toward the carbon-free society. Development of more electric or hydrogen-fueled aircraft is under way on a global scale. For these aircraft, we will continue the development of electro-hydrostatic landing gear extension and retraction systems. Additionally, we will work on the development of thermal analysis technology, equipment design, and products, as well as additive manufacturing technology for heat management systems helping exhaust large amounts of heat from aircraft.

## Major Product Lines and Strengths of Sumitomo Precision Products

### Aerospace Products (Landing Gear/Propeller Business)

#### Landing gear systems for commercial aircraft

**CRJ1000**  
(from Bombardier Web Page)

**CRJ700/900/1000 Dressed Main Landing Gear Assy**  
Shock absorption during landing

**CRJ700/900/1000 Dressed Nose Landing Gear Assy**  
Steering during taxiing

- Development process and safety analysis required for developing commercial aircraft plus design capability compliant with JIS Q 9100 and other global standard design specifications
- Precision machining with a focus on manufacturing technology and equipment for cutting and grinding high-strength metal materials
- Manufacturing technology, accumulated expertise, and equipment for heat treatment, various plating processes, and other special processes
- Accumulated expertise and equipment required for assembling and testing hydraulic, pneumatic, and structural components
- MRO framework established in collaboration with our subsidiary that provides servicing, repair, and customer support for landing gear systems and hydraulic equipment

#### Landing gear systems/propellers for defense aircraft

**C-2 Main Landing Gear**  
Shock absorption during landing

**C-2 Nose Landing Gear**  
Steering during taxiing

**P-3C propeller system**  
Driven by an engine to produce thrust

### Heat Management Systems (Aircraft Heat Exchanger Business)

**Trent 1000<sup>®</sup> Engine**  
[Photograph: Courtesy of Rolls-Royce plc.]

**Trent 1000<sup>®</sup> Engine Surface Air Cooled Oil Cooler**

**Trent 1000<sup>®</sup> Engine Fuel Oil Heat Exchanger**

- Heat management technology and joining of metal materials
- Thermal analysis and design technology for heat management systems suitable for aircraft engines
- High efficiency, compact size, and low weight as well as shapes that help reduce air drag contribute to reducing the fuel consumption and noise of aircraft engines.
- Fin design, molding, and manufacturing technologies for maximizing the heat exchange efficiency of heat exchangers
- Product quality and delivery punctuality highly rated by UK-based Rolls-Royce, one of the big three manufacturers of aircraft engines

## Social value of major products

Since its founding, Sumitomo Precision Products has manufactured and shipped landing gear systems, propellers, and other equipment for the Defense Ministry's aircraft and has long provided maintenance and repair services. The company contributes to Japanese sovereign security as these

products assist the operation of aircraft extensively used in the Defense Ministry's peacekeeping operations and rescue and disaster relief activities. Moreover, the company's landing gear systems, heat management systems, and other products for commercial aircraft help ensure safe air transportation.

## Initiatives toward a sustainable society

### Technology development for heat management equipment for electrified/hydrogen-fueled aircraft

In recent years, reducing environmental impact by cutting aircraft's CO<sub>2</sub> emissions has become a key issue across the world. Development efforts are under way for technologies and products for the electrification of, and use of hydrogen fuel by, aircraft. Against this backdrop, it is expected that demand for lightweight, high-performance, and complex-shaped heat exchangers will grow to cool electric equipment, including inverters, batteries, and motors,

and to enable heat exhaustion or recycling for an entire aircraft. Sumitomo Precision Products will continue to strive for the development of thermal analysis technology, equipment design, and products fulfilling market needs while paying attention to the trends in the aviation industry. In addition, it will explore novel manufacturing techniques, such as metallic 3D printing (metallic additive technology).

Thermal analysis example (numerical analysis of fluid flow)

Example of optimized heat exchanger fluid path (optimized topology\*)

Prototype heat exchanger created with a metallic 3D printer

\* A class of structural optimization techniques used to determine the optimal material density distribution based on engineering conditions (design variables) established within a specified range of material distribution

### Development of electric landing gear extension and retraction systems

This is based on results obtained from a project commissioned by the New Energy and Industrial Technology Development Organization (NEDO).

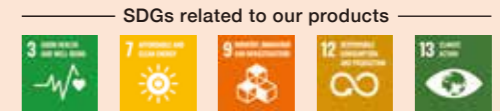
Reducing the environmental impact of aircraft through electrification is receiving attention. To electrify landing gear extension and retraction systems, Sumitomo Precision Products is conducting joint R&D with Airbus in the electro-hydrostatic actuation (EHA) system for landing gear extension and retraction.

While conventional aircraft use engine-driven hydraulic pumps, we will seek to improve fuel efficiency by switching to a system in which an electric motor drives only when hydraulic power is required.

The system under development by Sumitomo Precision Products is highly evaluated by Airbus. The company will work on the development with the aim of mounting the system in next-generation electrified aircraft.

EHA for main landing gear extension and retraction system





Net sales breakdown  
**26.9%**

## Business Profile

The origin of our heat exchangers is an aluminum heat exchanger for aircraft that was developed using our own technology. Today, we provide high-performance heat exchangers of various sizes to a wide range of industries as well as exporting to countries around the world. In addition, we have the world's largest delivery record in LNG (liquid natural gas) vaporizer market. Our precise technology is highly regarded and licensed to an overseas manufacturer. Going forward, we will strive to meet your demands toward the establishment of an efficient energy system by developing and introducing heat exchangers made of not only aluminum but also stainless

steel and titanium.

Furthermore, Sumitomo Precision Products has cultivated the fields of injection molding equipment, general industrial equipment, and transport equipment, leveraging its technologies developed for aircraft hydraulic equipment, and also pioneered the high-pressure coolant pump field, leveraging its hydraulic pump technology. While expanding usage as indicated above, the company develops and manufactures low consumption hydraulic and coolant pumps in consideration of environmental issues.

## Business Strategy

In the industrial heat exchanger segment, Sumitomo Precision Products caused a great deal of inconvenience to its customers and other stakeholders due to certain deviations in the manufacturing and inspection processes of heat exchangers, as announced in fiscal 2019. The company will ensure its commitment to the quality-first policy, and move forward with production activities in customer business relation in fiscal 2021, and move back to its growth trajectory.

Meanwhile, as demand for electronic equipment is growing along with the move forward to a post-5G/digital society, the company will focus on promoting the sale of its products to new customers in the market needing the cooling of electronic components generating more heat than ever before.

Moreover, the company will also focus on the development and supply of

products which are required in each situation such as producing, transporting, and using hydrogen and ammonia so as to be helpful for heat management in the non-fossil energy value chain.

In the precision hydraulic equipment business, in fiscal 2021, we will strengthen our partnership with the Haitian Group, which is the largest manufacturer of injection molding equipment in the world, enhance our facilities, and boost production, taking advantage of the booming Chinese market.

In addition, we will focus on promoting the sale of coolant pumps primarily in China and Taiwan. During the Mid-term Management Plan period, we will boost production, income, and profits with the aim of securing the largest share in the pump segment of the injection molding equipment market in China.

## Major product lines and strengths of Sumitomo Precision Products

### Industrial Heat Exchangers



LNG Vaporizer



Heat Exchanger for Air Separation Plant



Inverter Control Element Cooler



Stainless Steel Heat Exchanger

Technology developed for heat exchangers for aircraft is expanded to the ones for energy applications and industrial equipment.

Since we shipped Japan's first open rack LNG vaporizer (ORV), we have shipped ORVs to our customers in Japan and abroad and secured the largest market share. In addition to ORVs, we offer various other vaporizers, which serve as key systems for natural-gas-fueled thermal power generation. With advanced technology, we have been making contributions to develop the global energy value chain.

Plate-fin heat exchangers from Sumitomo Precision Products have made its name the best brand in applications such as air separation systems for the production of various industrial gases, petrochemical plants, and natural gas liquefaction.

Small, high-performance aluminum coolers are supplied to a broad range of applications, such as transportation systems to electronics systems and others.

Japanese rolling stock equipment manufacturers highly value Sumitomo Precision Products as their main supplier especially for power device coolers for high-speed trains. Our coolers are the most utilized for Japanese bullet train Shinkansen.

Sumitomo Precision Products manufactures stainless steel heat exchangers, which are globally unique for high-pressure and high-temperature applications with various fluids, including hydrogen.

### Precision hydraulic equipment



To supply precision hydraulic pumps featuring low consumption, low pulsation, and low noise for various applications such as transport equipment and general industrial equipment with advantage of technologies developed for aircraft hydraulic equipment.

Ningbo SPP Hydraulics Co., Ltd. was established in China as a joint venture with the Haitian Group which is the largest manufacturer of injection molding equipment in the world. Hydraulic pumps manufactured by Ningbo SPP Hydraulics were selected as the standard for the molding equipment of the Haitian Group. They were also adopted by many other molding equipment manufacturers.

Based on skills and experience gained through years of hydraulic pump sales, we developed the one and only internal gear coolant pump in the industry. We have sold the pump to major machine tool manufacturers and coolant system manufacturers in Japan and abroad, who use it to feed cutting fluid, a critical element in the machining process. Taking advantage of the features of a gear pump, the internal gear coolant pump is small yet exhibits superb durability. In addition, it enables high-pressure feeding of cutting fluid, being helpful for improved machining precision and efficiency.

## Social value of major products

Our durable compact heat exchangers contribute to reducing the burden on the environment through high-efficiency cooling of electronic equipment in the Shinkansen (including the cutting edge N700S series) and other rolling stock as well as various industrial machines. In addition, LNG vaporizers contribute to the reduction of CO<sub>2</sub> emissions, while heat exchangers for plants contribute to energy saving by improving heat efficiency of the entire plant in a broad range of industrial applications across the world, such as petrochemical and industrial gas production.

Injection molding equipment that uses precision hydraulic equipment manufactures all kinds of daily products, including medical goods, helping to improve healthcare services and achieve healthy living. Furthermore, hydraulic pumps, including QT pumps, and coolant pumps have features such as low consumption, low pulsation, and low noise, which contribute to the reduction of energy consumption and an improved work environment at various manufacturing sites. About 60% of the materials used in our pumps are made from recycled materials.

## Initiatives toward a sustainable society

### Development of heat exchangers for non-fossil energy including hydrogen

Sumitomo Precision Products developed, and began to ship, diffusion-bonded heat exchangers that meet strength required to cool ultrahigh-pressure hydrogen at hydrogen stations.

Transported liquid hydrogen is vaporized to use at an extremely low temperature. We try to develop products to vaporize liquid hydrogen by using its extremely low temperature technology acquired from heat exchangers for plants and LNG vaporizer technology.



©Iwatani Corporation diffusion-bonding-type micro channel heat exchanger that is used at hydrogen stations and can adapt to a high-pressure environment

### Find new customers who need coolers for semiconductors, which have higher performance and generating heat

We developed a two-phased circulation-type cooler (Siphorex), which leverages the phase change (boiling and condensing) of coolants, for cooling power devices for high-speed trains and industrial machines. The product has been supplied in large numbers.

To improve this product for higher performance enabled it to cool semiconductors with more highly generated heat more efficiently. Demand for small and high-performance cooling devices becomes dramatically increasing for hyper-scale data centers, power conditioners at mega solar farms, and electrified transportation systems and others. We focus on the sale of this product as one of some next-generation strategic products.



A small, high-performance two-phase cooler (Siphorex), developed for cooling CPUs of servers at data centers

### Development of precision hydraulic equipment

Our hydraulic pumps are installed in various types of manufacturing systems. In this field, development is under way to make the system small and high performance with the aim of saving energy and improving productivity. To respond to these market needs, we will further improve the efficiency of pumps and newly develop equipment suitable for energy-saving operation, utilizing inverters and other devices.

Sumitomo Precision Products coolant pumps are used on machine tools to feed cutting fluid. Parts made from difficult-to-machine materials are abundantly used in electric and fuel cell vehicles, expected to come into wide use for realizing the carbon-free society. Given this trend, the company will help improve the machining efficiency of difficult-to-machine materials by making its coolant pumps more high-pressure capable.



High-pressure coolant pump

## Business Profile

The ICT Business develops and manufactures MEMS and semiconductor manufacturing equipment. Sumitomo Precision Products is a leading company in silicon etching equipment, which is indispensable for MEMS production. In 1995, the company became the first provider in the world of silicon etching equipment. By applying plasma technology, the company develops and sells a wide variety of characteristic equipment. Recently, it has contributed to the manufacture of gallium nitride high-speed ICs and filters for mobile devices in anticipation of IoT and big data utilization in the 5G era and onward.

Furthermore, it leverages the MEMS manufacturing equipment to develop

high-precision sensors and other MEMS devices/Sensors.

Sumitomo Precision Products also provides ozone generators that are used in the water treatment and semiconductor manufacturing fields. The company has been expanding the range of application of ozone generators to water/drainage treatment processes such as decoloration, deodorization and decomposing persistent organic substances, manufacturing processes of chemicals, semiconductors and FPDs, and bleaching processes for pulp and fiber. It will continue to engage in product development with an eye toward advancing into promising areas that can benefit from the potential of ozone, such as healthcare.

## Business Strategy

For MEMS/semiconductor manufacturing equipment, we have core technologies, such as plasma processing technology, thermal processing technology, and automated systems technology, and provide process solutions and a variety of manufacturing systems for MEMSs and compound semiconductors apart from those for mainstream silicon semiconductor products. For the future, we will continue R&D with the aim of enabling and improving compound semiconductor microfabrication and characteristics suitably for the post-5G era and continue to offer value by deploying the results to diverse applications demanded by the market and our customers.

In the field of MEMS devices manufacturing (foundry business), we will lead our competitors in proprietary materials and technology development and provide an integrated MEMS manufacturing service. This way we will be continuously an indispensable supplier for fabless manufacturers who strive to

secure a larger share in the digital device market.

In the sensor business, we will expand the scope of business by developing systems with high-precision MEMS technology at the center. Production of the successfully miniaturized Northfinder, capable of finding cardinal directions with high accuracy, will commence by the end of fiscal 2021. Moreover, inertial sensor products will be placed in the market of mobility guidance, control and navigation deployed for surface, sub-surface, air, sea and sub-sea applications.

For the ozone generators business, we will achieve increases in revenue and profit by expanding sales of ozone generators for ALD(atomic layer deposition) systems in the booming semiconductor market in East Asia. Additionally, we will also deploy products for sterilization and pasteurization applications, utilizing our high-concentration ozone generation technology.

## Major product lines and strengths of Sumitomo Precision Products

### MEMS/Semiconductor Manufacturing Equipment



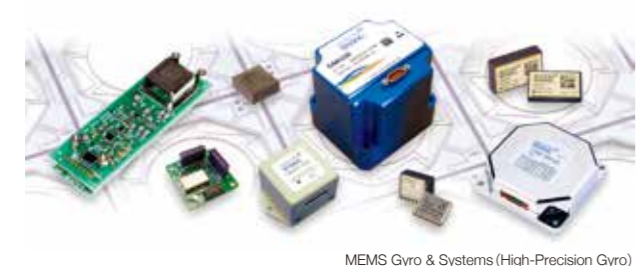
Satisfactory product line-up of MEMS and semiconductor manufacturing equipment enabling users to conduct a wide range of processes from development and trial production to volume production

As for precise silicon etching equipment used for three-dimensional forming of electronic devices such as MEMS, we supply 90% of products demanded globally using our original technologies, together with SPTS Technologies, our partner company(We conducts this business mainly in the Japanese market).

Technologies developed for MEMS are leveraged to provide high-grade CVD (chemical vapor disposition) equipment and plasma etching equipment for manufacturing LED and compound semiconductor devices.

Acquired an US-based Thermal Products business for semiconductor industry worldwide in June 2015. In addition to conventional semiconductor and power device applications, we are developing and globally rolling out new processes for MEMS in cooperation with the U.S. team.

### MEMS Devices



Sumitomo Precision Products developed MEMS gyro technology, and started mass-production of MEMS gyro sensors at joint venture company, Silicon Sensing Systems in 1999 and has more than 20 years of experience in this technology.

After success in automotive stabilization controller, Silicon Sensing Systems has become a highly respected supplier of the world's highest precision gyros to a worldwide market.

MEMS gyro and systems from Sumitomo Precision Products finds extensive use in a broad range of applications such as the attitude control and safety systems in various mobility and equipment including down-hole mining, autonomous vehicle, train, GPS antennas, and satellites.

The foundry business carries out contract manufacturing and development of client's advanced MEMS devices, leveraging its track record in MEMS gyro production.

## Sensor Products



Manufactures and sells high-precision gyro sensors for aerospace use at Silicon Sensing Systems, leveraging MEMS technology which we have developed since the 1990s ahead of global competitors.

In order to meet clients' demands, MEMS & Sensor Systems Department develops sensor application products that incorporate Silicon Sensing Systems' gyro sensor and our system. This has addressed the market's needs, such as reducing size, cost and power consumption, which contributed to market expansion and greater convenience for users.

Attitude measurement unit DMU30-AAU has been adopted in the trajectory status monitoring system of the N700S series Shinkansen, contributing to timely maintenance work and the maintenance/improvement of ride comfort.

## Ozone generators



Provides a sophisticated water treatment system that can decompose toxic, persistent substances that may cause cancer.

High-density clean ozone contributes to cutting-edge semiconductor manufacturing processes, which are becoming smaller and lower in consumption.

## Social value of major products

MEMS and semiconductor manufacturing equipment are used in everyday electronic devices such as automotive sensors for air-bags, nozzle heads of inkjet printers, and high-frequency devices and camera modules of smartphones and other mobile devices. Our high-precision MEMS devices/sensors find extensive use in a broad range of applications, such as down-hole mining, safety systems in trains, GPS antennas, and attitude control of satellites. They support the safety and improve the convenience of

daily life.

Ozone is an environmentally friendly oxidizing substance since it eventually decomposes into oxygen. Its oxidizing capability is used in a wide range of applications, including purification of tap water/sewage, swimming pool water, aquarium water, and commercial water/drainage treatment. It ensures safe and comfortable lives of people and animals by reducing the burden on and/or restoring the environment.

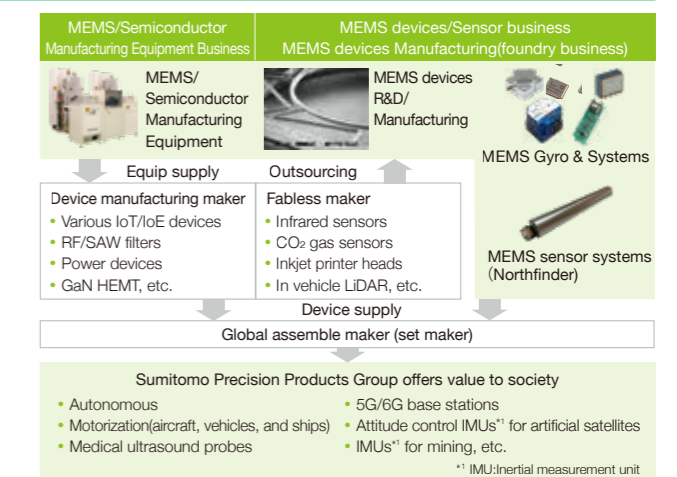
## Initiatives toward a sustainable society

### Furthering differentiation of technologies to help build a sustainable society

Sumitomo Precision Products constantly hones its differentiated technologies to provide its precision technology for various applications demanded by the market and its customers.

For example, compact high-precision MEMS sensors designed for attitude control, shape and distance measurement, and so on are supplied for autonomous driving vehicles. In the medical care field, MEMS ultrasonic vibration sensors made existing large ultrasonic inspection equipment to be portable, contributing to enhanced home diagnosis and treatment. Moreover, the company provides products (manufacturing systems/devices) densely incorporating its precision technology for an extensive range of applications, such as electrified transportation systems, 5G/6G base stations, and artificial satellite attitude control.

For the future, Sumitomo Precision Products will improve its differentiation of technologies according to its business strategy to establish post-5G/digital society and realize the carbon-free society.



### Development of MEMS-based Northfinder™ with the smallest diameter\*2 and the highest precision\*2 <sup>\*2 Based on our research as of March 2021</sup>

Precious metals and rare-earth metals are critical for the widespread use of electric vehicles toward realizing the carbon-free society. Sumitomo Precision Products has developed a new model of Northfinder™ that enables low-energy consumption mining of such metals.

This product is scheduled for launching by the end of fiscal 2021. It can find the geographical north pole of earth axis with high accuracy using a three-axis gyro and an acceleration sensor to measure the earth rotation under any attitude without any adversely affected by the surrounding magnetic field. Moreover, Northfinder™ is small, lightweight, and low-powered, incorporating the results of the company's years of research on MEMS.

This product is also suitable for the maintenance of electrical wire piping and water pipes, as well as the attitude control of train. We believe it will help build a safe and comfortable living environment.



Northfinder™ \*GCAH-1X


# CSR Activities of the Sumitomo Precision Products Group

The Sumitomo Precision Products Group implements corporate social responsibility (CSR) based on Sumitomo's Business Philosophy and the Corporate Principles of the Sumitomo Precision Products Group. Going forward, the Group will work on the three areas of (1) compliance with corporate ethics, (2) solution of social challenges through business activities, and (3) activities contributing to local communities and society. Specifically, regarding "solution of social challenges through business

activities," the Group will be committed to solving various social issues through its business activities, pursuing and developing precision technology and precision manufacturing as well as leveraging its differentiated technologies and manufacturing expertise, under the slogan "With precision technologies and precision manufacturing, we innovate the world's highest quality of 'Precision' that supports a sustainable society, ahead of anyone else," as stated in the Mid-term Management Plan.

## CSR Activities of the Sumitomo Precision Products Group

Examples of activities		Description	SDGs Relating to Overall Business Activities and Company-Wide Activities
Aerospace Business	Manufacture and sale of landing gear systems and heat management systems for commercial aircraft	Our landing gear systems and heat management systems for commercial aircraft help ensure safe air transportation.	
	Manufacture and sale of landing gear systems for defense aircraft	We contribute to Japanese sovereign security as landing gear systems assist the operation of aircraft extensively used in the Defense Ministry's peacekeeping operations and rescue and disaster relief activities.	
	Technology development for heat management equipment for electrified/hydrogen-fueled aircraft	We will continue to strive for the development of thermal analysis technology, equipment design, and products fulfilling market needs while paying attention to the trends in the aviation industry. In addition, it will explore novel manufacturing techniques, such as metallic 3D printing (metallic additive technology).	
Industrial Equipment Business	Manufacture and sale of compact heat exchangers for thermal management	Our durable compact heat exchangers contribute to reducing the burden on the environment through high-efficiency cooling of electronic equipment in the Shinkansen (including the cutting edge N700S series) and other rolling stock as well as various industrial machines.	
	Manufacture and sale of LNG vaporizer and heat exchanger for air separation plant	LNG vaporizers contribute to the reduction of CO <sub>2</sub> emissions, while heat exchangers for plants contribute to energy saving by improving heat efficiency of the entire plant in a broad range of industrial applications across the world, such as petrochemical and industrial gas production.	
	Manufacture and sale of precision hydraulic equipment	Injection molding equipment that uses precision hydraulic equipment manufactures all kinds of daily products, including medical goods, helping to improve healthcare services and achieve healthy living. Furthermore, hydraulic pumps, and coolant pumps have features such as low consumption, low pulsation, and low noise, which contribute to the reduction of energy consumption and an improved work environment at various manufacturing sites. We will continuously develop products in order to meet markets and customer's needs, wants and demands.	
	Development of heat exchangers for non-fossil energy including hydrogen	We try to develop products to vaporize liquid hydrogen by using its extremely low temperature technology acquired from heat exchangers for plants and LNG vaporizer technology.	
	Find new customers who need coolers for semiconductors, which have higher performance and generating heat	Demand for small and high-performance cooling devices becomes dramatically increasing for hyper-scale data centers, power conditioners at mega solar farms, and electrified transportation systems and others. We focus on the sale of this product as one of some next-generation strategic products.	
ICT Business	Manufacture and sale of MEMS/semiconductor manufacturing equipment	MEMS and semiconductor manufacturing equipment are used in everyday electronic devices such as automotive sensors for air-bags, nozzle heads of inkjet printers, and high-frequency devices and camera modules of smartphones and other mobile devices. They support the safety and improve the convenience of daily life.	
	Manufacture and sale of MEMS devices/sensors	Our high-precision MEMS devices/sensors find extensive use in a broad range of applications, such as down-hole mining, safety systems in trains, GPS antennas, and attitude control of satellites. They support the safety and improve the convenience of daily life.	
	Manufacture and sale of ozone generators	Ozone is an environmentally friendly oxidizing substance since it eventually decomposes into oxygen. Its oxidizing capability is used in a wide range of applications, including purification of tap water/sewage, swimming pool water, aquarium water, and commercial water/drainage treatment. It ensures safe and comfortable lives of people and animals by reducing the burden on and/or restoring the environment.	
	Furthering differentiation of technologies to help build a sustainable society	In order to develop high-speed communications for various devices and systems in anticipation of motorization, energy saving and advanced medical technology, we will contribute to establishing post-5G/digital society and realizing the carbon-free society while providing our technology strength and also products and services.	

Examples of activities		Description	SDGs Relating to Overall Business Activities and Company-Wide Activities
Environment	<b>Environmental initiatives</b>	As a way of enhancing its efforts toward a sustainable society, the company will consider information disclosure conforming to TCFD and other frameworks, listing climate change risks and opportunities. We have plans to further reduce its load on the environment, setting medium- to long-range targets with SDGs and the Paris Agreement in mind. <ul style="list-style-type: none"> <li>Reduction of greenhouse gas emissions</li> <li>Efforts toward a sustainable society</li> </ul>	
	Society	<b>Quality</b>	
<b>Supply chain</b>		We continue striving to build a sustainable supply chain to line up with our stakeholders' expectations.	
<b>Human rights</b>		We have established the Group Human Rights Policy because we believe that respecting the human rights of all people involved in the Group and its supply chain in the conduct of the business activities is one of the most important matters for a company.	
<b>Diversity commitment</b>		While ensuring our continued diversity commitment, we will strengthen our capability to address diversified social needs and challenges.	
<b>Measures against natural disasters and other emergencies</b>		The "Regulations on Measures against Natural Disasters" provide for emergencies caused by natural disasters such as earthquakes and typhoons. In particular, to respond to earthquakes and floods, we have formulated a Business Continuity Plan that gives top priority to ensuring human life safety.	
<b>Safety, health, and fire prevention</b>		In addition to committing itself to safety education, we hold meetings of the Safety and Health Committee and monthly ceremonies to pray for safety at an in-house shrine to improve the safety awareness of all employees.	
<b>Work conditions/ Health management</b>		We strive to maintain and improve the health of its employees, setting a broad set of health targets. It also endeavors to promote working style reforms notably allowing for diverse ways of working.	
<b>Relations with Society and Local Communities</b>		We contribute to the local communities by accepting students from a nearby high school for experiencing work, making donations to local communities' events, donating blood, organizing local cleaning projects, maintaining street lighting fixtures.	
Governance	<b>Organizational culture/ awareness reform "Sumitomo's Business Philosophy" "Our Corporate Principles"</b>	We will improve our organizational culture and work on awareness raising, returning to our own starting point, that is, Sumitomo's Business Philosophy and the Corporate Principles of the Sumitomo Precision Products Group.	
	<b>Governance, internal control and compliance</b>	Going forward, all executives and employees will direct their concerted efforts to strengthen governance, internal control, and compliance.	

# Corporate Governance

Since 2019, we have discovered multiple cases such as overcharging for defense equipment, inadequate conduct in the manufacturing and inspection process of heat exchangers, and incorrect accounting estimates of retirement benefit obligations for the previous fiscal years. In response to these incidents, the Company recognizes that the

enhancement of internal control, strengthening of governance, thorough awareness of compliance including quality, and strengthening of cooperation between departments are the most urgent issues. Considering those issues as company-wide problems, we will work sincerely on reform and improvement to restore trust.

## Basic Principles of Corporate Governance

We believe that “Sumitomo’s Business Philosophy” and “Corporate Principle” are the backbone of corporate ethics and the unalterable truth. Based on the recognition that corporate governance is a system for the company to make transparent, fair, prompt and decisive decisions while taking into account the positions of all stakeholders, we established our corporate governance

principles. We believe that appropriate practice of this principle will lead to sustainable growth and the improvement of corporate value over the medium to long term, and will benefit all stakeholders including customers, business partners, employees, local communities and shareholders. Thus, we will continue to make constant efforts to further improve governance.

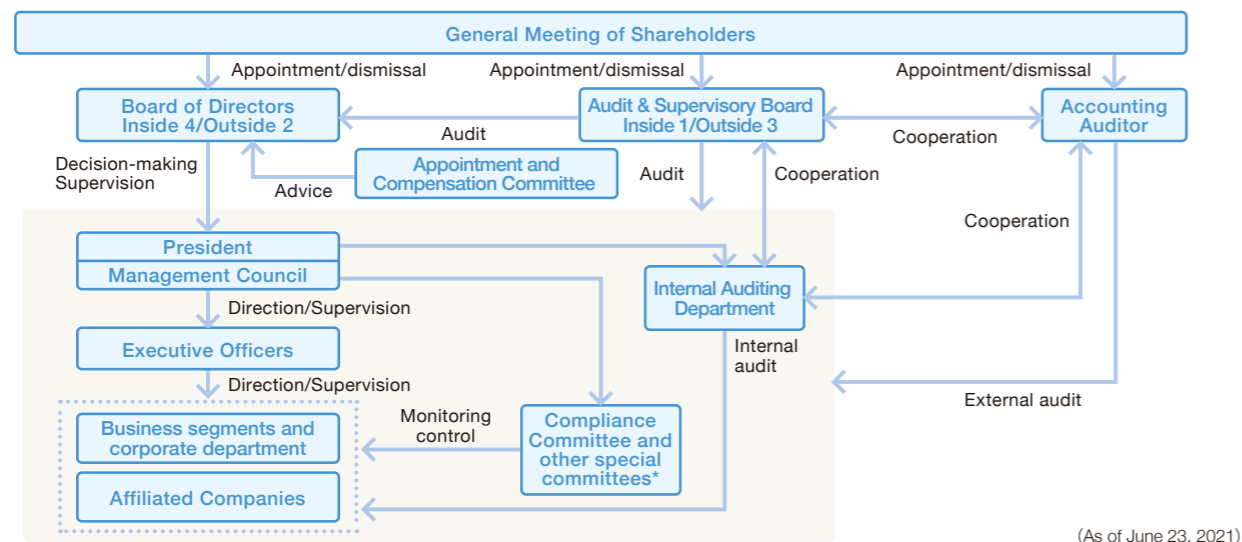
## Corporate Governance System

Sumitomo Precision Products has a corporate governance system that consists of the Board of Directors including independent outside directors and the Audit & Supervisory Board.

Regarding managerial decision-making, execution and supervision, the Board of Directors decides important matters at its meeting held at least once a month and supervises the execution status of specific businesses. Furthermore, the company operates a system for appropriate and swift practice of business by holding meetings of the Management Council by executives and business meetings in each department, as appropriate, to thoroughly discuss the matter, and receive advice from external specialists, including attorneys and certified public accountants whenever necessary. We introduced an executive officer system. By separating the business decision-making and supervising from the implementation of business operations, the system is designed to

enable the Board of Directors to supervise more successfully, while strengthening our implementing business operations. Furthermore, we operate a non-statutory Appointment and Compensation Committee as an advisory body for the Board of Directors. This committee, with outside directors consisting of half of the committee and the chairperson of which is an outside director, serves to secure greater transparency and fairness in considering the appointment of and compensation for directors.

Audit and Supervisory Board members attend meetings of the Board of Directors and other significant meetings to correctly understand and supervise the way the company is actually managed. They also utilize the Audit and Supervisory Board Members’ Office to help audit the internal control system and the risk management structure. Under an agreement with an accounting auditor, the company conducts regular audits and, as the need arises, receives professional advice.



(As of June 23, 2021)

\* Compliance Committee, Information Security Committee, Environmental Management Committee, Quality Committee, Health and Safety Committee, and Human Rights and Diversity Committee

## Internal Control System

The Company resolved at its Board of Directors’ meeting and operates the system (internal control system) specified in Article 362 paragraph 4 (vi) of the Companies Act. We will maintain and improve the internal control system by reviewing it continuously.

### (1) Compliance

Sumitomo Precision Products promotes its activity concerning compliance with laws and regulations by appointing the General Manager of the Corporate Compliance Division (officer in charge of compliance) as the person with ultimate responsibility for compliance and establishing the Legal Compliance Department and the Compliance Committee. The general managers of each department were appointed as compliance leaders so that their responsibilities relating to compliance were clarified.

Under such a system, we have improved awareness of legal compliance among directors and employees by holding meetings of the Compliance Committee and conducting education for executives and employees of both the company and its affiliated companies based on the action plan established by the Compliance Committee. This way we have improved and maintained our compliance system.

Furthermore, in order to detect and prevent violations of laws and regulations at an early stage, we included in the Compliance Regulations a requirement to “Report immediately” to a supervisor, an officer in charge of compliance and the General Manager of the Legal Compliance Department if a compliance violation is identified. The whistleblower hotlines, for facilitated use, have been established internally by the General Manager of the Audit & Supervisory Board Members’ Office, which is independent of business execution, and the General Manager of the Legal Compliance Department, as well as externally by an attorney. Moreover, the system is maintained and operated to ensure proper investigation and action at the time of reporting. We also ensure that every employee knows about the “Report immediately” requirement and the whistleblowing hotlines by distributing compliance cards and by other means.

In fiscal 2020, as certain deviations in the manufacturing and inspection processes of industrial heat exchangers came to light, the company strived to establish a quality compliance framework. It established a company-wide quality policy, defined quality responsibilities and authorities, formed a company-wide quality committee, and conducted a full company-wide review concerning quality compliance. Furthermore, regarding financial reporting, an error was found in the accounting estimate of retirement benefit obligations for the previous fiscal years, and we corrected our past securities reports to address this error. In response to this incident, we will implement relevant preventive measures in the accounts department by improving its technical knowledge, making the business procedure clearer, making the approval procedure stricter, and so forth. This way we will strengthen internal control over the reporting process to ensure reliability.

### (2) Risk management

The concept known as the Three Lines of Defense consists of risk management by each business division, the establishment of a company-wide risk management framework and support for each relevant business division by the corporate division, and audit by the Internal Auditing Department of the risk management status of each business division and the corporate division. Embracing the idea of managing risks based on the Three Lines of Defense, the internal rules are checked and reviewed by each division as appropriate. For specific issues and risks, such as compliance, information security,

environmental management, product quality, health and safety, and human rights and diversity, we have appointed officers in charge and clearly defined their responsibilities. Furthermore, relevant special committees have been set up as advisory bodies to the officers in charge. Each special committee formulates its action plan at the beginning of the term, obtains approval for its activity policy from the Management Council, and then acts based on the action plan to identify and mitigate risks through continued company-wide activities. In addition, risk identification and evaluation by each business division is organized as a list of department risks. Risks of critical importance are identified in the list and measures are implemented with a focus on them. For actions to take when the unexpected happens, regulations concerning crisis management overcoming natural disasters and the like are in place, which contain a provision for a scheme for setting up a disaster control headquarters.

### (3) Business execution

Sumitomo Precision Products determines important management matters by holding Board of Directors meetings where executive directors regularly report their job execution statuses. The company clarifies the authority and responsibilities based on the Agenda Standards for the Board of Directors, the division of duties of Executive Officers, and the Administrative Rules to improve efficiency in the business execution. We also analyze and evaluate the effectiveness of the Board of Directors, and review the operation of the Board of Directors as appropriate based on the results thereof. In addition, we hold Management Council and business review meetings of each department on a regular basis to thoroughly discuss important issues. Thus, we have established an appropriate and prompt business promotion system.

### (4) Group management

We provide education to employees of subsidiaries, etc. to disseminate the Group’s Corporate Principle and code of conduct to the subsidiaries, etc. We are also expanding our compliance efforts (“Report immediately dissemination of the whistleblowing system, etc.) and risk management initiative to our subsidiaries, etc. to identify and mitigate risks.

We also require subsidiaries, etc. to consult with, and report to, the Company important matters in accordance with the Regulations Concerning the Management of Affiliated Companies, etc. Thus, the Company ensures thorough dissemination of the Company’s management policy through deliberations of annual plans at the Management Council and information exchange meetings with the president of each subsidiary. Directors and Audit & Supervisory Board Members are dispatched to subsidiaries as appropriate to supervise execution of business and business performance, and the Internal Auditing Department also conducts audits periodically.

### (5) Audit and Supervisory Board members

Audit & Supervisory Board Members make efforts to collect information for effective audits by attending important meetings such as the Board of Directors’ meetings, inspecting important documents, and regularly exchanging opinions with the President, the accounting auditor and outside directors. In addition, the Audit & Supervisory Board members maintain close cooperation with the Internal Auditing Department by holding monthly information liaison meetings with the Internal Auditing Department, and the Audit & Supervisory Board receives quarterly reports of audit results from the Internal Auditing Department.

# Corporate Governance

## Directors, Audit & Supervisory Board Members, and Executive Officers As of October 1, 2021

### Directors



**Hideaki TAKAHASHI**  
Representative Director  
President



**Masatoshi DEGUCHI**  
Representative Director  
Senior Managing Executive Officer  
General Manager,  
Corporate Management Division



**Kenro ITAKURA**  
Director  
Senior Managing Executive Officer  
General Manager,  
Aerospace Division,  
Industrial Equipment Division



**Toshihiro HAYAMI**  
Director  
Senior Managing Executive Officer  
General Manager,  
Corporate Technology Division,  
ICT Division



**Guntaro KAWAMURA**  
Outside Director  
Director (External),  
ICHINEN HOLDINGS CO., LTD.



**Shigeo MISAKA**  
Outside Director

### Audit & Supervisory Board Members



**Ayumu TAKAHASHI**  
Senior Audit &  
Supervisory Board Member



**Eiichi MORI**  
Outside Audit &  
Supervisory Board Member  
Attorney at Law



**Hideaki MIHARA**  
Outside Audit &  
Supervisory Board Member  
Certified Public Accountant  
Outside Director (Audit and  
Supervisory Committee Member),  
AS ONE CORPORATION



**Yasushi NISHIKAWA**  
Outside Audit &  
Supervisory Board Member  
Assistant to General Manager,  
Planning & Coordination Dept.,  
Transportation & Construction  
Systems Business Unit,  
SUMITOMO CORPORATION

### Executive Officers

**Masato AYANI**  
Managing Executive Officer

General Manager,  
Corporate Compliance Division  
Internal Auditing

**Shogo ISHIMARU**  
Managing Executive Officer

Corporate Planning,  
Controlling & Treasury,  
Information Systems

**Hiroaki MINAMI**  
Executive Officer

Quality Assurance-Aerospace,  
Sales & Marketing-Aerospace,  
Aircraft Heat Exchangers

**Takeshi YADA**  
Executive Officer

Industrial Heat Exchangers

**Masakazu YAGI**  
Executive Officer

Precision Hydraulic  
Equipment

**Masahiko TANAKA**  
Executive Officer

MEMS Solutions,  
MEMS/Semiconductor  
Manufacturing Equipment

**Ken KOYAMA**  
Executive Officer

General Administration,  
Purchasing & Transportation,  
Factory Innovation

# Environment

– SDGs related to our products –



## Environmental Policy and Environmental Management

Global environmental issues such as climate change, depletion of natural resources, and environmental pollution are posing a serious challenge to the world to build a sustainable society.

In line with “COEXISTENCE WITH SOCIETY : By playing an active role in society, we will promote good citizenship with our community and harmony with the surrounding environment.”, one of its corporate principles, Sumitomo Precision Products proactively commits itself to global environmental conservation toward a sustainable society in accordance with the Environmental Policy below.

### Environmental Policy

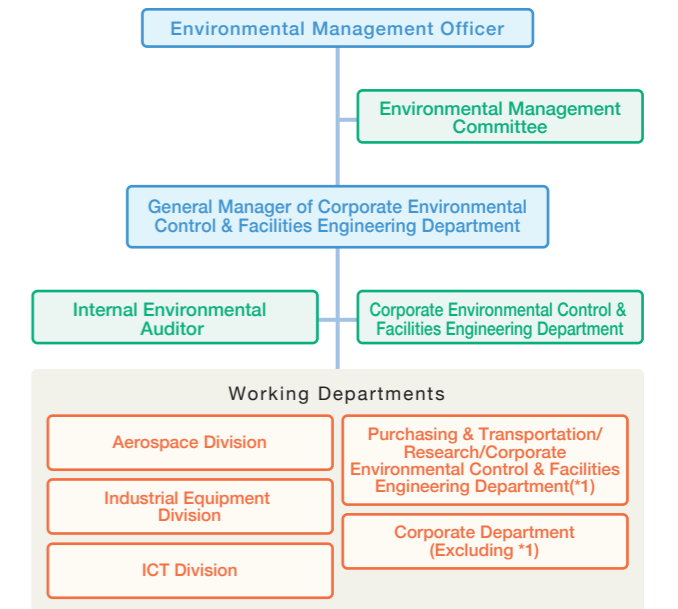
As a responsible member of society, toward achieving sustainable social development, we recognize the significant need to conserve the local and global environment and meet the challenge of “harmony with the surrounding environment” stated in the corporate principle as one of the top priorities in management, through the following actions:

1. Set environmental targets, aim to achieve these targets through environmental conservation activities involving all employees, and continually improve the environmental management system to achieve higher environmental performance.
2. Reduce the environmental load of individual phases of business activities, such as by preventing burden on and polluting environment, to contribute to its conservation.
3. Carefully meet relevant legal requirements and other obligations.
4. Improve the environmental awareness of employees and facilitate their environmental conservation activities.
5. Promote activities for resource and energy saving and 3R's (reduce, reuse, and recycle).
6. Help solve social challenges through business activities, developing eco-friendly technologies and products leveraging the company's years of experience in the Aerospace Business, Industrial Equipment Business, ICT Business, and other fields.

In November 1999, the company had its Head Office and Main Plant in Amagasaki ISO 14001-certified (environmental management systems) (certification body: JIC Quality Assurance Ltd.). In November 2000, the certification expanded to include the Shiga Plant.

We implement environmental management based on ISO 14001 (environmental management systems) to reduce our load on the environment in various ways, for example, by conserving natural resources, saving energy consumption, promoting the 3R's (reduce/reuse/recycle), and developing eco-friendly technologies and products.

### Environmental Management



## Initiatives for reducing environmental load

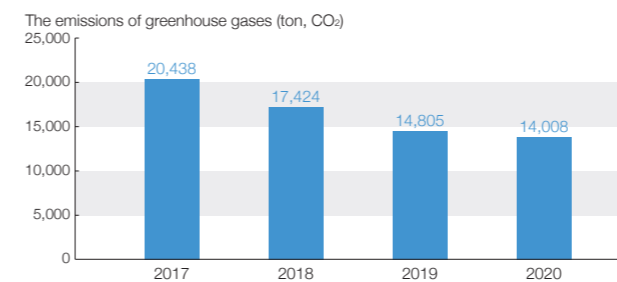
For reduced load on the environment, Sumitomo Precision Products strives to reduce the emissions of greenhouse gases and waste by saving energy consumption.

As a way of enhancing its efforts toward a sustainable society, the company will consider information disclosure conforming to TCFD and

other frameworks, listing climate change risks and opportunities.

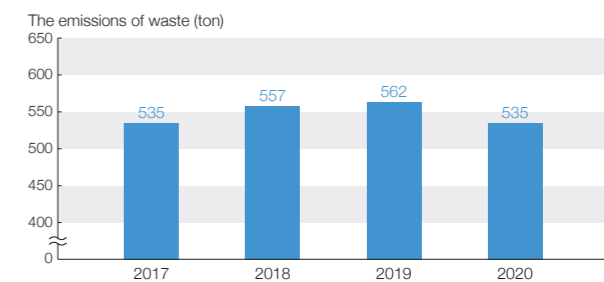
Moreover, the company has plans to further reduce its load on the environment, setting medium- to long-range targets with SDGs and the Paris Agreement in mind.

### Annual greenhouse gas emissions [carbon dioxide (CO<sub>2</sub>)]



\* Greenhouse gas emissions (carbon dioxide, using unadjusted coefficient) from energy consumption reported in periodic reports pursuant to the Act on the Rationalization etc. of Energy Use (Energy Saving Law)  
\* Scope: Head Office, Main Plant, Shiga Plant, and other plants and sales offices in Japan

### Annual waste emissions



\* Gross weight of municipal solid waste, industrial waste, and special controlled industrial waste outsourced for treatment, excluding waste treated in-house  
\* Scope: Head Office, Main Plant, Shiga Plant, and other plants in Japan

## Quality

Since certain deviations in the manufacturing and inspection processes of industrial heat exchangers came to light, we have formulated the Quality Policy of the Sumitomo Precision Products Group based on Sumitomo's Business Philosophy and the Corporate Principles of the Sumitomo Precision Products Group. In line with this policy, all executives and employees, while keenly aware of the importance of responsibility arising from the provision of products and services, will ensure quality, safety,

and compliance, which are top priorities in their business activities. This way we will earn the trust and satisfaction of customers and contribute to the sustainable development of society.

We have strived to establish a quality compliance framework, in addition to the Quality Policy. It defined quality responsibilities and authorities, formed a company-wide quality committee, and conducted a full company-wide review concerning quality compliance.

## Supply chain

The Sumitomo Precision Products Group believes that building a robust supply chain is essential for the sustainable development of its business. Based on this belief, it established the Sumitomo Precision Products Group Procurement Policy, setting out three principles: (1) We fully comply with laws and regulations as well as social norms; (2) We build a sound environment for competition based on fair business relationships; and (3) We strive to establish sustainable partnerships that contribute to mutual prosperity.

The Group promotes procurement activities consistent with this policy by ensuring that the Procurement Policy is thoroughly known by its business partners, establishing a reporting system for compliance-related concerns, and keeping track of CSR activities and situations at the business partners through a partner recognition program and questionnaire surveys.

We continue striving to build a sustainable supply chain to line up with our stakeholders' expectations.

## Human rights

We have established the Sumitomo Precision Products Group Human Rights Policy because we believe that respecting the human rights of all people involved in the Group and its supply chain in the conduct of the business activities is one of the most important matters for a company. We promote appropriate awareness-raising training to ensure that all executives and employees of the Group understand and effectively implement this policy. Moreover, we do not infringe on the human rights of those directly or indirectly affected by the business activities of the

Group and its supply chain.

We also organize education and awareness-raising activities for employees to respect each other's diversity. Such activities include holding annual human rights and diversity lecture, distributing awareness-raising materials during Human Rights Week, and training new graduates and mid-career employees. We develop our business while maintaining high ethical standards.

## Diversity commitment

### Recruitment plans

Sumitomo Precision Products has recruited diverse talents irrespective of gender, disability, nationality, and the like. Under this initiative, the legally required number of challenged people has been employed and the ratio of females to all periodic recruits of university and college graduates for the

recent three years rose to nearly 40%.

For the future, we will endeavor to hire human resources with diverse senses of value and opinions in order to take advantage of varying ideas and create value across existing frameworks of thought.

### University/College Graduates Employed via Regular Recruiting

Fiscal 2019-2021	Male	Female	Total
Employees	21	12	33
Share	63.6%	36.3%	100%
(International employees)	(1)	(2)	(3)



### Female empowerment

To accelerate female empowerment, Sumitomo Precision Products has actively committed itself to rulemaking and awareness-raising. Having recognized these activities, the Ministry of Health, Labour and Welfare (MHLW) has certified the company as an Eruboshi business, that is, an excellent company, under the Act on Promotion of Women's Participation and Advancement in the Workplace. The company is also highly regarded for its positive support for employees bringing up their children and has been named a Kurumin-mark holder by the Hyogo Labor Bureau on behalf of the MHLW.

Going forward, we will work on development of an environment that

enables both female and male employees to actively play their roles commensurate with their abilities, with the aim of achieving sustainable growth of the company by encouraging each employee to respect individuals' personalities and potential and maximizing the achievements of each employee.



Eruboshi label conferred under PWPAW (two stars)



Kurumin-mark certification under the Act on Measures to Support the Development of the Next Generation

## Measures against natural disasters and other emergencies

The "Regulations on Measures against Natural Disasters" provide for emergencies caused by natural disasters such as earthquakes and typhoons. In particular, to respond to earthquakes and floods, we have formulated a Business Continuity Plan that gives top priority to ensuring human life safety.

Moreover, every July the company reviews the registrations of equipment likely to cause a hazard during natural disasters and the designation of evacuation routes and spaces.

In addition, we have introduced a safety confirmation service to allow us to confirm the safety of employees in the event of an emergency, such

as a natural disaster.

Regarding measures to counter COVID-19, we give top priority to preventing the spread of the infection to employees. From the viewpoint of preventing the spread of infection in the form of clusters in the workplace, we have implemented such measures as working from home and staggered working hours. At the same time, we instituted a workplace COVID-19 vaccination program in cooperation with local firms and continue to ensure infection prevention measures (wearing a mask, washing hands, and measuring body temperature) are taken.

## Safety, health, and fire prevention

In addition to committing itself to safety education, we holds meetings of the Safety and Health Committee and monthly ceremonies to pray for safety at an in-house shrine, to improve the safety awareness of all employees.

In this year of 2021, we are working diligently, focusing on implementing four priority items: "Continuous implementation of measures to improve safety awareness," "Continuation of the occupational safety and health management system (S-OSHMS)," "Strengthening of the management system and reducing industrial accident risks," and "Enhancement of health management activities."

Year	Accidents resulting in leave	Accidents not resulting in leave
2019	1	4
2020	2	10
2021 (As of end of July)	1	4

In particular, since industrial accidents and incidents potentially resulting in accidents increased last year, we are working on various measures, including the furthering and establishment of "the Pointing and Calling", which is a method in occupational safety for avoiding mistakes by pointing at important indicators and calling out the status, and "Risk Assessment Training" for reduced industrial accidents.



An example approach for the furthering and establishment of the "Pointing and Calling"

## Work conditions / Health management

We have introduced programs designed to enable flexible working, including a flexible time working system and a system of shorter working hours (for employees struggling with child care). Going forward, the Company will institute an hour based paid leave program. With this and other programs, it intends to strive for creating an environment that will enable individual employees to effectively manage their work life balance and maximize performance in their workplace.

We strive to maintain and boost the health of its employees through

multiple initiatives such as improving health indicators, conducted in collaboration with a health insurance union. In addition, to address mental health problems, the company holds a stress check once a year and has established a counseling room for problems (mental and physical health, interpersonal relationships, family problems, etc which is open twice a month with an outside counselor. For employees to use these services more, it provides counseling for experiential purposes. This way we continue to prevent mental health problems.

## Relations with Society and Local Communities

Our biannual blood donation events attracted a total of 237 contributors in fiscal 2020. We also maintain good relations with local communities, by accepting students from a nearby high school for experiencing work and making donations to local communities' events.

Seihokai, the group of our front-line supervisors, spearheads the cleanup of walks and ditches around our main plant. We also take part in Hyogo Prefecture's "Hyogo Adopt-Lighting Maintenance Partners" project, helping maintain road lighting installed along a prefectural route.

# Consolidated Financial Statements

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

## Consolidated Balance Sheet March 31, 2021

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents (Note 15)	¥12,127	¥8,139	\$109,538
Notes and accounts receivable (Note 15):			
Trade	17,001	17,703	153,563
Associated companies	515	445	4,652
Allowance for doubtful accounts	(26)	(29)	(234)
Inventories (Notes 5 and 8)	27,548	26,555	248,830
Other current assets	1,253	1,673	11,318
Total current assets	58,418	54,486	527,667
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land (Note 6)	4,299	4,299	38,831
Buildings and structures (Note 6)	21,429	20,746	193,560
Machinery and equipment	36,680	36,696	331,316
Lease assets (Note 13)	903	656	8,156
Construction in progress	106	169	958
Total	63,417	62,566	572,821
Accumulated depreciation	(48,377)	(47,526)	(436,971)
Net property, plant and equipment	15,040	15,040	135,850
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 4 and 15)	836	813	7,551
Investments in and advances to unconsolidated subsidiaries and associates	1,723	1,645	15,563
Intangible assets:			
Goodwill	362	438	3,270
Other intangible assets	1,241	930	11,210
Deferred tax assets (Notes 2.t and 12)	1,946	2,361	17,577
Other assets	294	210	2,656
Retirement benefit assets (Note 7)	2,708	1,584	24,460
Allowance for doubtful accounts	(6)	(22)	(54)
Total investments and other assets	9,104	7,959	82,233
<b>TOTAL</b>	<b>¥82,562</b>	<b>¥77,485</b>	<b>\$745,750</b>

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Notes 6 and 15)	¥18,583	¥15,765	\$167,853
Current portion of long-term debt (Notes 6 and 15)	3,504	2,554	31,650
Notes and accounts payable(Notes 15):			
Trade notes	2,062	2,330	18,625
Trade accounts	3,903	3,732	35,254
Associated companies	10		90
Construction	119	107	1,075
Other	4,930	3,055	44,531
Income taxes payable	165	372	1,490
Accrued expenses	1,344	1,392	12,140
Provision for loss on construction contracts (Note 8)	155	15	1,400
Provision for product warranties (Note 2.m)	389	405	3,514
Provision for customer compensation expenses (Note 2.n)	1,630	1,002	14,723
Asset retirement obligations		117	
Other current liabilities	6,081	5,158	54,928
Total current liabilities	42,875	36,004	387,273
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Notes 6 and 15)	6,428	6,023	58,062
Provision for product warranties(Note 2.m)	827	997	7,470
Retirement benefit liabilities (Note 7)	4,756	5,325	42,959
Asset retirement obligations	600	224	5,419
Deferred tax liabilities (Notes 2.t and 12)	294	3	2,656
Other long-term liabilities	63	274	569
Total long-term liabilities	12,968	12,846	117,135
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 17)</b>			
<b>EQUITY (Note 9):</b>			
Common stock, authorized, 20,000,000 shares; issued, 5,316,779 shares in 2021 and 2020	10,312	10,312	93,144
Capital surplus	11,351	11,351	102,529
Retained earnings	4,244	6,821	38,334
Treasury stock - at cost 25,244 shares in 2021 and 25,110 shares in 2020	(104)	(104)	(939)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	228	149	2,060
Foreign currency translation adjustments	(458)	(454)	(4,137)
Defined retirement benefit plans	666	(608)	6,016
Total	26,239	27,467	237,007
Noncontrolling interests	480	1,168	4,335
Total equity	26,719	28,635	241,342
<b>TOTAL</b>	<b>¥82,562</b>	<b>¥77,485</b>	<b>\$745,750</b>

# Consolidated Financial Statements

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statement of Operations Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>NET SALES</b>	¥41,459	¥51,017	\$374,483
<b>COST OF SALES (Notes 8 and 13)</b>	33,064	38,060	298,654
Gross profit	8,395	12,957	75,829
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10 and 13)</b>	8,895	9,603	80,345
Operating income (loss)	(500)	3,354	(4,516)
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	26	51	235
Interest expense	(211)	(211)	(1,906)
Foreign currency exchange loss	(2)	(330)	(18)
Equity in earnings of associated companies	99	391	894
Gain on sales of investment securities	226	232	2,041
Loss on devaluation of investment securities (Note 4)		(329)	
Loss on devaluation of inventories		(268)	
Impairment losses of assets (Note 11)	(75)	(930)	(677)
Customer compensation expenses (Note 2.y)	(1,487)	(1,002)	(13,431)
Reversal of provision for compensation-related loss on defense equipment business		2,484	
Gain on sales of non-current assets	118		1,066
Other – net	(84)	(151)	(759)
Other expenses – net	(1,390)	(63)	(12,555)
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	(1,890)	3,291	(17,071)
<b>INCOME TAXES (Note 12):</b>			
Current	501	560	4,526
Deferred	105	1,660	948
Total income taxes	606	2,220	5,474
<b>NET INCOME (LOSS)</b>	(2,496)	1,071	(22,545)
<b>NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b>	81	69	732
<b>NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT</b>	¥(2,577)	¥1,002	\$(23,277)
		Yen	U.S. Dollars
<b>PER SHARE OF COMMON STOCK (Note 2.w):</b>			
Basic net income (loss)	¥(486.87)	¥189.36	\$(4.40)
Cash dividends applicable to the year			

Diluted net income per share is not disclosed because there were no potentially dilutive securities outstanding and the Group was in a net loss position for the year ended March 31, 2021.

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>NET INCOME (LOSS)</b>	¥ (2,496)	¥ 1,071	\$(22,545)
<b>OTHER COMPREHENSIVE INCOME (Note 17):</b>			
Unrealized gain (loss) on available-for-sale securities	79	(630)	714
Foreign currency translation adjustments	79	(22)	714
Defined retirement benefit plans	1,274	(235)	11,508
Share of other comprehensive income in associates	(32)	(3)	(290)
Total other comprehensive income (loss)	1,400	(890)	12,646
<b>COMPREHENSIVE INCOME (LOSS)</b>	¥(1,096)	¥181	\$(9,899)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:</b>			
Owners of the parent	¥(1,228)	¥159	\$(11,092)
Noncontrolling interests	132	22	1,193

See notes to consolidated financial statements.



# Consolidated Financial Statements

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statement of Changes in Equity Year Ended March 31, 2021

	Thousands of Shares/Millions of Yen											
	Common Stock		Capital Surplus	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income			Total	Noncontrolling Interests	Total Equity
	Shares	Amount			Shares	Amount	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
<b>BALANCE, MARCH 31, 2019</b>	5,317	¥10,312	¥11,332	¥5,984	(25)	¥(102)	¥763	¥(460)	¥(373)	¥27,456	¥1,168	¥28,624
Cumulative effects of changes in accounting policies				(165)						(165)		(165)
<b>BALANCE, APRIL 1, 2019</b>	5,317	10,312	11,332	5,819	(25)	(102)	763	(460)	(373)	27,291	1,168	28,459
Net loss attributable to owners of the parent				1,002						1,002		1,002
Cash dividends, ¥0 per share												
Purchase of shares of subsidiaries			19							19		19
Purchase of treasury stock					(0)	(2)				(2)		(2)
Net change in the year							(614)	6	(235)	(843)		(843)
<b>BALANCE, MARCH 31, 2020</b>	5,317	10,312	11,351	6,821	(25)	(104)	149	(454)	(608)	27,467	1,168	28,635
Net loss attributable to owners of the parent				(2,577)						(2,577)		(2,577)
Cash dividends, ¥0 per share												
Purchase of treasury stock					(0)	(0)						
Net change in the year							79	(4)	1,274	1,349	(688)	661
<b>BALANCE, MARCH 31, 2021</b>	5,317	¥10,312	¥11,351	¥4,244	(25)	¥(104)	¥228	¥(458)	¥666	¥26,239	¥480	¥26,719

	Thousands of U.S. Dollars (Note 1)											
	Common Stock		Capital Surplus	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income			Total	Noncontrolling Interests	Total Equity
	Amount	Amount			Amount	Amount	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
<b>BALANCE, MARCH 31, 2020</b>	\$93,144	\$102,529	\$61,611			\$(939)	\$1,346	\$(4,100)	\$(5,492)	\$248,099	\$10,550	\$258,649
Net loss attributable to owners of the parent			(23,277)							(23,277)		(23,277)
Cash dividends, \$0 per share												
Purchase of shares of subsidiaries												
Purchase of treasury stock						(0)						
Net change in the year							714	(37)	11,508	12,185	(6,215)	5,970
<b>BALANCE, MARCH 31, 2021</b>	\$93,144	\$102,529	\$38,334			\$(939)	\$2,060	\$(4,137)	\$6,016	\$237,007	\$4,335	\$241,342

See notes to consolidated financial statements.

## Consolidated Statement of Cash Flows Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
<b>OPERATING ACTIVITIES:</b>			
Income (loss) before income taxes	¥(1,890)	¥3,291	\$(17,071)
Adjustments for:			
Income taxes paid	(689)	(433)	(6,223)
Income taxes refunded	24	83	217
Depreciation and amortization	2,073	2,066	18,725
Amortization of goodwill	85	83	768
Impairment losses of assets (Note 11)	75	930	677
Loss on devaluation of inventories		268	
Loss on disaster		(92)	
Income (loss) on foreign currency exchange	(10)	7	(90)
Payments of customer compensation	(529)		(4,778)
Payments of compensation-related loss on the defense equipment business		(2,577)	
Equity in earnings of associated companies	(99)	(391)	(894)
Gain on sales of non-current assets	(118)		(1,066)
Loss on devaluation of investment securities (Note 4)		329	
Gain on sales of investment securities	(226)	(232)	(2,041)
Changes in assets and liabilities, net of effects:			
(Decrease) increase in accrued expenses	(60)	1	(542)
(Decrease) increase in provision for product warranties	(185)	1,402	(1,671)
Increase in provision for customer compensation expenses (Note 2.y)	1,487	1,002	13,431
(Increase) decrease in retirement benefit assets	(53)	139	(479)
Increase in retirement benefit liabilities	196	11	1,770
Reversal of provision for compensation-related loss on defense equipment business		(2,484)	
Decrease in trade notes and accounts receivable	2,339	2,963	21,127
Increase in inventories	(982)	(1,263)	(8,870)
(Increase) decrease in other current assets	(322)	220	(2,908)
Increase (decrease) in trade notes and accounts payable	308	(3,858)	2,782
increase (decrease) in other current liabilities	427	(460)	3,856
Other – net	32	271	289
Total adjustments	3,773	(2,015)	34,080
Net cash provided by operating activities	1,883	1,276	17,009
<b>INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(1,273)	(1,809)	(11,499)
Purchase of intangible assets	(483)	(237)	(4,363)
Proceeds from sales of investment securities	304	429	2,746
Proceeds from sales of property, plant and equipment	1		9
Proceeds from sales of intangible assets	98		885
Payments for asset retirement obligations	(82)		(740)
Other – net	(144)	67	(1,300)
Net cash used in investing activities	(1,579)	(1,550)	(14,262)
<b>FINANCING ACTIVITIES:</b>			
Increase in short-term bank loans – net	2,586	718	23,358
Proceeds from long-term debt	3,656	2,000	33,023
Repayments of long-term debt	(2,600)	(4,304)	(23,485)
Other – net	(1)	(2)	(9)
Net cash provided by (used in) financing activities	3,641	(1,588)	32,887
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	43	(91)	388
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	3,988	(1,953)	36,022
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	8,139	10,092	73,516
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥12,127	¥8,139	\$109,538

See notes to consolidated financial statements.

# Consolidated Financial Statements

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements Year Ended March 31, 2021

### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Sumitomo Precision Products Co., Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110.71 to \$1, the approximate rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation** - The consolidated financial statements as of March 31, 2021, include the accounts of the Company and its 17 (18 in 2020) significant subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 4 (4 in 2020) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiary and associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period of 10 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

**b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements** - Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and

events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification - "FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

**c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method** - ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

**d. Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits, which mature or become due within three months of the date of acquisition.

**e. Inventories** - Inventories are stated at the lower of cost, determined by the average method for finished products and work in process, by the specific identification method for certain work in process, and by the moving-average method for all raw materials and supplies, or net selling value.

**f. Investment Securities** - Investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities are reported at amortized cost; and (2) marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of

equity. The cost of securities sold is determined by the moving-average method. Nonmarketable available-for-sale securities are stated at cost, determined by the moving-average method. The Group's investment securities consist of marketable and nonmarketable available-for-sale securities.

**g. Property, Plant and Equipment** - Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed generally by the declining-balance method, while the straight-line method is principally applied to buildings, structures acquired on or after April 1, 2016, and lease assets of the Company and property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 4 to 9 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

**h. Other Intangible Assets** - Intangible assets, except for goodwill, are stated at cost less accumulated amortization, which is computed by the straight-line method over the estimated useful lives of the assets. The useful life is principally 5 years for software for internal use.

**i. Long-Lived Assets** - The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted future cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**j. Derivatives and Hedging Activities** - The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income, and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Currency swaps are utilized to hedge exchange rate risk exposures in borrowings denominated in foreign currencies. Long-term debt denominated in foreign currencies are translated at the contracted rates if the currency swaps qualify for hedge accounting.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense.

**k. Allowance for Doubtful Accounts** - The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables

outstanding.

**l. Provision for Loss on Construction Contracts** - The provision for loss on construction contracts is provided for an estimated amount of probable losses to be incurred in future years in respect of construction projects in progress. When there are losses on completed-contract method applied contracts, the allowance for losses on construction contracts is offset against the costs of construction contracts in process in the balance sheet.

**m. Provision for Product Warranties** - The Group estimated amount for probable future expenses with respect to product warranties and recorded as provision for the expenses in the balance sheet.

**n. Provision for Customer Compensation Expenses** - The Company discovered non-conformity issues in a certain manufacturing and inspection process of plate-fin type heat exchangers. The Company estimated the amount for expenses to be paid to the customers in the future in relate to this incident and recorded as provision for the expenses in the balance sheet.

**o. Retirement Benefits** - The Company and its consolidated domestic subsidiaries have defined benefit retirement plans covering substantially all of their employees. The Group accounts for retirement benefit liabilities based on projected benefit obligations and plan assets at the consolidated balance sheet date.

The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 10 years, no longer than the expected average remaining service period of the employees.

**p. Research and Development Costs** - Research and development costs are charged to income as incurred.

**q. Asset Retirement Obligations** - An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

**r. Leases** - Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the consolidated balance sheet. All other leases are accounted for as operating leases.

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s. **Construction Contracts** - Construction revenue and construction costs are recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the consolidated balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on such construction contracts.

t. **Income Taxes** - The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

u. **Foreign Currency Transactions** - All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

v. **Foreign Currency Financial Statements** - The consolidated balance sheet accounts and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

w. **Per Share Information** - Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years.

## x. New Accounting Pronouncements

### (a) The Company and its domestic consolidated subsidiaries

#### Revenue recognition

The ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," on March 31, 2020 and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition" on March 26, 2021. The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with

that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning of the fiscal year ending March 31, 2022 and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

#### Accounting standard for fair value measurement

"Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)

"Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)

"Revised Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)

"Revised Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)

"Revised Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

To increase the international comparability of accounting standards, "Accounting Standard for Fair Value Measurement" and "Guidance on Accounting Standard for Fair Value Measurement" (hereinafter referred to as the "Fair Value Measurement Standards, etc.") were developed, and guidance and other rules were established with regard to the method for fair value measurement. Fair Value Measurement Standards, etc. will be applicable for the fair values of the following items.

- Financial instruments included in "Accounting Standard for Financial Instruments"

- Inventories held for trading purposes included in "Accounting Standard for Measurement of Inventories"

In addition, "Guidance on Disclosures about Fair Value of Financial Instruments" was revised to include notes regarding the breakdown by level of fair values of financial instruments.

The Company expects to apply this standard from the beginning of the fiscal year ending March 31, 2022. The Company and its domestic consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

#### (b) Foreign consolidated subsidiaries

The Company's subsidiaries located in the United States expect to apply ASC 842 Leases from the beginning of the fiscal year ending March 31, 2023. Main revisions are: revision to apply a control model to the identification of leases and distinguish between leases and service contracts; and revision to eliminate lease classification and recognition of assets and liabilities for all leases by the lessee. The Company is currently

evaluating the potential impacts of applying these standards to be adopted by its subsidiaries located in the United States in the future period.

## y. Additional information

### Provision for customer compensation expenses

During fiscal year in 2020 the Company recorded ¥1,002 million as provision for customer compensation expenses in its income statement as related to non-conformity issues found in certain manufacturing and inspection process of plate-fin type heat exchanger in December 2019. During this fiscal year, the Company paid some compensation to the customers and recognized additional compensation expenses to the customers as the progress has seen at negotiation with the customers. The Company estimated and recorded additional ¥1,487 million (\$13,431 thousand) as customer compensation expenses in March 2021.

## 3. SIGNIFICANT ACCOUNTING ESTIMATES

### (a) The recoverability of deferred tax assets

#### (1) Deferred tax assets

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets	¥1,946	\$17,577

(2) The Company recognized deferred tax assets for temporary differences and net operating loss carryforwards to the extent of amounts that are expected to be realized and collected in future. Recoverability of deferred tax assets depends on the estimation of future taxable income and temporary difference amounts. The Company's future taxable income is assessed based on its business plan that is created with expected sales and cost amount, margin ratio and consideration of future market trend etc. The estimation of recoverability of deferred tax assets is significantly affected by external environment such as fluctuation of demand in each business market influenced by economic climate and trends, hence, the estimation involve a high degree of uncertainty.

### (b) Assessment for impairment loss on long-lived assets

#### (1) Long-lived assets

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment	¥15,040	\$135,850
Intangible assets	1,603	14,480

(2) The Company groups assets for business use based on managerial accounting and assets for not in business use. The Company tests each grouped long-lived assets for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable and impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of impairment loss is determined as the excess of the carrying value of the asset over its fair value. The total undiscounted cash flows is estimated based on the Company's business plan that is created with expected sales and cost amount, margin ratio and consideration of future market trend etc. The estimation of assessment for impairment loss on long-lived assets is significantly affected by external environment such as fluctuation of demand in each business market influenced by economic climate and trends, hence, the estimation involve a high degree of uncertainty.

### (c) Assessment for valuation of inventories

#### (1) Inventories

	Millions of Yen	Thousands of U.S. Dollars
Finished products	¥4,939	\$44,612
Work in process	14,490	130,882
Raw materials and supplies	8,119	73,336
Total	¥27,548	\$248,830

(2) Inventories are stated at the lower of cost or net selling value. The Company provides landing gear parts for a new aircraft and for maintenance spare parts, and the profitability of the parts differs between those for a new aircraft and those for spare parts. In addition, as commercial aircrafts are generally used for 20 to 30 years with regular maintenance and as immediate landing gear parts delivery is requested, the Company has to keep the parts for a long period. Considering such nature of the business, the net selling value of the inventories related to landing gear system for commercial aircraft is calculated based on actual sales price of the model of each landing gear system for the last six months and, if necessary, adjusted by the future sales plan that is based on the product mix of new aircrafts and spare parts by production plan of commercial aircraft manufacturers. In addition, long-term inventories were written down based on certain assumptions on future sales forecast. The estimation of the net selling value of inventories and the evaluation of long-term inventories related to commercial aviation business are significantly affected by external environment such as fluctuation of demand in the commercial aircraft market influenced by economic climate and trends, hence, the estimation involve a high degree of uncertainty.

### (d) Accounting estimates considering the spread of COVID-19 infection

Prolonged wide spread of COVID-19 infection over the world impacted the Company's aerospace business sector and orders for this sector has decreased. The Company assumes that the impact of COVID-19 will continue into the following year and thereafter; however, the Company expects a gradual recovery in future years. This assumption is considered as the Company assess recoverability of deferred tax assets, impairment loss on long-lived assets and valuation of inventories.

## 4. INVESTMENT SECURITIES

The cost and aggregate fair value of available-for-sale securities at March 31, 2021 and 2020, were as follows:

March 31, 2021	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥316	¥302		¥618

March 31, 2020	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥394	¥209	¥8	¥595

March 31, 2021	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	\$2,854	\$2,728		\$5,582

The proceeds, realized gains, and realized losses of the available-for-sale securities which were sold during the year ended March 31, 2021 and 2020, were as follows:

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March 31, 2021	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Equity securities	¥304	¥226	

March 31, 2020	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Equity securities	¥429	¥232	

March 31, 2021	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Equity securities	\$2,746	\$2,041	

Loss on devaluation of available-for-sale securities was not recognized for the year ended March 31, 2021. Loss on devaluation recognized for available-for-sale securities was ¥329 million for the year ended March 31, 2020. For other-than-temporary declines in fair value by 40% or more of the cost, investment securities are reduced to net realizable value by a charge to income.

## 5. INVENTORIES

Inventories at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Finished products	¥4,939	¥4,412	\$44,612
Work in process	14,490	14,055	130,882
Raw materials and supplies	8,119	8,088	73,336
Total	¥27,548	¥26,555	\$248,830

## 6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans bear interest at rates ranging from 0.28% to 2.55% at March 31, 2021, and from 0.28% to 5.20% at March 31, 2020.

Long-term debt at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Loans from banks and insurance companies, due serially to 2027 with interest rates ranging from 0.15% to 1.05% (2021 and 2020):			
Collateralized	¥2,216	¥680	\$20,016
Unsecured	7,161	7,470	64,683
Obligation under finance leases	555	427	5,013
Total	9,932	8,577	89,712
Less current portion	(3,504)	(2,554)	(31,650)
Long-term debt, less current portion	¥6,428	¥6,023	\$58,062

Annual maturities of long-term debt, as of March 31, 2021, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥3,504	\$31,650
2023	1,698	15,337
2024	1,560	14,091
2025	1,835	16,575
2026	910	8,220
2027 and thereafter	425	3,839
Total	¥9,932	\$89,712

The carrying amounts of assets pledged as collateral for long-term bank loans of ¥2,216 million (\$20,016 thousand) at March 31, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥409	\$3,694
Buildings and structures	10	91
Total	¥419	\$3,785

The above assets are provided for a factory foundation mortgage.

The above collateralized long-term debt includes the current portion of long-term debt.

## 7. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit retirement plans for employees.

Employees terminating their employment are, under most circumstances, entitled to retirement benefits determined based on the rate of pay at the time of termination, length of service, and conditions under which the termination occurs. If the termination is involuntary, caused by retirement at the mandatory retirement age, or caused by death, the employee is entitled to greater payments than in the case of voluntary termination.

Employees of the Company who retire at the mandatory retirement age are entitled to receive approximately 50% of their benefits in the form of an annuity with the balance in a lump-sum payment upon retirement. The funds for the annuity payments are entrusted to an outside trustee.

(1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows (excluding the benefit plans for which the simplified method was applied):

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥8,540	¥8,302	\$77,138
Current service cost	487	564	4,399
Interest cost	76	82	686
Actuarial losses	(10)	(74)	(90)
Prior service cost	(727)		(6,566)
Benefits paid	(324)	(334)	(2,927)
Balance at end of year	¥8,042	¥8,540	\$72,640

(2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows (excluding the benefit plans for which the simplified method was applied):

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥5,185	¥5,404	\$46,834
Expected return on plan assets	155	162	1,400
Actuarial gains	1,022	(472)	9,231
Contributions from the employer	185	186	1,671
Benefits paid	(135)	(95)	(1,219)
Balance at end of year	¥6,412	¥5,185	\$57,917

(3) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020 using the simplified method were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥386	¥354	\$3,487
Periodic benefit cost	121	61	1,093
Benefits paid	(80)	(33)	(723)
Contributions to the obligation	(14)	4	(126)
Others	4		36
Balance at end of year	¥417	¥386	\$3,767

(4) A reconciliation between the liability and asset recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Funded defined benefit obligation	¥3,704	¥3,601	\$33,457
Plan assets	(6,412)	(5,185)	(57,917)
Total	(2,708)	(1,584)	(24,460)
Unfunded defined benefit obligation	4,756	5,325	42,959
Net amount of liabilities and asset recorded in the consolidated balance sheet	¥2,048	¥3,741	\$18,499
Retirement benefit liabilities	4,756	5,325	42,959
Retirement benefit assets	(2,708)	(1,584)	(24,460)
Net amount of liabilities and asset recorded in the consolidated balance sheet	¥2,048	¥3,741	\$18,499

(5) The components of net periodic retirement benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥487	¥564	\$4,399
Interest cost	76	82	686
Expected return on plan assets	(155)	(162)	(1,400)
Recognized actuarial losses	169	84	1,527
Amortization of prior service cost	(91)	(24)	(822)
Periodic benefit cost calculated by the simplified method	121	61	1,093
Others	12	11	108
Net periodic benefit costs	¥619	¥616	\$5,591

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Prior service cost	¥636	¥(24)	\$5,745
Actuarial differences	1,200	(315)	10,839
Total	¥1,836	¥(339)	\$16,584

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized prior service cost	¥687	¥51	\$6,205
Unrecognized actuarial differences	274	(927)	2,475
Total	¥961	¥(876)	\$8,680

(8) Plan assets

### a. Components of plan assets

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	2021	2020
Debt investments	41%	46%
Equity investments	51	43
Cash and cash equivalents	2	3
Others	6	8
Total	100%	100%

### b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(9) Assumptions used for the years ended March 31, 2021 and 2020, were set forth as follows:

	2021	2020
Discount rate	0.609-1.271%	0.609-1.271%
Expected rate of return on plan assets	3.0%	3.0%
Expected rate of salary increase	0.9-3.7%	1.0-2.7%

The amounts of contribution required for the defined contribution plan paid by the Group were ¥43 million (\$388 thousand) and ¥32 million for the years ended March 31, 2021 and 2020, respectively.

## 8. PROVISION FOR LOSS ON CONSTRUCTION CONTRACTS

(1) The provision for loss on construction contracts are offset against inventories in the balance sheet as of March 31, 2021. Amounts of provision for loss on construction contracts offset by inventories were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Work in process	¥155	¥42	\$1,400

(2) Provision for loss on construction contracts included in "Cost of sales" for the year ended March 31, 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Cost of sales	¥313	¥56	\$2,827

## 9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any

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time during the fiscal year if the Company has prescribed so in its articles of incorporation. The Company meets the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

## (b) Increases/decreases and transfer of common stock, reserve, and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts with equity under certain conditions upon resolution of the shareholders.

## (c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2021 and 2020, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars 2021
	2021	2020	
Employees' salaries and bonuses	¥3,636	¥3,647	\$32,843
Net periodic retirement benefit costs	132	165	1,192
Depreciation and amortization	520	430	4,697
Research and development costs	647	901	5,844
Goodwill amortization	85	83	768

## 11. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2021 and 2020.

### For the year ended March 31, 2021

Description is omitted due to its insignificance.

### For the year ended March 31, 2020

The Company recognized an impairment loss for common assets and welfare facility since these assets became no longer in use. SPP Nagasaki Engineering Co., Ltd, Sumisei Hydraulic Systems Co., Ltd and CFN Precision, Ltd have also recognized an impairment loss for certain buildings and structures, machinery equipment, and other assets since they have expected that carrying amount of these assets exceed the sum of the discounted future cash flows. The Group recorded total impairment loss of ¥930 million as other expenses.

## 12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 30.6% for the years ended March 31, 2021 and 2020.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars 2021
	2021	2020	
Deferred tax assets:			
Reserve for accrued bonuses	¥396	¥408	\$3,577
Retirement benefit liabilities	1,404	1,582	12,682
Loss on devaluation of inventories	1,125	990	10,162
Loss on devaluation of investment securities	113	97	1,020
Loss on devaluation of other assets	12	15	108
Tax loss carryforwards	1,857	1,060	16,774
Impairment losses of assets	355	346	3,207
Provision for customer compensation expenses	498	307	4,498
Provision for product warranties	364	414	3,288
Other	939	792	8,481
Total of tax loss carryforwards and temporary differences	7,063	6,011	63,797
Less valuation allowance for tax loss carryforwards	(1,155)	(1,004)	(10,433)
Less valuation allowance for temporary differences	(3,006)	(1,867)	(27,152)
Total valuation allowance	(4,161)	(2,871)	(37,585)
Deferred tax assets	¥2,902	¥3,140	\$26,212
Deferred tax liabilities:			
Retirement benefit assets	¥(828)	¥(485)	\$(7,479)
Reserve for advanced depreciation of noncurrent assets	(112)	(113)	(1,012)
Net unrealized gain on available-for-sale securities	(86)	(53)	(777)
Other	(224)	(131)	(2,023)
Deferred tax liabilities	¥(1,250)	¥(782)	\$(11,291)
Net deferred tax assets	¥1,652	¥2,358	\$14,921

The increase in total valuation allowance was mainly due to the deductible temporary differences which exceed the estimated taxable income.

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2021 and 2020, were as follows:

March 31, 2021	Millions of Yen						Total
	1 Year(s) or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
Deferred tax assets relating to tax loss carryforwards	¥43	¥10	¥9	¥3		¥1,792	¥1,857
Less valuation allowances for tax loss carryforwards	(43)	(10)	(9)	(3)		(1,090)	(1,155)
Net deferred tax assets relating to tax loss carryforwards						702	702

March 31, 2020	Millions of Yen						Total
	1 Year(s) or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
Deferred tax assets relating to tax loss carryforwards	¥57	¥43	¥10	¥9	¥3	¥938	¥1,060
Less valuation allowances for tax loss carryforwards	(57)	(43)	(10)	(9)	(3)	(882)	(1,004)
Net deferred tax assets relating to tax loss carryforwards						56	56

March 31, 2021	Thousands of U.S. Dollars						Total
	1 Year(s) or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	
Deferred tax assets relating to tax loss carryforwards	\$389	\$90	\$81	\$27		\$16,187	\$16,774
Less valuation allowances for tax loss carryforwards	(389)	(90)	(81)	(27)		(9,846)	(10,433)
Net deferred tax assets relating to tax loss carryforwards						6,341	6,341

Deferred tax assets of ¥702 million is recorded for tax loss carryforwards of ¥1,857 million (multiplied by the effective statutory tax rate). The valuation allowance is not recognized for the portion of the tax loss carryforwards that is deemed to be recoverable based on the estimation of future taxable income. A reconciliation between the statutory effective tax rate and the actual tax rate is omitted due to the recording of a net loss for the year ended March 31, 2021. The reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statement of operations for the year ended March 31, 2020, is as follows:

Normal effective statutory tax rate	30.6%
Expenses not permanently deductible for income tax purposes	0.5
Income not permanently taxable for income tax purposes	(0.5)
Per capita in local tax	0.5
Equity in earnings of associated companies	(3.6)
Change in valuation allowance	38.4
Other - net	1.6
Actual effective tax rate	67.5%

## 13. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Total rental expenses including lease payments under finance leases for the year ended March 31, 2021 and 2020, were ¥707 million (\$6,386 thousand) and ¥566 million, respectively.

## 14. RELATED-PARTY TRANSACTIONS

Balances and transactions of the Company with Sumitomo Corporation and its subsidiaries as of and for year ended March 31, 2021 and 2020, were as follows:

### Transaction between the Company and Related Parties

	Millions of Yen		Thousands of U.S. Dollars 2021
	2021	2020	
Sumitomo Corporation:			
Accounts receivable-trade	¥1,411	¥839	\$12,745
Sales	4,968	6,045	44,874
Sumitomo Aero-Systems Corporation:			
Accounts receivable-trade	4,075	3,695	36,808
Sales	5,712	5,231	51,594
Sumitomo Shoji Machinex Co., Ltd.:			
Accounts receivable-trade	1,101	705	9,945
Sales	1,620	909	14,633

Sales prices and other conditions are determined on general terms and conditions.

## 15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt, including bank loans based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund the Group's ongoing operations. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in (2) below.

### (2) Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are hedged by using forward foreign currency contracts. Investment securities are mainly equity securities and their fair market values are monitored on a quarterly basis.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are generally hedged by using forward foreign currency contracts.

### (3) Risk Management for Financial Instruments

#### Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables based on internal guidelines, which include monitoring payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. Because the counterparties to derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk. See Note 16 for more details regarding derivatives.

#### Market risk management (foreign currency exchange rate risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such

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exchange rate risk is hedged principally by forward foreign currency contracts. Interest rate swaps and currency swaps are used to manage exposure to market risks from changes in the interest rates and foreign currency exchange rates of loan payables.

Investment securities are managed by monitoring market value and the financial position of issuers on a regular basis.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount by the corporate treasury department.

## Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding an adequate volume of liquid assets along with adequate financial planning by the corporate treasury department.

## (4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, other rational valuation techniques are used instead. See Note 16 for details on the fair values of derivatives.

### (a) Fair values of financial instruments

March 31, 2021	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥12,127	¥12,127	
Notes and accounts receivable	17,490	17,490	
Investment securities	619	619	
<b>Total</b>	<b>¥30,236</b>	<b>¥30,236</b>	
Short-term bank loans	(18,583)	(18,583)	
Payables	(11,024)	(11,024)	
Long-term debt <sup>(1)</sup>	(9,932)	(9,932)	
<b>Total</b>	<b>¥(39,539)</b>	<b>¥(39,539)</b>	

March 31, 2020	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	¥8,139	¥8,139	
Notes and accounts receivable	18,119	18,119	
Investment securities	595	595	
<b>Total</b>	<b>¥26,853</b>	<b>¥26,853</b>	
Short-term bank loans	(15,765)	(15,765)	
Payables	(9,224)	(9,224)	
Long-term debt <sup>(1)</sup>	(8,577)	(8,577)	
<b>Total</b>	<b>¥(33,566)</b>	<b>¥(33,566)</b>	

March 31, 2021	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Loss
Cash and cash equivalents	\$109,538	\$109,538	
Notes and accounts receivable	157,981	157,981	
Investment securities	5,591	5,591	
<b>Total</b>	<b>\$273,110</b>	<b>\$273,110</b>	
Short-term bank loans	\$(167,853)	\$(167,853)	
Payables	(99,575)	(99,575)	
Long-term debt <sup>(1)</sup>	(89,712)	(89,712)	
<b>Total</b>	<b>\$(357,140)</b>	<b>\$(357,140)</b>	

<sup>(1)</sup> The above long-term debt includes the current portion of long-term debt.

## Cash and cash equivalents and Notes and accounts receivable

The carrying values approximate fair value because of their short maturities.

## Investment securities

The fair values are measured at the quoted market price of the stock exchange for the equity instruments. Fair value information for the investment securities by classification is included in Note 4.

## Short-term bank loans and Payables

The carrying values approximate fair value because of their short maturities.

## Long-term debt

The fair values of long-term debt and lease obligations are determined by discounting the future cash flows related to the debt at the Group's assumed corporate borrowing rate.

## Derivatives

Fair value information for derivatives is included in Note 16.

## (b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Investments in equity instruments that do not have a quoted market price in an active market	¥218	¥218	\$1,969
<b>Total</b>	<b>¥218</b>	<b>¥218</b>	<b>\$1,969</b>

## (5) Maturity analysis for financial assets with contractual maturities

The entire balance for cash and cash equivalents, and notes and accounts receivable is due in one year or less as of March 31, 2021 and 2020. See Note 6 for annual maturities of long-term debt.

## 16. DERIVATIVES

The Group enters into derivative contracts to hedge market risks such as foreign exchange and interest rate fluctuations associated with certain assets and liabilities.

It is the Group's policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities. The Group does not hold or issue derivatives for speculative purposes.

Since all of the Group's derivative transactions are related to qualified hedges of underlying business exposures, market gain or loss risk on derivative instruments is generally offset by opposite movements in the value of the hedged assets or liabilities.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative transactions to which hedge accounting is applied.

At March 31, 2021	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥340		
Currency swaps	Long-term debt	606	362	

At March 31, 2020	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥780	¥340	
Currency swaps	Long-term debt	851	606	

At March 31, 2021	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	\$3,071		
Currency swaps	Long-term debt	5,474	3,270	

The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense.

The above currency swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value.

In addition, the fair values of such interest rate swaps and currency swaps in Note 15 are included in that of hedged items (i.e., long-term debt).

The contractual or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

## 17. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized gain(loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥338	¥(989)	\$3,053
Reclassification adjustments to profit or loss	(226)	84	(2,041)
Amount before income tax effect	112	(905)	1,012
Income tax effect	(33)	275	(298)
<b>Total</b>	<b>¥79</b>	<b>¥(630)</b>	<b>\$714</b>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥79	¥(22)	\$714
<b>Total</b>	<b>¥79</b>	<b>¥(22)</b>	<b>\$714</b>
Defined retirement benefit plans:			
Adjustments arising during the year	¥1,759	¥(399)	\$15,888
Reclassification adjustments to profit or loss	77	60	696
Amount before income tax effect	1,836	(339)	16,584
Income tax effect	(562)	104	(5,076)
<b>Total</b>	<b>¥1,274</b>	<b>¥(235)</b>	<b>\$11,508</b>
Share of other comprehensive income in associates:			
Losses arising during the year	¥(32)	¥(3)	\$(290)
<b>Total</b>	<b>¥(32)</b>	<b>¥(3)</b>	<b>\$(290)</b>
<b>Total other comprehensive income (loss)</b>	<b>¥1,400</b>	<b>¥(890)</b>	<b>\$12,646</b>

## 18. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

### 1. Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is performed in order to decide how resources are allocated among the Group. The Group consists of three segments: Aerospace Business, Industrial Equipment Business and ICT Business. Aerospace Business consists of manufacturing and sale of propeller systems, landing gear systems, heat management systems, space equipment and others. Industrial Equipment Business consists of manufacturing and sale of hydraulic pumps, hydraulic valves, LNG vaporizers, heat exchangers and others. ICT business consists of manufacturing and sale of ozone generators, MEMS and semiconductor manufacturing equipment and others. At beginning of this fiscal year, the Company restructured business portfolio and shifted sales unit of hydraulic pumps and valves from Aerospace Business to Industrial Equipment Business. The information below is reflected this shift and previous year is restated accordingly.

### 2. Methods of Measurement for the Amounts of Sales, Profit, Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies".

### 3. Information about Sales, Profit, Assets, and Other Items

	Millions of Yen					
	Reportable Segment			Total	Reconciliations	Consolidated
	Aerospace Business	Industrial Equipment Business	ICT Business			
Sales:						
Sales to external customers	¥20,116	¥11,131	¥10,212	¥41,459		¥41,459
Intersegment sales or transfers						
<b>Total</b>	<b>¥20,116</b>	<b>¥11,131</b>	<b>¥10,212</b>	<b>¥41,459</b>		<b>¥41,459</b>
Segment operating income (loss)	¥(1,228)	¥(8)	¥736	¥(500)		¥(500)
Segment assets	43,092	14,347	13,618	71,057	¥11,505	82,562
Other:						
Depreciation	1,044	618	411	2,073		2,073
Amortization of goodwill	3		82	85		85
Increase in property, plant and equipment and intangible assets	1,112	727	442	2,281		2,281
Investment in associated companies accounted for by the equity method			1,568	1,568		1,568

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	Millions of Yen 2020					
	Reportable Segment			Total	Reconciliations	Consolidated
	Aerospace Business	Industrial Equipment Business	ICT Business			
Sales:						
Sales to external customers	¥26,716	¥11,511	¥12,790	¥51,017		¥51,017
Intersegment sales or transfers						
Total	¥26,716	¥11,511	¥12,790	¥51,017		¥51,017
Segment operating income	¥1,125	¥672	¥1,557	¥3,354		¥3,354
Segment assets	46,283	12,790	11,213	70,286	¥7,199	77,485
Other:						
Depreciation	1,195	569	302	2,066		2,066
Amortization of goodwill	2		81	83		83
Increase in property, plant and equipment and intangible assets	1,119	483	519	2,121		2,121
Investment in associated companies accounted for by the equity method			1,501	1,501		1,501

	Thousands of U.S. Dollars 2021					
	Reportable Segment			Total	Reconciliations	Consolidated
	Aerospace Business	Industrial Equipment Business	ICT Business			
Sales:						
Sales to external customers	\$181,700	\$100,542	\$92,241	\$374,483		\$374,483
Intersegment sales or transfers						
Total	\$181,700	\$100,542	\$92,241	\$374,483		\$374,483
Segment operating income (loss)	\$(1,092)	\$(72)	\$6,648	\$(4,516)		\$(4,516)
Segment assets	389,233	129,591	123,006	641,830	\$103,920	745,750
Other:						
Depreciation	9,430	5,582	3,713	18,725		18,725
Amortization of goodwill	27		741	768		768
Increase in property, plant and equipment and intangible assets	10,044	6,567	3,992	20,603		20,603
Investment in associated companies accounted for by the equity method			14,163	14,163		14,163

#### 4. Information about Geographical Areas

##### (1) Sales

Millions of Yen 2021							
Japan	The United States of America	Canada	Europe	China	Other Asia	Other	Total
¥27,301	¥2,570	¥2,824	¥2,709	¥4,579	¥1,424	¥52	¥41,459

Millions of Yen 2020							
Japan	The United States of America	Canada	Europe	China	Other Asia	Other	Total
¥28,117	¥5,473	¥4,760	¥5,890	¥4,295	¥2,187	¥295	¥51,017

Thousands of U.S. Dollars 2021							
Japan	The United States of America	Canada	Europe	China	Other Asia	Other	Total
\$246,599	\$23,214	\$25,508	\$24,469	\$41,360	\$12,863	\$470	\$374,483

Note: Sales are classified by country or region based on the location of customers.

##### (2) Property, plant and equipment

Information about property, plant and equipment by geographical area is not disclosed because Japanese GAAP does not require such disclosure if total assets in Japan represent more than 90% of the consolidated amounts.

#### 5. Information about Major Customers

	Millions of Yen 2021	
	Sales	Segment
	Kawasaki Heavy Industries, Ltd.	¥4,410
Ministry of Defense	4,189	Aerospace Business

	Thousands of U.S. Dollars 2021	
	Sales	Segment
	Kawasaki Heavy Industries, Ltd.	\$39,834
Ministry of Defense	37,838	Aerospace Business

Information about major customers is not disclosed for the year ended March 31, 2020 because there is no customer that represents more than 10% of net sales in the consolidated statement of income.

#### 6. Information about Impairment Losses of Assets

	Millions of Yen 2021				
	Aerospace Business	Industrial Equipment Business	ICT Business	Elimination/Corporate	Total
	Impairment losses of assets	¥75			

	Millions of Yen 2020				
	Aerospace Business	Industrial Equipment Business	ICT Business	Elimination/Corporate	Total
	Impairment losses of assets	¥295			¥635

	Thousands of U.S. Dollars 2021				
	Aerospace Business	Industrial Equipment Business	ICT Business	Elimination/Corporate	Total
	Impairment losses of assets	\$677			

#### 7. Information about Amortization of Goodwill

	Millions of Yen 2021				
	Aerospace Business	Industrial Equipment Business	ICT Business	Elimination/Corporate	Total
	Amortization of goodwill	¥3		¥82	
Goodwill at March 31, 2021	12		350		362

	Millions of Yen 2020				
	Aerospace Business	Industrial Equipment Business	ICT Business	Elimination/Corporate	Total
	Amortization of goodwill	¥3		¥80	
Goodwill at March 31, 2020	13		425		438

	Thousands of U.S. Dollars 2021				
	Aerospace Business	Industrial Equipment Business	ICT Business	Elimination/Corporate	Total
	Amortization of goodwill	\$27		\$741	
Goodwill at March 31, 2021	108		3,162		3,270

# Deloitte.

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#### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Sumitomo Precision Products Co., Ltd.:

#### Opinion

We have audited the consolidated financial statements of Sumitomo Precision Products Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

#### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. 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.

Member of  
Deloitte Touche Tohmatsu Limited

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The evaluation of inventories related to landing gear system for commercial aircraft As described in Note 3. SIGNIFICANT ACCOUNTING ESTIMATES, (c) "Assessment for valuation of inventories"	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As disclosed in the consolidated balance sheet for the current fiscal year, Sumitomo Precision Products Co., Ltd. (the "Company") recorded inventories of 11,588 million yen related to landing gear system for commercial aircraft, which account for 14% of total consolidated assets.</p> <p>Inventories are stated at the lower of cost or net selling value.</p> <p>The Company provides landing gear parts for a new aircraft and for maintenance spare parts, and the profitability of the parts differs between those for a new aircraft and those for spare parts. In addition, as commercial aircrafts are generally used for 20 to 30 years with regular maintenance, the Company has to keep the necessary landing gear parts for that period in order to provide the parts to the customers as soon as requested.</p> <p>Considering such nature of the business, the net selling value of the inventories related to landing gear system for commercial aircraft is calculated based on actual sales price of the model of each landing gear system for the last six months and, if necessary, adjusted by the future sales plan that is based on the sales mix of new aircrafts and spare parts by production plan of commercial aircraft manufacturers. Long-term inventories were written down based on certain assumptions on future sales forecast.</p> <p>The estimation of the net selling value of inventories and the evaluation of long-term inventories related to commercial aircrafts are significantly affected by external environment such as fluctuation of demand in the commercial aircraft market influenced by economic climate and trends, hence, the estimation involve a high degree of uncertainty as well as management's judgments.</p> <p>Therefore, since the evaluation of inventories related to landing gear system for commercial aircraft was particularly important in our audit of the consolidated financial statement for the current fiscal year, we have determined this to be a key audit matter.</p>	<p>We performed the following procedures to assess whether the evaluation of inventories related to landing gear system for commercial aircraft was reasonable, among others:</p> <p>(1) Test of internal control</p> <p>We tested the design and operating effectiveness of internal controls over the evaluation of inventories related to landing gear system for commercial aircraft. Especially, we focused on the controls which ensure the reliability of the information used in the evaluation.</p> <p>(2) Evaluation of the estimation of net selling value and reasonableness of the evaluation of the long-term inventories</p> <p>We inspected related documents for the reasonableness of the estimation policy and estimation of the net selling value for each model of landing gear system.</p> <p>With respect to the actual sales results in the last six months, which is the basis for calculating the net selling value, we tested the occurrence of transactions by inspecting the related documents such as purchase orders and shipment-related proof on a sample basis, and examined the accuracy and completeness of the actual sales results by model.</p> <p>We evaluated the appropriateness of the future sales plan for specific model in order to identify a situation where the net selling value of the inventories is lower than the carrying amounts. In addition, we evaluated critically the forecast of the external environment set as a premise of the sales plan by comparing with the information published by the relevant industry organization on the commercial aviation market.</p> <p>We assessed the appropriateness of the Company policy and the evaluation on long-term inventories by inspecting the related documents. In addition, we evaluated the reasonableness of the assumptions set in the evaluation of long-term inventories comparing with delivery records of the products.</p>

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The recoverability of deferred tax assets As described in Note 3. SIGNIFICANT ACCOUNTING ESTIMATES, (a) "The recoverability of deferred tax assets"	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As disclosed in the consolidated financial statements for the current fiscal year, the Company recorded deferred tax asset of 1,945 million yen.</p> <p>Deferred tax assets are recognized to the extent that it is probable that the deductible temporary differences and tax loss carryforwards will reverse in the foreseeable future.</p> <p>The recoverability of deferred tax assets depends on estimation such as future taxable income, tax planning, and schedules for reversal of future taxable temporary differences. Particularly, it is important to estimate future taxable income when the Company has large tax loss carryforwards.</p> <p>The estimation of taxable income is based on business plans, and significant assumptions in the business plan include the forecast of sales volume, sales price, and profit margin, among others. In addition, the estimation of taxable income is adjusted, if necessary, considering the market demand forecasts of the Company's each business.</p> <p>The significant assumptions are greatly affected by the external environment, such as market demand forecasts and social conditions related to economic conditions and trends and the estimation of the taxable income involves a high degree of uncertainty as well as the management's judgments.</p> <p>Therefore, since the evaluation of the recoverability of deferred tax assets was particularly important in the audit of consolidated financial statements for the current fiscal year, we have determined this to be a key audit matter.</p>	<p>We performed the following procedures to evaluate whether the evaluation of the recoverability of deferred tax assets was reasonable.</p> <p>(1) Test of internal controls</p> <p>We tested the design and operating effectiveness of internal controls over the evaluation of the recoverability of deferred tax assets. Especially, we focused on controls over estimating future taxable income.</p> <p>(2) Evaluation of reasonableness of taxable income estimates</p> <p>We assessed the reasonableness of the estimation policy and estimation of taxable income by inspecting related documents.</p> <p>We evaluated the accuracy of the management estimates by comparing the actual results with the business plan that was the basis for the estimation of taxable income in the prior year, and assessing the cause of the difference.</p> <p>We evaluated the appropriateness of the schedule for reversal of future deductible temporary differences and tax loss carryforwards with the assistance of our tax specialists.</p> <p>We evaluated the reasonableness of the business plan and the estimation of the taxable income by comparing forecast of the sales volume of each business, which is a significant assumption for business plan, with customer forecasts and other relevant data, and by analyzing forecast unit sales and profit margin with the actual performance for current fiscal year, and conducting a trend analysis from past results.</p> <p>In addition, we critically evaluated the forecast of the external environment set as an assumption of the business plan by comparing with the information published by the relevant industry organization.</p>

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# Consolidated Financial Statements

Sumitomo Precision Products Co., Ltd. and Consolidated Subsidiaries

Independent Auditor's Report  
March 31, 2021

## Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board 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.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over 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 an 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. The procedures selected depend on the auditor's judgment. In addition, we 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, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing 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 overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as 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.

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- 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 Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board 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 Audit & Supervisory Board members and the Audit & Supervisory Board, 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.

## Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

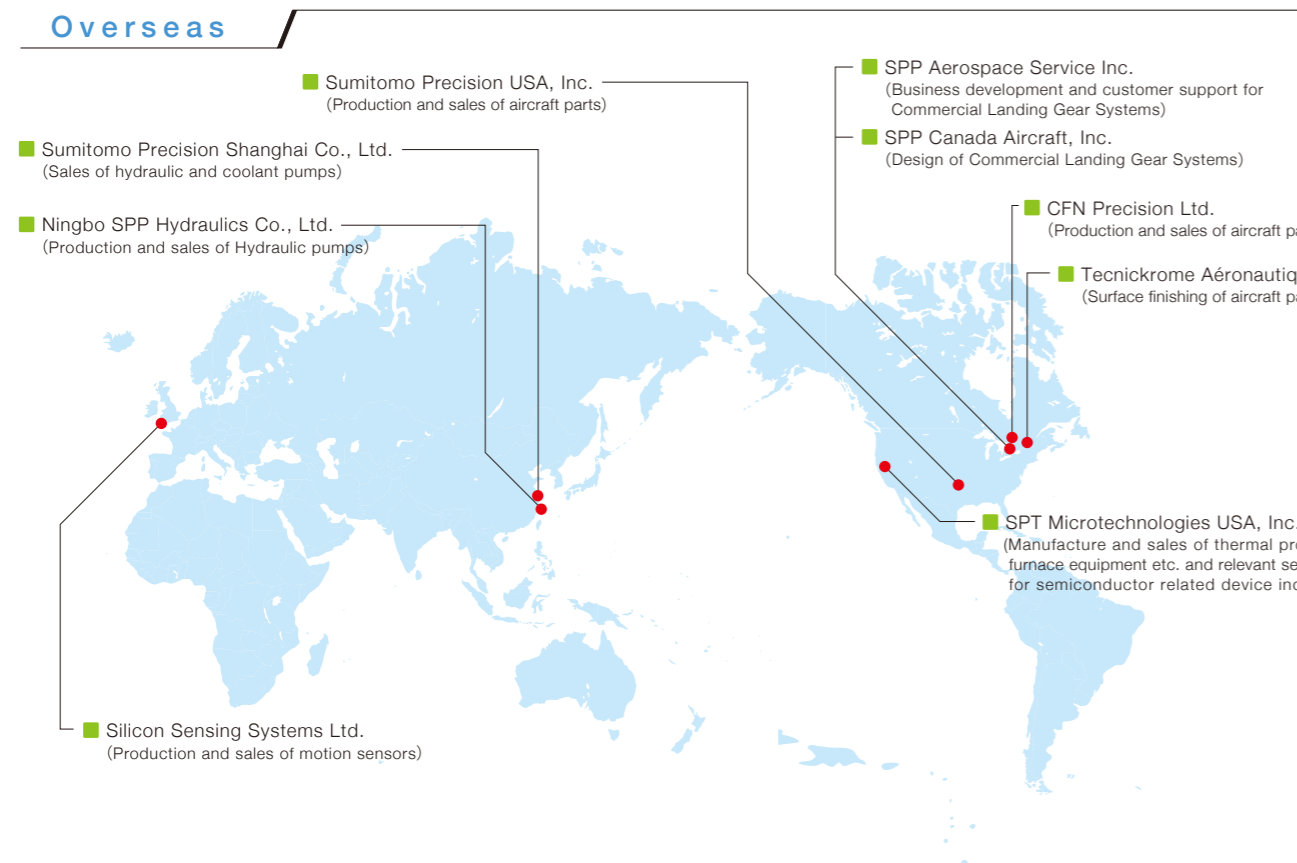
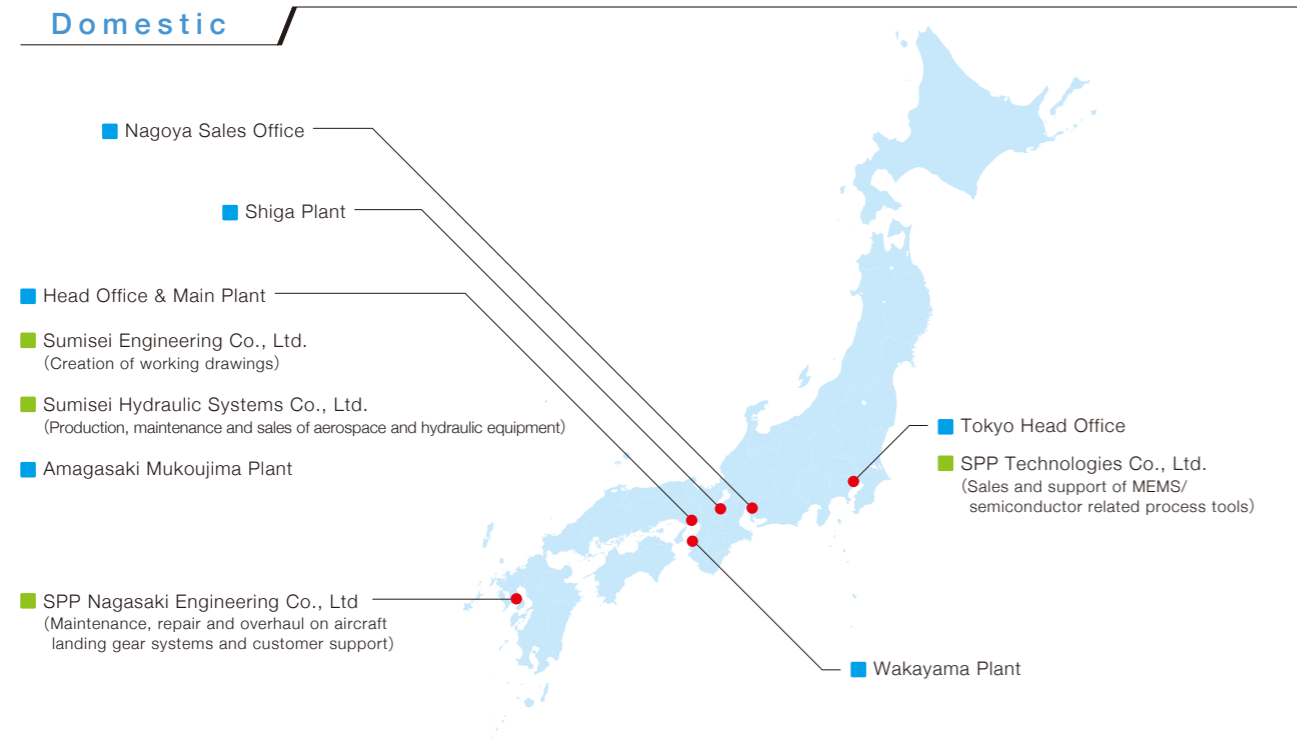
Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

*Deloitte Touche Tohmatsu LLC*  
June 22, 2021

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## Domestic and Overseas Bases (As of June 30, 2021)

■ Office & Plant  
■ Main Affiliated Company



## Company Profile (As of March 31, 2021)

Company Name	Sumitomo Precision Products Co., Ltd.
Established	January, 1961
Paid-in Capital	¥10,311 million
President	Hideaki Takahashi
Number of Employees	1,779 (Consolidated) 1,084 (Non-consolidated)
Head Office	1-10 Fuso-cho, Amagasaki, Hyogo 660-0891, Japan
URL	<a href="https://www.spp.co.jp">https://www.spp.co.jp</a>

## Stock Information (As of March 31, 2021)

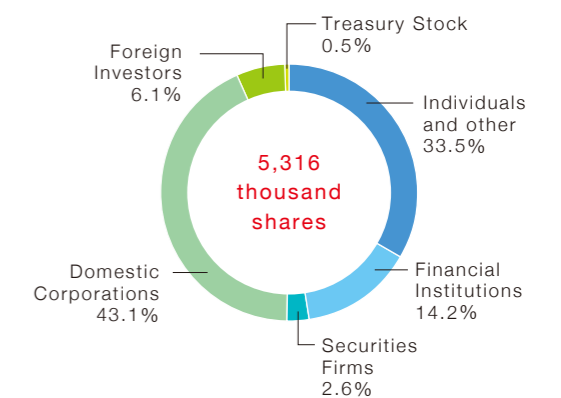
Fiscal Year	From April 1 of each year through March 31 of the following year	Method of Public Notices	To be posted on the Company's Website ( <a href="https://www.spp.co.jp">https://www.spp.co.jp</a> )
Ordinary Shareholder Meeting	June	Stock Code	6355
Record Date	Ordinary Shareholder Meeting: March 31 Year-end Dividends: March 31 Interim Dividends: September 30	Number of Authorized Shares	20,000,000
Transfer Agent	1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan Sumitomo Mitsui Trust Bank, Limited	Number of Issued Shares	5,316,779
		Number of Shareholders	4,573
		Minimum Trading Unit	100
		Stock Exchange Listing	Tokyo

### Major Shareholders

Name of Shareholder	Number of Shares (thousands)	Shareholding Ratio (%)
Sumitomo Corporation	1,462	27.64
Nippon Steel Corporation	764	14.46
The Master Trust Bank of Japan, Ltd. (trust account)	260	4.92
Sumitomo Precision Products Co., Ltd. Kyoeikai	132	2.51
Custody Bank of Japan, Ltd. (trust account)	92	1.76
SBI SECURITIES Co., Ltd.	72	1.36
Kazuhiro Yamamoto	62	1.17
DFA INTL SMALL CAP VALUE PORTFOLIO	61	1.16
Sumitomo Mitsui Banking Corporation	54	1.03
Custody Bank of Japan, Ltd. (trust account 5)	46	0.88

\* The shareholding ratio is calculated based on the total number of issued shares minus the number of treasury shares.

### Breakdown of Shareholders



## IR activities and disclosure

With the aim of helping shareholders and investors deepen their understanding of the Company, including its management policies and stance, we proactively conduct IR activity such as the issuance of annual reports and business

reports for shareholders, and provide information through our website. We will remain committed to upgrading our information disclosure and ensuring the timeliness and usefulness of IR information.

We frequently update our investor relations and other corporate information on this site, and invite you to check back regularly.

<https://www.spp.co.jp/English/ir/index.html>



<https://www.spp.co.jp/English/about/index.html>

