



SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Financial Statements

March 31, 2022 and 2021

(With Independent Auditors' Report Thereon)



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
Sumitomo Corporation of Americas:

Opinion

We have audited the consolidated financial statements of Sumitomo Corporation of Americas and its subsidiaries (collectively, the Company), which comprise the consolidated statements of financial position as of March 31, 2022 and 2021, and the related consolidated statements of comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. 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. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

New York, New York
May 16, 2022

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Statements of Financial Position

March 31, 2022 and 2021

(In millions of U.S. dollars)

Assets	2022	2021
Current assets:		
Cash and cash equivalents	\$ 734	666
Accounts receivable, net of allowance for doubtful accounts of \$27 and \$29, respectively	1,692	1,305
Inventories (note 7)	1,583	1,089
Intracompany cash management receivable (note 8)	361	55
Advance payments to suppliers	35	67
Current tax assets	3	99
Prepaid expenses and other current assets	202	76
Asset held for distribution to owners of the parent company (note 4)	—	96
Total current assets	4,610	3,453
Long-term receivables:		
Third party	150	141
Related parties (note 5)	108	202
Property and equipment, net (note 9)	1,333	1,288
Investment property (note 10)	379	401
Investments accounted for using the equity method (notes 4 and 5)	1,383	1,814
Goodwill (note 11)	119	120
Other intangible assets (note 11)	219	232
Other assets (note 18)	349	268
Total noncurrent assets	4,040	4,466
Total assets	\$ 8,650	7,919

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Statements of Financial Position

March 31, 2022 and 2021

(In millions of U.S. dollars)

Liabilities and Equity	2022	2021
Current liabilities:		
Notes payable (note 12)	\$ 205	235
Current portion of long-term debt (note 13)	176	308
Accounts payable:		
Third party	1,007	721
Related parties (notes 5 and 8)	245	151
Advances received	17	15
Accrued expenses and other current liabilities	622	469
Total current liabilities	<u>2,272</u>	<u>1,899</u>
Long-term liabilities:		
Long-term debt:		
Third party (note 13)	1,792	1,646
Related party (note 13)	—	3
Other long-term liabilities	314	373
Deferred income taxes (note 15)	101	43
Total noncurrent liabilities	<u>2,207</u>	<u>2,065</u>
Equity:		
Common stock, no par value. Authorized-300,000 shares; issued and outstanding-187,650 shares	411	411
Additional paid-in capital (note 16)	1,967	1,974
Retained earnings	1,724	1,420
Other components of equity (note 16)	4	(64)
Equity attributable to owners of the parent company	<u>4,106</u>	<u>3,741</u>
Noncontrolling interests	<u>65</u>	<u>214</u>
Total equity	<u>4,171</u>	<u>3,955</u>
Total liabilities and equity	<u>\$ 8,650</u>	<u>7,919</u>

See accompanying notes to consolidated financial statements.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

Years ended March 31, 2022 and 2021

(In millions of U.S. dollars)

	2022	2021
Revenues (note 8)	\$ 8,007	5,743
Cost of sales (note 8)	<u>(6,726)</u>	<u>(5,085)</u>
Gross profit	1,281	658
Selling, general and administrative expenses (note 23)	(699)	(699)
Interest expense (net of interest income of \$13 and \$30, respectively)	(32)	(30)
Other expense - net (note 6)	(33)	(195)
Equity in net losses of affiliates (note 5)	<u>(54)</u>	<u>(71)</u>
Income (loss) before income taxes	463	(337)
Income tax benefit (expense) (note 14)	<u>(54)</u>	<u>83</u>
Net income (loss)	<u>409</u>	<u>(254)</u>
Other comprehensive income:		
Items that will not be reclassified to net income:		
Net change in fair value of equity securities	45	14
Share of investments accounted for using the equity method	1	(1)
Income tax expense	<u>(12)</u>	<u>(3)</u>
Total items that will not be reclassified to net income	<u>34</u>	<u>10</u>
Items that may be reclassified to net income:		
Foreign currency translation differences for foreign operations	22	27
Effective portion of changes in fair value of cash flow hedges	12	—
Share of investments accounted for using the equity method	15	35
Income tax benefit	<u>(4)</u>	<u>(16)</u>
Total items that may be reclassified to net income	<u>45</u>	<u>46</u>
Other comprehensive income	<u>79</u>	<u>56</u>
Total comprehensive income (loss)	<u>\$ 488</u>	<u>(198)</u>
Net income (loss) attributable to:		
Owners of the parent company	\$ 394	(265)
Noncontrolling interests	<u>15</u>	<u>11</u>
Net income (loss)	<u>\$ 409</u>	<u>(254)</u>
Total comprehensive income (loss) attributable to:		
Owners of the parent company	\$ 469	(225)
Noncontrolling interests	<u>19</u>	<u>27</u>
Total comprehensive income (loss)	<u>\$ 488</u>	<u>(198)</u>

See accompanying notes to consolidated financial statements.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

Years ended March 31, 2022 and 2021

(In millions of U.S. dollars)

	Sumitomo Corporation of America stockholder's equity						Noncontrolling interests	Total equity
	Common stock	Additional paid-in capital	Retained earnings	Other components of equity			Total stockholder's equity	
				Translation reserve	Hedging reserve	Fair value reserve		
Balance – March 31, 2020	\$ 411	1,974	1,683	(89)	2	(15)	3,966	200 4,166
Comprehensive income (loss):								
Net income (loss)	—	—	(265)	—	—	—	(265)	11 (254)
Changes in other comprehensive income (loss) – net of tax:								
Net change in fair value of equity securities	—	—	1	—	—	12	13	— 13
Effective portion of changes in fair value of cash flow hedges	—	—	—	—	(2)	—	(2)	— (2)
Defined benefit plan actuarial gain	—	—	1	—	—	—	1	— 1
Foreign currency translation adjustments	—	—	—	28	—	—	28	16 44
Total comprehensive income (loss)	—	—	(263)	28	(2)	12	(225)	27 (198)
Capital contribution from parent company	—	—	—	—	—	—	—	— —
Purchases and other changes in noncontrolling interests	—	—	—	—	—	—	—	(13) (13)
Balance – March 31, 2021	411	1,974	1,420	(61)	—	(3)	3,741	214 3,955
Comprehensive income:								
Net income	—	—	394	—	—	—	394	15 409
Changes in other comprehensive income – net of tax:								
Net change in fair value of equity securities	—	—	6	—	—	27	33	— 33
Effective portion of changes in fair value of cash flow hedges	—	—	—	—	10	—	10	— 10
Defined benefit plan actuarial gain	—	—	1	—	—	—	1	— 1
Foreign currency translation adjustments	—	—	—	31	—	—	31	4 35
Total comprehensive income	—	—	401	31	10	27	469	19 488
Capital contribution from parent company	—	—	—	—	—	—	—	— —
Dividend in-kind to parent company	—	(7)	(97)	—	—	—	(104)	— (104)
Dividends to noncontrolling interests	—	—	—	—	—	—	—	(6) (6)
Sale of noncontrolling interests	—	—	—	—	—	—	—	(162) (162)
Balance – March 31, 2022	\$ 411	1,967	1,724	(30)	10	24	4,106	65 4,171

See accompanying notes to consolidated financial statements.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended March 31, 2022 and 2021

(In millions of U.S. dollars)

	2022	2021
Cash flows from operating activities:		
Income (loss) before income taxes	\$ 463	(337)
Adjustments to reconcile loss before income taxes to net cash provided by operating activities:		
Depreciation and amortization	243	258
Impairments of other intangible assets	—	127
Impairments of property and equipment	—	89
Impairments of investment property	19	—
Distributions in excess of losses of affiliates	169	149
Net realized losses (gains) on property and investments	36	(13)
Net interest expense	36	34
Interest received	13	30
Rental equipment purchases	(193)	(116)
Other	7	8
Changes in operating assets and liabilities, net of acquisitions:		
Accounts and notes receivable	(489)	159
Inventories	(495)	582
Advance payments to suppliers	32	(37)
Prepaid expenses and other assets	(125)	13
Long-term receivables - derivatives	11	28
Accounts payable	444	(21)
Advances received	2	5
Accrued expenses and other liabilities	143	(119)
Other long-term liabilities	(33)	(21)
Cash generated from operating activities	283	818
Income tax refunds (payments)	64	(19)
Interest paid	(47)	(63)
Net cash provided by operating activities	300	736
Cash flows from investing activities:		
Payments for purchases of:		
Property and equipment	(83)	(70)
Investment property	(18)	(19)
Other investments	(50)	(63)
Investments in associated companies	(87)	(153)
Return of capital from and sales of associated companies	55	18
Decrease (increase) in intracompany cash management receivables	(467)	190
Businesses acquired, net of cash	—	(23)
Businesses sold, net of cash	139	—
Proceeds from sales of:		
Property and equipment	16	13
Other investments	266	29
Increase in long-term receivables	(40)	(34)
Principal collections on long-term receivables	116	23
Net cash used in investing activities	(153)	(89)
Cash flows from financing activities:		
Decrease in short-term notes payable	(30)	(535)
Issuance of long-term debt	420	273
Principal payments on long-term debt	(412)	(638)
Payments of lease liabilities	(50)	(60)
Decrease in noncontrolling interests	(7)	(16)
Net cash provided by (used in) financing activities	(79)	(976)
Effect of changes in exchange rates on cash and cash equivalents	—	3
Net increase (decrease) in cash and cash equivalents	68	(326)
Cash and cash equivalents – beginning of year	666	992
Cash and cash equivalents – end of year	\$ 734	666

See accompanying notes to consolidated financial statements.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(1) Reporting Entity

Sumitomo Corporation of Americas (the Company) is a corporate entity in the United States and a wholly owned subsidiary of Sumitomo Corporation, Japan (SC). The consolidated financial statements of the Company include the accounts of the Company and its subsidiaries and their interests in its associated companies.

The Company, which is headquartered at 300 Madison Avenue, New York City, NY, is an integrated global trading company with diversified investments in businesses involved in marketing, sales and distribution of consumer products, sales and distribution of steel and other products, providing financing for customers and suppliers, coordination and operation of urban and industrial infrastructure projects, providing distribution and logistics services, developing natural resources and developing and managing real estate. The Company's target markets include North America, South America and Asia. A significant portion of the Company's transactions are with SC.

(2) Basis of Presentation

(a) Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Board of Directors of the Company authorized the consolidated financial statements for publication on May 16, 2022.

(b) Reporting Currency

The consolidated financial statements of the Company are presented in United States Dollars (\$), which is the Company's functional currency. All amounts presented in United States Dollars are rounded to the nearest million.

(c) Measurement

The consolidated financial statements have been prepared on the historical cost basis with the exception of the following items in the consolidated statements of financial position:

- Financial instruments at fair value through profit and loss are measured at fair value;
- Financial instruments at fair value through other comprehensive income (loss) are measured at fair value;
- Derivatives are measured at fair value; and
- Defined benefit liabilities are the present value of the defined benefit obligation less the fair value of plan assets.

(d) Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments and estimates made by management in the application of accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements are as follows:

- Note 3 (b) – Revenue recognition
- Note 3 (g) – Investment property

The following notes include information related to uncertainties in judgments and estimates, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year.

- Note 3 (i) – Impairment
- Note 3 (o) – Provisions
- Note 18 – Fair value of financial instruments

(3) Significant Accounting Policies

The accounting policies described below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of Consolidation

(i) Subsidiaries

Subsidiaries are those entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany profits, transactions and balances between the Company and its subsidiaries have been eliminated.

The accounting policies of subsidiaries have been adjusted when necessary to ensure consistency with the accounting policies adopted by the Company.

The acquisition of additional ownership interests in a subsidiary or the disposal of ownership interests in a subsidiary that does not result in the Company's relinquishment of control over the subsidiary is accounted for as an equity transaction. Any difference between the carrying amount of the ownership interests and the fair value of the consideration paid or received is recognized directly in equity as an adjustment to additional paid-in capital of equity attributable to owners of the parent company.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(ii) *Investments Accounted for Using the Equity Method (Associates)*

Associates are entities in which the Company has significant influence, but not control, over the financial and operating policies of the investee. Significant influence is presumed to exist when the Company holds between 20 and 50% of the voting power of another entity. This presumption can be overcome based on specific facts and circumstances that demonstrate that the ability to exercise significant influence is restricted. In addition, for equity investments in which the Company has less than a 20% ownership interest, the Company considers other facts and circumstances in assessing the ability to exercise significant influence over the investee.

Investments in associates are accounted for using the equity method of accounting and recognized initially at cost. The Company's investments in associates may include goodwill, representing the surplus of the cost of investment over the Company's share of the net fair value of the identifiable assets and liabilities of the investee. Such goodwill is recorded within investments accounted for using the equity method and any impairment is included within equity in earnings of affiliates.

The Company's share of the income and expenses of the equity method associates and changes in the Company's share in equity are included in the consolidated financial statements from the date significant influence commences until the date that it ceases. The Company generally recognizes its share of an investee's income and expenses and other changes in equity based on the percentage of equity interests owned. If the Company's share of losses exceeds its interest in an associate the carrying amount of that interest, including any other long-term investments in the associate, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee. For certain investees with complex and variable capital structures that provide for differing allocations of income and expense, cash flows from operations and cash flows from liquidation, it can be difficult to accurately determine the Company's equity income by simply applying a specific percentage to the net income of the investee. In those situations, the Company employs a Hypothetical Liquidation at Book Value (HLBV) method to calculate its equity method share of income and expenses of the investee. HLBV is a balance sheet approach that estimates the Company's share of ownership interests in the investee at any point in time. The increase or decrease in the book value of the underlying ownership interests are used to determine the Company's equity income from the investee.

Annual financial statements of certain associates included in the consolidated financial statements are prepared as of December 31 as it is impracticable for those associates to unify their closing date with that of the Company. Adjustments are made for the effects of significant transactions or events that occur between December 31 and the date of the Company's consolidated financial statements.

(iii) *Business Combinations*

Business combinations are transactions or events, whereby the Company obtains control of one or more businesses, which are accounted for using the acquisition method. Control is defined as the power to govern the financial and operating policies of an entity to obtain benefits from its activities. In assessing the existence of control, existing and potential voting rights that are currently

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

exercisable are considered. The acquisition date is the date on which control is transferred to the Company.

Goodwill is measured at the fair value of the consideration transferred, including the recognized amount of any noncontrolling interests at the date of acquisition, less the net recognized amount of the identifiable assets acquired and liabilities assumed at the acquisition date measured at fair value. The consideration transferred includes the fair value of the assets, liabilities and equity interest transferred from the Company to the former owners, including the fair value of contingent consideration. Contingent liabilities of the businesses acquired are recognized in the business combinations if they are present obligations that arose from past events and their fair value can be measured with sufficient reliability. The Company measures noncontrolling interests in the businesses acquired at the noncontrolling interests' proportionate share of the identifiable net assets for each business combination.

If the initial accounting for business combinations is incomplete by the end of the reporting period in which the combinations occur, the Company reports provisional amounts of the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period, during which additional assets or liabilities may be recognized to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date. The measurement period does not exceed one year.

Acquisition costs incurred by the Company in connection with business combinations such as finder's fees, legal, due diligence and other professional or consulting fees are expensed when incurred.

(iv) *Transactions under Common Control*

Business combinations of a subsidiary arising from a transfer of interests in entities that are under the control of SC are accounted for as business combinations as of the date of the transaction without retrospective restatement. The assets and liabilities are recognized at the carrying amounts previously reported in the controlling shareholder's consolidated financial statements.

Loss of control of a subsidiary and loss of significant influence in an associate arising from a transfer of interests to entities that are under the control of SC are accounted for as transactions as of the date of the transaction without retrospective restatement. The assets and liabilities are derecognized at the carrying amounts previously reported with recognition of the fair value of consideration received and the resulting gain or loss recognized in net income.

Non-reciprocal distributions of non-cash assets to owners of the parent company that result in a distribution in which the asset being distributed is ultimately controlled by the same party both before and after the distribution are accounted for at the carrying value of the asset distributed.

(v) *Assets and Liabilities Held for Sale or Distribution*

Assets and liabilities of disposal groups are classified as held for sale or distribution if it is highly probable that they will be recovered primarily through sale rather than continued use or if the Company is committed to distributing such assets and liabilities to the owners of the Company.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

Such assets and liabilities are generally measured at the lower of their carrying value amount and the fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held for sale or distribution and subsequent gains and losses on remeasurement are recognized in net income. Once classified as asset held for sale or distribution, intangible assets and property and equipment are no longer amortized or depreciated and the equity method of accounting is no longer used for investments accounted for using the equity method.

(b) Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control over a product or service to its customer.

The following is a description of the principal activities from which the Company generates its revenue:

(i) Primary Geographical Markets

A significant portion of the Company's revenues occur with customers in North America and Japan. For the years ended March 31, 2022 and 2021, revenues with customers in North America represented 96% and 92% of sales, respectively, and sales with customers in Japan represented 3% and 5% of sales, respectively.

(ii) Major Products and Service Lines

Sales of goods represented approximately 91% and 88% of revenues and provision of services represented approximately 9% and 12% of revenues of the Company for the years ended March 31, 2022 and 2021, respectively. The following table presents the percentage of revenues provided by major products and service lines:

	Year ending March 31,	
	2022	2021
Tubular & steel products	57 %	50 %
Electricity & natural gas	19	17
Construction equipment rentals	9	11
Construction equipment sales	7	8
Chemical	3	3
Other	5	11
Total	100 %	100 %

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

Revenue from the sale of goods and rendering of services is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

The Company recognizes revenue from sales of goods in connection with the Company's wholesale, retail and manufacturing operations when control over the goods has been transferred to the customer. Depending upon the terms of the contract, this may occur at the time of delivery or shipment or upon the attainment of customer acceptance. The conditions of acceptance are governed by the terms of the contract or customer arrangement and those not meeting the predetermined specifications are not recognized as revenue until the attainment of customer acceptance. The Company's policy is not to accept product returns unless the products are defective. The amounts of trade discounts and volume rebates are not material and are recognized as a reduction of revenue as the sales are recognized.

Pacific Summit Energy LLC (PSE), a wholly owned subsidiary of the Company, is an energy marketing company engaged primarily in the purchase and sale of natural gas (NG) and electricity in the North American energy markets. The subsidiary's trading gains and losses from physical and financial transactions, which are primarily wholesale transactions, are recognized in the consolidated statements of comprehensive income (loss) when they are realized or realizable and earned.

PSE has a natural gas purchase contract, see note 22(d), that will be used exclusively to supply NG to the operator of a liquefied natural gas (LNG) plant for liquefaction to meet sales commitments to customers. The Company forecasts that a small or minor amount of NG over the own use purchase contract will be required to be sold to the day ahead spot market during periods (unavoidable excess gas) of planned plant maintenance which is an unavoidable event outside of PSE's control.

The Company also generates revenue from rendering of services in connection with operating leases of commercial real estate and construction equipment that is recognized on a straight line basis over the lease or rental term.

(iii) Timing of Revenue Recognition

Of the Company's revenues, 91% and 88% were recognized at a point in time for the year ended March 31, 2022 and 2021, respectively, with the remainder recognized over time.

(iv) Principal versus Agent Considerations

In the ordinary course of business, the Company frequently acts as an intermediary or agent in executing transactions with third parties. In these arrangements, the Company determines whether to report revenue based on the "gross" sales amount of the transaction for goods or services provided or on the "net" amount of fees and commissions earned from the customer. However, the amounts of gross profit and profit for the year attributable to the Company are not affected by whether revenue is reported on a gross or net basis.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

Determining whether revenue should be reported gross or net is based on an assessment of whether the Company is acting as a “principal” or an “agent” in a transaction. Accordingly, the Company is acting as a principal in a transaction when it controls a promised good or service before it is transferred to a customer and therefore, the Company reports revenue on a gross basis when the performance obligation is satisfied. The Company is acting as an agent in a transaction when its performance obligation is to arrange for the provision of goods or services by another party and therefore, the Company reports revenue on a net basis. The determination of whether the Company is acting as a principal or an agent in a transaction involves judgment and is based on an evaluation of the terms of an arrangement, the nature of the Company’s performance obligation and the significant risks and rewards related to sale of goods and rendering of services assumed by the Company.

Factors that indicate that the Company acts as a principal include:

- (a) the Company is primarily responsible for fulfilling the promise to provide the specified good or service;
- (b) the Company has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer; and
- (c) the Company has discretion in establishing the price for the specified good or service.

(c) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are recognized initially at fair value, normally consisting of the transaction price and any directly attributable transaction costs. The classification of financial assets and financial liabilities is determined at initial recognition.

Financial instruments in the form of financial assets and financial liabilities are offset and net amounts presented in the consolidated statements of financial position only when the Company has legally enforceable rights to set off and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when the Company transfers the contractual rights to such cash flows to another entity in transactions that transfer substantially all the risks and rewards of ownership of the asset. The Company recognizes any interests in transferred assets that are either created or continue to be held as separate assets or liabilities.

The Company derecognizes a financial liability when its contractual obligations are discharged, canceled or expire.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

The subsequent measurement of financial instruments depends on their classification, as follows:

(i) *Nonderivative Financial Assets*

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash. Cash balances are held with financial institutions that have high credit ratings. The Company has not experienced any losses with respect to bank balances in excess of government provided insurance.

Accounts Receivable

Accounts receivable are subject to ongoing credit evaluations of customers and an allowance for doubtful accounts is maintained for expected credit losses resulting from the inability of customers to make required payments. The allowance is based on review of the overall condition of receivable balances, historical loss performance and review of significant past due accounts. Accounts Receivable determined to be uncollectible are charged against the allowance.

Financial Assets Measured at Amortized Cost

Financial assets that are held within a business model with the objective to hold assets in order to collect contractual cash flows and the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding can be accounted for at amortized cost.

Financial Assets Measured at Fair Value

Financial assets that do not meet the amortized cost criteria are measured at fair value. Such assets that are held for trading are measured at fair value through profit or loss (FVTPL) with gains or losses on re-measurement recognized in net income.

At initial recognition, the Company may make an irrevocable election to measure investments in equity instruments, not held for trading, at fair value through other comprehensive income (loss) (FVTOCI) with gains or losses on re-measurement recognized in other comprehensive income (loss). The election is made on an instrument-by-instrument basis. The amount of other components of equity is transferred directly to retained earnings, not to net income, when the equity investment is derecognized. Dividends from FVTOCI investments are recognized as income in net income unless the dividend clearly represents a recovery of part of the cost of the investment.

The Company generally makes the election to apply FVTOCI for financial assets that are equity instruments not held for trading.

(ii) *Nonderivative Financial Liabilities*

The Company has long-term debt, commercial paper, notes payable, accounts and other payables as nonderivative financial liabilities, with debt instruments measured at amortized cost using the effective interest method after the initial recognition.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(iii) *Derivatives and Hedge Accounting*

The Company reports all derivative instruments in the accompanying consolidated statements of financial position at their fair value. The Company utilizes derivative instruments to manage interest rate risk and foreign currency risk. The primary derivative instruments used by the Company are foreign exchange forward contracts. The Company does not hold or issue any significant amount of derivative instruments for speculative purposes other than those held by PSE related to its trading activities, see note 19.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and strategy for undertaking various hedge transactions, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed and a description of the method of measuring effectiveness and ineffectiveness.

At the inception of the hedge and on an ongoing basis, the Company assesses whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. To qualify as a cash flow hedge of a forecasted transaction, the transaction must be highly probable.

Derivatives are initially recognized at fair value with transaction costs being recognized in net income when they occur. If the requirements for hedge accounting are met, the Company designates and documents the relationship between the hedging instrument and the hedged item from the date a derivative contract is entered into as either a fair value or a cash flow hedge. In a fair value hedge, the fair value of a recognized asset or liability or an unrecognized firm commitment is hedged. In a cash flow hedge, the variability of cash flows to be received or paid related to a recognized asset or liability or a highly probable forecasted transaction is hedged. Subsequently, derivatives are measured at fair value, and gains and losses arising from changes in the fair values are accounted for as follows:

Fair Value Hedges

The changes in the fair value of the hedging instrument are recognized in net income. The carrying amounts of the hedged item are measured at fair value and gains and losses on the hedged items attributable to the hedged risks are recognized in net income.

Cash Flow Hedges

When derivatives are designated as an instrument to hedge the exposure to variability in cash flows that are attributable to a particular risk associated with recognized assets or liabilities, or a highly probable forecasted transaction that could affect net income, the effective portion of changes in the fair value of derivatives is recognized in other comprehensive income (loss) and included in hedging reserve, as an other component of equity. When the cash flows of the hedged transaction affect net income, the balance of the related hedging instrument is reclassified to net income from other comprehensive income (loss) in the same line item of the consolidated statements of comprehensive income (loss) as the hedged transaction. Any gain or loss relating to the ineffective portion is recognized immediately in net income.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

Hedge accounting is discontinued prospectively when the hedge no longer qualifies for hedge accounting or when the hedging instrument expires, or is sold, terminated, or exercised, or the designation is revoked. When hedge accounting is discontinued, the balances of cash flow hedges remain in equity until the forecasted transaction affects net income. When a forecasted transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in net income.

(d) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories in the ordinary course of business less any estimated cost of completion and the estimated costs necessary to make the sale. The Company does not acquire inventories for the purpose of generating profit from short-term fluctuations in price.

Inventories of the Company's Tubular Products and Steel and Nonferrous Metal groups and construction equipment sales business are generally valued using the specific-identification method as such inventories are not ordinarily interchangeable and are primarily segregated for specific customers and customer projects based on customer specifications. Although the Company's inventory levels vary from period to period, approximately 84% and 66% of its inventories were valued under the specific identification method as of March 31, 2022 and 2021, respectively. The inventories for the remainder of the Company are valued using a moving average cost basis.

Inventories for which the Company continues to hold the title, but control is transferred to the customer as the inventories are physically located at a customer-controlled facility under a consignment agreement, are included in prepaid expenses and other current assets in the consolidated statements of financial position.

(e) Property and Equipment

Property and equipment, including those under lease, consist of retail, manufacturing, distribution and administrative facilities are measured at cost less accumulated depreciation or amortization and accumulated impairment losses. At each reporting date, the Company assesses whether there is any indication that an asset, or asset group, may be impaired and if such an indication exists, estimates the asset, or asset group's, recoverable amount (higher of fair value less costs to sell and value in use). If the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized.

Depreciation and amortization are determined by applying the straight-line method over the estimated useful lives of the related assets. The asset lives vary and are dependent on the type of facility or equipment, its location and the estimated remaining life at the time of purchase. When the useful life of each part of an item of property and equipment varies, it is treated as a separate item of property and equipment. The straight-line method is used because it is considered to most closely approximate the pattern in which the asset's future economic benefits are expected to be consumed by the Company.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

Leased assets are depreciated over the shorter of the lease term or their useful lives. The range of estimated useful lives is as follows:

Buildings	30-50 years
Leasehold improvements	Lesser of useful life of asset or lease term
Machinery and equipment	2-45 years
Fixtures	2-10 years
Vehicles	3-10 years

The depreciation methods, depreciable lives and residual values are reviewed at the end of each reporting period and updated, if necessary. Costs of repairs and maintenance of property and equipment are recognized in net income as incurred.

(f) Leases

At inception of a contract, an assessment is made whether a contract is, or contains, a lease that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The assessment determines whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

At the inception or on reassessment of a contract that contains a lease component, the consideration in the contract is allocated to each lease component on the basis of their relative stand-alone prices.

(i) As a lessee

A right-of-use asset and a lease liability are recognized at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus an initial indirect costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced for impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index as of the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option is reasonably certain to be exercised, lease payments in an optional renewal period that are reasonably certain to be exercise a renewal option, and penalties for early termination of a lease it is reasonably certain not to terminated early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in consolidated statements of comprehensive income (loss) if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of use assets that do not meet the definition of investment property are presented in property and equipment and lease liabilities in accrued expenses and other current liabilities (current portion) and other long-term liabilities (noncurrent portion) in the consolidated statements of financial position.

The Company does not to recognize right-of-use assets and lease liabilities for short-term leases of property and equipment that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease.

(ii) As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance or operating lease by making an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately and assesses the lease classification of the sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease payments received under operating leases are recognized as income on a straight-line basis over the lease term as part of revenues.

(g) Investment Property

Investment property consists of commercial office buildings, or portions thereof, held to earn rental income or for capital appreciation or both. Property held for sale in the ordinary course of business, or use in the production or supply of goods or services or for administrative purposes is not included as investment property. Investment property is measured at cost less any accumulated depreciation and accumulated impairment losses, see note 3 (e) regarding useful lives, depreciation methods and impairment assessments.

(h) Goodwill and Other Intangible Assets

(i) Goodwill

Goodwill is carried at cost less accumulated impairment losses. For investments accounted for using the equity method, the carrying amount of goodwill is included in the carrying amount of the investment and any impairment loss on such an investment is not allocated to any asset, including goodwill, which forms part of the carrying amount of the investments accounted for under the equity method.

(ii) Other Intangibles

Capitalized Software Costs

The Company incurs certain costs to purchase or develop software for internal use. Capitalized software costs are measured at cost less any accumulated amortization and accumulated impairment losses.

Intangible Assets Acquired in a Business Combination

Intangible assets that are acquired in a business combination including trade names, customer relationships, vendor relationships and favorable leasehold interests, are recognized separately from goodwill and are initially recognized at fair value at acquisition date.

Subsequently, intangible assets acquired in a business combination that have finite useful lives are stated at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. The straight-line method is used because it is considered to most closely approximate the pattern in which the intangible assets' future economic benefits are expected to be consumed by

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

the Company. The estimated useful lives, from the date of initial recognition, for such intangible assets are as follows:

Trade names	15–25 years
Customer relationships	15–25 years
Software and other	3–7 years

The amortization period for intangible assets with finite useful lives is reviewed at least annually and updated, if necessary. Changes in expected useful lives are treated as changes in accounting estimates.

(i) Impairment

(i) Nonderivative Financial Assets

The carrying amount of accounts receivables is reduced through the use of an allowance account. An allowance account is maintained at the level which, in the judgment of management, is adequate to provide for expected credit losses. Management considers individual customers' risk factors such as historical performance, recent developments, changes in original terms, internal risk ratings, industry trends and other specific factors applicable to the customer, as well as general risk factors.

(ii) Nonfinancial Assets

At each reporting date, the Company assesses whether there is an indication that an asset may be impaired, except for goodwill which is evaluated annually as of September 30th to permit adequate time to complete the impairment test and related analyses prior to the fiscal year end. If a potential triggering event occurs at any time during the reporting period, an impairment test would be required. If an indication of impairment exists, the Company estimates the recoverable amount of the asset. The recoverable amount is determined for each individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets (cash-generating units). The recoverable amount is the greater of its value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or group of assets.

A cash generating unit is the smallest group of assets, which generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the purposes of impairment testing for goodwill, each of the Company's cash-generating units or groups of cash-generating units, to which the goodwill is allocated, is aggregated in a manner that impairment is tested reflecting the lowest level in the Company at which the goodwill is monitored for internal management purposes. Such lowest level may not be larger than an operating segment. Goodwill acquired in a business combination is allocated to each unit or group of units that is expected to benefit from the synergies of the combination.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

The Company's corporate assets do not generate cash inflows independently. If there is an indication that corporate assets may be impaired, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate assets belong.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in net income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets within the group on a pro rata basis.

An impairment loss in respect of goodwill is not reversed in subsequent periods. For assets other than goodwill, impairment losses recognized in prior periods are assessed as of each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recorded (net of accumulated depreciation or amortization) if no impairment loss had been recognized in prior years.

Goodwill that forms part of the carrying value of an investment in an associate is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is an objective indication that the investment may be impaired.

(j) Income Taxes

The Company and eligible subsidiaries file a consolidated federal income tax return in the United States. In addition, the Company and subsidiaries also file income tax returns in state, local and foreign jurisdictions as required. Provisions for current income tax liabilities are calculated on income and expense amounts expected to be included in the income tax returns for the current year.

Income taxes in the consolidated statements of comprehensive income (loss) include currently payable and deferred taxes that are recognized in net income for the year.

Current taxes are the expected taxes payable (or recoverable) related to taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to taxes payable in respect to prior years.

Deferred tax assets and liabilities are recognized on temporary differences between the accounting carrying amounts of assets and liabilities and the corresponding tax bases. Such deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting income. Deferred tax liabilities are not recognized if the taxable temporary difference arises from goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates. However, if the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future,

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

deferred taxes are not recognized. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period. Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously.

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the related tax benefits will be realized.

(k) Foreign Currency Transactions and Translation

Transactions in foreign currencies are translated at the relevant foreign exchange rates prevailing at the transaction date. Subsequent gains and losses from the retranslation of financial assets and liabilities denominated in foreign currencies are recognized in net income.

The assets and liabilities of foreign subsidiaries for which the functional currency is not the United States Dollar are translated into United States Dollars using exchange rates prevailing at the end of the reporting period. Foreign currency exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income (loss) as a translation reserve. Income and expenses are translated into United States Dollars using average exchange rates during each reporting period.

On the disposal of the entire interest in a foreign operation, and on the partial disposal of an interest involving loss of control, significant influence or joint control, the cumulative amount of the exchange differences is reclassified to net income for the year as a part of gains or losses on disposal.

(l) Supplemental Cash Flow Information

In June 2021, the Company sold its 51% ownership interest in Sumitomo Canada Limited to SC resulting in a decrease in the Company's consolidated statements of financial position of \$339 in noncash assets and a net decrease of \$50 in accounts payable and other long-term liabilities with the accumulated currency translation adjustment of \$9 being recycled as an expense to pretax income.

During the year ended March 31, 2022, the Company sold its interests in two Associates resulting in a reduction in investments accounted for using the equity method of \$114 and recorded a net pretax gain of \$2 in the statements of comprehensive income (loss). Also in the year ended March 31, 2022, the Company sold its interest in SMS Construction and Mining Systems, Inc. to SC for \$129 resulting in an

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

equivalent reduction in investments accounted for using the equity method and the accumulated currency translation adjustment of \$11 being recycled as an expense to pretax income.

Upon acquisition, a businesses acquired during the year ended March 31, 2021 resulted in an increase in the Company's consolidated statements of financial position of \$23 in noncash assets.

During the year ended March 31, 2021, the Company sold its interests in five Associates to SC resulting in a reduction in investments accounted for using the equity method of \$8 and recorded a gain of \$13 in the consolidated statements of comprehensive income (loss).

(m) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in net income for the year in which they are incurred.

(n) Other Long-Term Liabilities

Other long-term liabilities include liabilities related to natural gas, electric power, interest rate and currency physical contracts, futures contracts, swaps and options, and lease liabilities.

(o) Provisions

Provisions are recognized when the Company has present obligations legally or constructively as the result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations and reliable estimates can be made of the amount of the obligations. Provisions are discounted using future cash flow estimates that reflect current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance expense. Provisions are recorded in other long-term liabilities on the accompanying consolidated statements of financial position.

(p) Employee Benefits

(i) Defined Contribution Plan

A defined contribution plan is a post-retirement benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in net income in the period during which services are rendered by employees.

(ii) Defined Benefit Plan

A defined benefit plan is a post-retirement benefit plan under which the Company's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value using a discount rate based on quality, fixed income

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

investments and actuarial estimates and assumptions such as timing of retirement and compensation.

The Company recognizes all actuarial gains and losses arising from the defined benefit plan in other comprehensive income (loss) and immediately reclassifies them from other comprehensive income (loss) to retained earnings.

(q) New Standards and Interpretations

There are no recently issued accounting standards that are expected to have a significant effect on the Company's financial statements.

The International Accounting Standards Board issued *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* (the Phase 2 amendments) with an effective date for annual periods beginning on or after January 1, 2021. Since the Company had no transactions for which the benchmark rate had been replaced with an alternative benchmark rate as of April 1, 2021, there is no impact on the opening equity balances and the Company did not need to apply the exception permitted not to restate comparatives for the prior period as a result of retrospective application.

The Phase 2 amendments provide practical relief from certain requirements in IFRS Standards. These reliefs relate to modifications of financial instruments and lease contracts or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortized cost changed as a result of interest rate benchmark reform, then the Company will update the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e., the basis immediately before the change).

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Company will first update the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Company will apply the policies on accounting for modification to the additional changes.

The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest benchmark reform.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

Finally, the Phase 2 amendments provide a series of temporary exception from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedged instrument that permits the hedging relationship to be continued without interruption. The Company will apply the following reliefs as and when uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument:

- the Company will amend the designation of a hedging relationship to reflect changes that are required by the reform without discontinuing the hedging relationship; and
- when a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined

The Company has no lease liabilities or hedging activities subject to interest rate benchmark reform. See note 20 for disclosures about risks, financial assets and financial liabilities indexed to LIBOR.

(4) Changes in Subsidiaries and Investments Accounted for Using the Equity Method

(a) *Business Combinations*

On December 7, 2020, a wholly owned subsidiary of the Company acquired the assets of a business that operates as an equipment rental company for approximately \$23, excluding cash on hand at the acquired company.

The acquisition by the Company fits the strategic objective of the Company to grow its business. The results of operations of the Company's business acquisition have been included in the consolidated statements of comprehensive income (loss) from their acquisition dates.

(i) *Identifiable Assets Acquired and Liabilities Assumed*

The determination of the purchase price for the Company's business acquisition was made on the basis of, among other things, the revenues, profitability and projected growth rates of the acquired businesses. The net purchase price of the Company's acquisition during the year ended March 31, 2021 was \$23. The Company allocated this amount based on their fair values as follows:

	<u>2021</u>
Working capital, other than cash	\$ 1
Property and equipment	6
Goodwill	13
Other intangible assets	<u>3</u>
	<u>\$ 23</u>

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(ii) *Sale/Relinquishment of Controlling Interest in Subsidiary*

In June 2021, the Company sold its 51% ownership interest in Sumitomo Canada Limited to SC with the accumulated currency translation adjustment of \$9 being recycled to pretax income.

The Company accounts affected by the sales/relinquishment of control and cash proceeds were as follows:

	<u>2022</u>
Working capital, including cash	\$ (247)
Long-term receivables	(6)
Property and equipment	(4)
Investments accounted for using the equity method	(54)
Goodwill	(1)
Deferred income taxes	(14)
Other comprehensive income	(16)
Noncontrolling interests	162
Pretax loss	<u>9</u>
Net assets disposed	(171)
Cash and cash equivalents disposed	<u>32</u>
Net cash inflow	<u>\$ (139)</u>

(iii) *Disposal Group*

In March 2021, Edgen Group, Inc., a subsidiary of the Company, committed to a plan to terminate its operations in the eastern hemisphere with the related assets to be recovered and liabilities settled through the winding down of operations.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

The assets and liabilities of the disposal group as of March 31, 2022 and 2021 were comprised of the following assets and liabilities:

	<u>2022</u>	<u>2021</u>
Accounts receivable, net	\$ 23	125
Inventories	1	16
Prepaid expenses and other current assets	13	6
Property and equipment	<u>1</u>	<u>8</u>
Total assets	<u>\$ 38</u>	<u>155</u>
Accounts payable	\$ 17	78
Accrued expenses and other current liabilities	12	29
Other long-term liabilities	<u>1</u>	<u>20</u>
Total liabilities	<u>\$ 30</u>	<u>127</u>

For the years ended March 31, 2022 and 2021, the operations of the disposal group contributed revenues of \$64 and \$233, respectively, and net income (loss) of \$11 and (\$64), respectively.

(b) Investments Accounted for Using the Equity Method

(i) Sales

In January 2022, the Company sold its 25.14% equity interest in SMS Construction and Mining Systems, Inc. to SC for \$129 resulting in an equivalent reduction in investments accounted for using the equity method and the accumulated currency translation adjustment of \$11 being recycled as an expense to pretax income.

In September 2021, the Company sold its 19.47% equity interest in a manufacturer of oil country tubular goods, line and standard pipes, coupling stocks, pipe rolling mills and hot-rolled seamless tubular products for oil and gas applications for a pretax gain of \$13.

In July 2021, the Company sold its 15% equity interest in a supplier of premium threaded connections for the oil and gas industry for a pretax loss of \$15.

(ii) Asset held for distribution to the owners of the parent company

In March 2021, the Company committed to a plan to distribute its 40% ownership interest in Eryngium Limited to SC. Accordingly, the investment balance of \$96 has been classified as an asset held for distribution as of March 31, 2021. The distribution of the ownership interest occurred in October 2021.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(c) Significant Subsidiaries

The Company's significant subsidiaries and ownership interests as of March 31, 2022 and 2021 were as follows:

Segment	Company	Place of incorporation and operation	Ownership interest	
			March 31, 2022	March 31, 2021
Tubular products	B&L Pipeco Services, Inc.	Houston, TX, USA	100.000 %	100.000 %
	Edgen Group, Inc.	Baton Rouge, LA, USA	100.000	100.000
	P2 Energy Services, LLC			
	(formerly Premier Pipe, LLC)	Houston, TX, USA	100.000	100.000
	Pyramid Tubular Products, LP	Houston, TX, USA	—	100.000
	Tubular Solutions Alaska, LLC	Anchorage, AK, USA	—	100.000
	Unique Machine, LLC	Anchorage, AK, USA	—	100.000
	Summit Machine Ltd.	Edmonton, Alberta, Canada	—	51.000
Steel and nonferrous metal	SteelSummit Holdings Inc.	Nashville, TN, USA	80.000	80.000
Construction & Transportation Systems	Sunstate Equipment, LLC	Phoenix, AZ, USA	100.000	100.000
Infrastructure	Linder Industrial Machinery Company	Plant City, FL, USA	100.000	100.000
	Perennial Power Holdings, Inc.	New York, NY, USA	100.000	100.000
	Summit Turquoise LLC	New York, NY, USA	100.000	100.000
Chemicals & electronics	Diversified CPC International, Inc.	Channahon, IL, USA	80.000	80.000
	Presperse Corporation	Somerset, NJ, USA	100.000	100.000
	Sulphuric Acid Trading Company, Inc.	Tampa, FL, USA	100.000	100.000
	Summit Agro USA, LLC	Cary, NC, USA	60.000	60.000
Media and digital business	Presidio Ventures, Inc.	Santa Clara, CA, USA	100.000	100.000
Materials, suppliex & real estate	Atlantic Hills Corporation	Atlanta, GA, USA	80.000	80.000
	SCOA Residential, LLC	New York, NY, USA	100.000	100.000
	SCOA Commercial, LLC	New York, NY, USA	100.000	—
	TKOS II, LLC	Chicago, IL, USA	100.000	100.000
	USPO Minneapolis, LLC	Minneapolis, MN, USA	100.000	100.000
	USPO Phoenix, LLC	Phoenix, AZ, USA	100.000	100.000
	Summit Mining International Inc.	Denver, CO, USA	—	100.000
Energy	Pacific Summit Energy LLC	The Woodlands, TX, USA	100.000	100.000
Other	Presidio Ventures SCOA Fund, LLC	Santa Clara, CA, USA	100.000	100.000
	Sumisho Global Logistics (USA) Corporation	New Hyde Park, NY, USA	80.000	80.000
	Sumitomo Canada Limited	Toronto, Ontario, Canada	—	51.000

In the year ended March 31, 2022, the Company consolidated the operating activities of Pyramid Tubulars Products, LP and Tubular Solutions Alaska, LLC into the operations of Premier Pipe, LLC and renamed that company as P2 Energy Services, LLC. The Company's ownership interest in Sumitomo Canada Limited, including the ownership interest in Summit Machine Ltd., was sold to SC, see note 6. Also, the Company wound down the operations of Unique Machine, LLC and Summit Mining International Inc. with some of the operational activities of those entities being absorbed by the parent company.

In the year ended March 31, 2021, the Company consolidated the operating activities of Champions Cinco Pipe & Supply LLC and Summit Tubulars Corporation into the operations of other subsidiaries of the Company. Also, TKOS I, LLC was dissolved subsequent to the sale of the commercial office building it held as an investment property.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(5) Investments Accounted for Using the Equity Method

The Company has investments in associated companies that are accounted for using the equity method of accounting. The Company's share of losses from associated companies amounted to \$54 and \$71, for the years ended March 31, 2022 and 2021, respectively. For the years ended March 31, 2022 and 2021, the Company received dividends from affiliates of \$115 and \$78, respectively. As of March 31, 2022 and 2021, long-term receivables – related parties included amounts loaned to associated companies aggregating \$100 and \$200, respectively. Accounts payable to related parties, net included amounts payable to associated companies of \$26 and \$12 as of March 31, 2022 and 2021, respectively, see note 8.

In the year ended March 31, 2022, the Company recognized impairments related to its investment in Associates totaling \$19 as investor and recognized its share of impairments totaling approximately \$152 included in its equity method earnings, primarily for Sawai America LLC, USPO Atlanta, LLC and USPO Miami, LLC.

In the year ended March 31, 2021, the Company recognized its share of impairments and losses on disposition of assets of Associates totaling approximately \$55 included in its equity method earnings, primarily for Vallourec Star and Summit Discovery Resources II. Such equity earnings included impairments and losses on sales of intangible and tangible assets primarily due to continued disruptions in the oil & gas markets.

In the year ended March 31, 2020, the Company recognized its share of impairments totaling approximately \$246 included in its equity method earnings, primarily for Vallourec Star, TBC Holdings, Eryngium, VAM USA and Summit Discovery Resources II. Such equity earnings included impairments of intangible and tangible assets primarily due to disruptions in the oil & gas markets and due to the economic disruptions caused by the global COVID-19 mitigation measures. Included in the impairment amount above are impairments totaling approximately \$134 for associates whose financial statements are prepared as of December. Such impairments relate to the aforementioned events that occurred subsequent to December and as a result, the tables below include the effects of such impairments in the information for the Company's year ended March 31, 2021.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

The summarized combined financial information of associated companies accounted for by the equity method is presented below:

	2022	2021
Current assets	\$ 3,351	4,520
Noncurrent assets	4,873	7,274
Total assets	<u>\$ 8,224</u>	<u>11,794</u>
Current liabilities	\$ 1,867	2,486
Noncurrent liabilities	2,243	2,682
Total liabilities	4,110	5,168
Total equity	4,114	6,626
Total liabilities and equity	<u>\$ 8,224</u>	<u>11,794</u>

	2022	2021
Revenues	\$ 7,472	8,860
Gross profit	1,815	1,891
Net loss	(580)	(350)

The summarized combined financial information tables above include the summarized financial information for TBC Holdings, as indicated below, as of and for the years ended March 31, 2022 and 2021:

	2022	2021
Current assets	\$ 2,058	1,883
Noncurrent assets	1,757	1,926
Total assets	<u>\$ 3,815</u>	<u>3,809</u>
Current liabilities	\$ 1,436	1,231
Noncurrent liabilities	1,224	1,477
Total liabilities	2,660	2,708
Total equity	1,155	1,101
Total liabilities and equity	<u>\$ 3,815</u>	<u>3,809</u>

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

	<u>2022</u>	<u>2021</u>
Revenues	\$ 5,572	4,619
Gross profit	1,409	1,203
Net income (loss)	46	(34)

As of March 31, 2022 and 2021, the excess of cost over the Company's share of net assets of equity method investees was allocated to underlying assets as follows:

	<u>2022</u>	<u>2021</u>
Property and equipment, net	\$ 9	10
Equity-method goodwill	11	30
Other intangible assets, net	7	15
Total	<u>\$ 27</u>	<u>55</u>

The significant associate companies accounted for by the equity method, which are included in the above summarized combined financial information as of March 31, 2022 and 2021, were as follows:

Segment	Company	Place of incorporation and operation	Ownership percentage	
			March 31, 2022	March 31, 2021
Tubular products	Vallourec Star, LP	Houston, TX, USA	— %	19.470 %
	VAM USA, LLC	Houston, TX, USA	—	15.000
Steel and nonferrous metal	Arkansas Steel Associates, LLC	Newport, AR, USA	50.000	50.000
	International Crankshaft, Inc.	Georgetown, KY, USA	9.000	9.000
	Nippon Steel Integrated Crankshaft, LLC	Fostoria, OH, USA	40.000	40.000
	Standard Steel Holdings, Inc.	Pittsburgh, PA, USA	9.000	9.000
Automotive	TBC Holdings, LLC	Palm Beach Gardens, FL, USA	50.000	50.000
Construction and Transportation Systems	MS Engine Leasing LLC	Rocky Hill, CT, USA	24.770	28.135
	SMS Construction and Mining Systems, Inc.	Acheson, AB, Canada	—	25.140
Infrastructure	DS Cornerstone, LLC	Ford & Gray Counties, KS, USA	50.000	50.000
	Stanton Wind Energy, LLC	Chicago, IL, USA	42.500	42.500
	Clean Energy Future Lordstown, LLC	Lordstown, OH, USA	10.000	10.000
Chemicals and electronics	Cosmotec Internacional Especialidades Cosméticas Ltda.	Guarulhos, Sao Paulo, Brasil	16.200	16.200
	Sawai America LLC	Maple Grove, MN, USA	20.000	20.000
	The Hartz Mountain Corporation	Secaucus, NJ, USA	25.000	25.000
Materials, supplies & real estate	USPO Atlanta, LLC	Atlanta, GA, USA	25.560	25.560
	USPO Chicago 1, LLC	Chicago, IL, USA	19.740	19.740
	USPO Miami, LLC	Miami, FL, USA	19.740	19.740
Mineral resources	SC Minerals America, Inc.	Denver, CO, USA	15.250	15.250
Energy	Summit Discovery Resources II, LLC	Houston, TX, USA	—	30.000
Treasury and corporate	Sumitomo Corporation de Mexico, S.A. de C.V.	Mexico City, Mexico	—	49.992
	Sumitomo Corporation do Brasil S.A.	Sao Paulo, Brazil	8.630	8.630

In the year ended March 31, 2022, the Company sold its ownership interests in Vallourec Star, LP and VAM USA, LLC to a third party resulting in a net pretax loss of \$2 and a reduction in investments

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

accounted for using the equity method of \$114. The Company also sold its ownership interests in SMS Construction and Mining Systems, Inc. and Sumitomo Corporation de Mexico, S.A. de C.V. to SC, see note 6.

In the year ended March 31, 2021, the Company sold its ownership interests in HAL Aluminum Mexico S.A. de C.V. and Hirotec Mexico, S.A. de C.V. to SC resulting in pretax gain of \$13 and a reduction in investments accounted for using the equity method of \$8. In addition, in March 2021, the Company committed to a plan to distribute its 40% ownership interest in Eryngium Limited to SC. Accordingly, the investment balance of \$96 has been classified as an asset held for distribution as of March 31, 2021. The distribution of the ownership interest was made in October 2021.

Summarized financial information for Eryngium Limited as of and for the year ended March 31, 2021 is as follows:

	<u>2021</u>
Current assets	\$ 291
Noncurrent assets	<u>46</u>
Total assets	<u>\$ 337</u>
Current liabilities	\$ 78
Noncurrent liabilities	<u>8</u>
Total liabilities	86
Total equity	<u>251</u>
Total liabilities and equity	<u>\$ 337</u>

	<u>2021</u>
Revenues	\$ 302
Gross profit	20
Net loss	(39)

(6) Other Income (Expense)

Other income (expense) in the consolidated statement of comprehensive income (loss) for the year ended March 31, 2022 includes:

- losses totaling \$20 due to the recycling of the accumulated currency translation adjustments related to the sales of Sumitomo Canada Limited and SMS Construction and Mining Systems, Inc., see notes 4 and 5,
- a \$19 impairment of investment property held by TKOS II, LLC,

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

- impairments totaling \$19 of two investments in Associates,
- an \$8 loss on sale of Sumitomo Corporation de Mexico, S.A. de C.V., see note 5,
- a net loss of \$2 on the sales of two equity investments in Associates, see note 4, and
- net gains of \$39 on valuations of investment securities.

Other income (expense) in the consolidated statement of comprehensive income (loss) for the year ended March 31, 2021 includes:

- impairments totaling \$127 of other intangible assets and \$36 of property and equipment and losses on disposals of property and equipment of \$4 for several of the Company's subsidiaries in the Tubular products segment primarily due to continued disruptions in the oil & gas markets, see notes 9 and 11,
- a \$53 impairment of a combined-cycle power plant owned by Perennial Power Holdings, Inc. due to a forecasted decline of power sales opportunities for the plant,
- net gains of \$16 on valuations of investment securities, and
- a \$13 gain on sale of investments in associates to SC, see note 5.

(7) Inventories

As of March 31, 2022 and 2021, inventories consisted of the following:

	<u>2022</u>	<u>2021</u>
Finished goods	\$ 1,156	960
Raw materials	412	120
Work in process	15	9
Total	<u>\$ 1,583</u>	<u>1,089</u>

The Company reports inventories net of allowances for lower of cost or market adjustments and slow moving and obsolete inventory of \$27 and \$60 as of March 31, 2022 and 2021, respectively.

Inventories under a consignment agreement or otherwise not in the control of the Company that are included in prepaid expenses and other current assets were \$91 and \$20 as of March 31, 2022 and 2021.

(8) Related Parties

The Company is involved in a significant number of sales and purchase transactions with SC and its affiliates. Included in total revenues are sales to SC and its affiliates for the years ended March 31, 2022 and 2021 of \$455 and \$586, respectively. The Company made approximately \$450 and \$452 in purchases from SC and its affiliates during the years ended March 31, 2022 and 2021, respectively. The Company pays a guarantee fee to SC based on the Company's outstanding third party debt. Such fee was approximately \$7 for the each of the years ended March 31, 2022 and 2021.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

The Company has trade accounts receivable from and trade accounts payable to related parties resulting from its related party transactions. In addition, the Company makes short-term loans to certain related parties and acts as a depository for excess cash of other related parties (intracompany cash management receivables and payables).

As of March 31, 2022 and 2021, accounts payable to related parties, net consisted of the following:

	<u>2022</u>	<u>2021</u>
Accounts receivable from:		
SC	\$ —	30
SC subsidiaries	13	10
Associated companies of SC and the Company	3	18
Accounts payable to:		
SC	(131)	(108)
SC subsidiaries	(92)	(70)
Associated companies of SC and the Company	<u>(38)</u>	<u>(31)</u>
	<u>\$ (245)</u>	<u>(151)</u>

As of March 31, 2022 and 2021, intracompany cash management receivable (payable), net consisted of the following:

	<u>2022</u>	<u>2021</u>
Cash due from:		
SC	\$ 400	—
SC subsidiaries	76	198
Cash due to:		
SC subsidiaries	(115)	(136)
Associated companies of SC and the Company	<u>—</u>	<u>(7)</u>
	<u>\$ 361</u>	<u>55</u>

Compensation of the executive officers of the Company, which was substantially all in the form of short-term employee benefits, totaled \$10 for each of the years ended March 31, 2022 and 2021.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(9) Property and Equipment

Property and equipment consisted of the following:

	Land	Buildings and improvements	Machinery and equipment	Office furniture and fixtures	Automobiles and trucks	Construction in progress	Total
Cost:							
Balance at March 31, 2020	\$ 24	396	1,760	81	170	12	2,443
Additions	10	48	118	9	18	38	241
Acquisitions	—	—	6	—	—	—	6
Reclassifications	2	16	12	1	1	(32)	—
Impairments	(2)	(36)	(53)	—	—	—	(91)
Disposals	(2)	(9)	(19)	(6)	(14)	—	(50)
Other changes	—	6	(207)	1	(5)	—	(205)
Balance at March 31, 2021	32	421	1,617	86	170	18	2,344
Additions	2	42	203	14	22	43	326
Reclassifications	2	11	7	—	1	(21)	—
Disposals	(6)	(12)	(17)	(12)	(9)	(1)	(57)
Other changes	—	(23)	(130)	1	—	(3)	(155)
Balance at March 31, 2022	\$ 30	439	1,680	89	184	36	2,458
Accumulated depreciation and impairment losses:							
Balance at March 31, 2020	\$ —	104	786	50	79	—	1,019
Additions	—	50	131	8	19	—	208
Disposals	—	(6)	(14)	(5)	(11)	—	(36)
Impairments	—	2	—	—	—	—	2
Other changes	—	(3)	(133)	1	(2)	—	(137)
Balance at March 31, 2021	—	147	770	54	85	—	1,056
Additions	—	45	127	9	18	—	199
Disposals	—	(9)	(19)	(9)	(4)	—	(41)
Other changes	—	(6)	(83)	—	—	—	(89)
Balance at March 31, 2022	\$ —	177	795	54	99	—	1,125
Carrying amount at:							
March 31, 2020	24	292	974	31	91	12	1,424
March 31, 2021	32	274	847	32	85	18	1,288
March 31, 2022	30	262	885	35	85	36	1,333

Acquisitions for the year ended March 31, 2021 includes the effects of business combinations, see note 4(a). The Other changes in Machinery and Equipment for the years ended March 31, 2022 and 2021 primarily consist of Sunstate Equipment Co., LLC and Linder Industrial Machinery Company transfers of equipment previously leased to inventory in anticipation of sale of such equipment.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

The Company leases assets including building and improvements, machinery and equipment and vehicles. Information about leases for which the Company is a lessee is as follows:

	Buildings and Improvements	Machinery and Equipment	Vehicles	Total
Cost:				
Balance at March 31, 2020	\$ 225	16	75	316
Additions	46	7	14	67
Impairments	(28)	—	—	(28)
Disposals and other changes	(5)	(4)	(8)	(17)
Balance at March 31, 2021	\$ 238	19	81	338
Additions	39	1	14	54
Disposals and other changes	(19)	(2)	(2)	(23)
Balance at March 31, 2022	\$ 258	18	93	369
Accumulated depreciation and impairment losses:				
Balance at March 31, 2020	\$ 28	1	24	53
Additions	38	1	10	49
Impairments	2	—	—	2
Disposals and other changes	(9)	—	(4)	(13)
Balance at March 31, 2021	\$ 59	2	30	91
Additions	31	—	11	42
Disposals and other changes	(7)	—	(1)	(8)
Balance at March 31, 2022	\$ 83	2	40	125
Carrying amount at:				
March 31, 2020	197	15	51	263
March 31, 2021	179	17	51	247
March 31, 2022	175	16	53	244

(10) Investment Property

	2022	2021
Cost:		
Balance at beginning of year,	\$ 459	442
Additions	18	17
Balance at March 31,	\$ 477	459
Accumulated depreciation and impairment losses:		
Balance at beginning of year,	\$ 58	38
Additions	21	20
Impairment	19	—
Balance at March 31,	\$ 98	58

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

The Company's investment properties include commercial office buildings located in Phoenix, Arizona and Minneapolis, Minnesota and eight floors of rental space and two floors of retail space in a commercial office building in Chicago, Illinois, which were leased to third parties. During the year ended March 31, 2022, the Company recorded a \$19 impairment related to the investment property located in Chicago, Illinois.

Lease terms and subsequent renewals are negotiated with the lessees. See note 22(a) for further information.

	<u>Carrying amount</u>	<u>Fair value</u>
As of March 31, 2022	\$ 379	403
As of March 31, 2021	401	416

Fair value is primarily based on a discounted cash flow approach using discount rates obtained from an independent appraiser.

(11) Intangible Assets and Goodwill

Intangible assets and goodwill consisted of the following:

		Other intangible assets						
			Trade names	Customer relationships	Vendor relationships	Software	Above market leases & other	Total
		Goodwill						
Acquisition cost:								
Balance at March 31, 2020	\$	478	349	427	15	60	42	893
Additions		—	—	—	—	6	1	7
Acquisitions		13	—	3	—	—	—	3
Disposals		—	—	—	—	—	(12)	(12)
Balance at March 31, 2021		491	349	430	15	66	31	891
Additions		—	—	—	—	5	—	5
Acquisitions		—	—	—	—	6	—	6
Disposals		(4)	—	—	—	(2)	(15)	(17)
Balance at March 31, 2022	\$	487	349	430	15	75	16	885
Amortization and impairment losses:								
Balance at March 31, 2020	\$	371	117	291	14	52	40	514
Additions		—	12	10	1	5	2	30
Impairments		—	103	24	—	—	—	127
Disposals		—	—	—	—	—	(12)	(12)
Balance at March 31, 2021		371	232	325	15	57	30	659
Additions		—	7	9	—	6	1	23
Disposals		(3)	—	—	—	(1)	(15)	(16)
Balance at March 31, 2022	\$	368	239	334	15	62	16	666
Carrying amount at								
March 31, 2020	\$	107	232	136	1	8	2	379
March 31, 2021		120	117	105	—	9	1	232
March 31, 2022		119	110	96	—	13	—	219

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

During the year ended March 31, 2021, the Company had impairments totaling \$127 of other intangible assets for several of the Company's subsidiaries in the Tubular products segment primarily due to continued disruptions in the oil & gas markets. The value in use of each subsidiary was determined using the income approach – discounted cash flow method and applying discount rates of 12.0% to 12.5%.

The significant carrying amounts of trade names as of March 31, 2022 and 2021 were those related to:

	<u>2022</u>	<u>2021</u>
Sunstate Equipment Co., LLC	\$ 71	76
B&L Pipeco Services Inc.	30	32
P2 Energy Services, LLC	7	7

The weighted average remaining useful lives as of March 31, 2022 was 14 years.

The significant carrying amounts of customer relationships as of March 31, 2022 and 2021 were those related to:

	<u>2022</u>	<u>2021</u>
Sunstate Equipment Co., LLC	\$ 47	51
B&L Pipeco Services Inc.	33	37
P2 Energy Services, LLC	6	7

The weighted average remaining useful lives as of March 31, 2022 was 12 years.

(12) Notes Payable and Commercial Paper

Interest rates on nonmortgage notes payable to third parties of \$205 and \$235 as of March 31, 2022 and 2021, respectively, averaged approximately 0.37% and 0.52% during the years ended March 31, 2022 and 2021, respectively.

There were no commercial paper borrowings outstanding as of March 31, 2022 and 2021. Borrowings during those years had weighted average maturities 16 days and 14 days, respectively, with interest rates averaging 0.15% and 0.23%, respectively. Under a support agreement between SC and the Company, so long as any of the commercial paper is outstanding and unpaid, SC has agreed to advance the sums in the form of capital contributions such that the Company's stockholder's equity shall not fall below \$110.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(13) Long-Term Debt

Long-term debt balances as of March 31, 2022 and 2021 consisted of the following with maturities in the fiscal years as indicated below:

	<u>2022</u>	<u>2021</u>
Related party term loan:		
2022, floating rate – 5.22%	\$ —	3
Third party term and revolver loans:		
2021, fixed and floating rates – 0.32% to 7.80%	—	308
2022, floating rate – 0.25% to 1.79%	176	175
2023, floating rate – 0.25% to 1.56%	405	356
2024, floating rates – 0.98% to 1.76%	350	400
2025, floating rate – 0.90% to 1.91%	301	131
2026, floating rate – 1.32% to 1.75%	119	—
2027, floating rate – 2.80%	100	100
2028, floating rate – 1.59%	98	98
2029, floating rate – 2.08%	81	81
2030, floating rate – 1.14%	97	96
2031, floating rate – 1.42%	48	47
2032, floating rate – 0.69%	95	94
Total third party term and revolver loans	<u>1,870</u>	<u>1,886</u>
Medium term note:		
2025, floating rate – 1.06%	68	68
2026, floating rate – 1.50%	30	—
Total long-term debt	<u>1,968</u>	<u>1,957</u>
Less current portion:		
Third party	<u>(176)</u>	<u>(308)</u>
	<u>\$ 1,792</u>	<u>1,649</u>

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

Principal payments on long-term debt for the years subsequent to March 31, 2022 are as follows:

Fiscal year:	Total Long-term Debt
2023	\$ 176
2024	405
2025	350
2026	369
2027	149
Thereafter	519
	<u>\$ 1,968</u>

On December 30, 2020, a 51% owned subsidiary of the Company, Sumitomo Canada Limited, borrowed \$3 from SC bearing a floating rate of interest with a maturity date of December 2022. The borrowing was repaid in May 2021.

The Company had Mexican-peso-denominated liabilities, which are included in long-term debt (U.S. dollar equivalent of \$2 as of March 31, 2021). The Company had entered into foreign currency and interest rate swap agreements in order to economically hedge its currency and interest-rate risks.

All third party term and revolver loans are covered by support agreements between SC and the Company.

The Company participates in the Euro Medium Term Note Programme (the Programme) along with three related parties. Funds borrowed under the Programme are included in medium term loans. The total borrowing limit under the Programme is \$3,000, of which approximately \$1,173 is outstanding as of March 31, 2022. The Programme is updated and renewed annually. Payment of the borrowings under the Programme is guaranteed by SC.

At March 31, 2022 and 2021, the Company was contingently liable on unused letters of credit in the amount of \$211 and \$163, respectively.

At March 31, 2022 and 2021, the Company was in compliance with all debt covenants.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(14) Income Tax Expense

The net income tax expense (benefit) includes income taxes on the consolidated statements of comprehensive income (loss) and the Company's share of income tax amounts included in equity in earnings (losses) of affiliates for the years ended March 31, 2022 and 2021, as follows:

	<u>2022</u>	<u>2021</u>
Current:		
Federal	\$ 10	13
State	21	8
Foreign	(7)	1
	<u>24</u>	<u>22</u>
Deferred:		
Federal	32	(105)
State	(1)	(4)
Foreign	(1)	4
	<u>30</u>	<u>(105)</u>
Income tax expense (benefit)	54	(83)
Share of income tax in equity in earnings of affiliates	<u>20</u>	<u>9</u>
Net income tax expense (benefit)	<u>\$ 74</u>	<u>(74)</u>

Income (loss) excluding the net income tax expense (benefit) for the years ended March 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Net income (loss)	\$ 409	(254)
Net income tax expense (benefit)	74	(74)
Income (loss) excluding net income tax expense (benefit)	<u>\$ 483</u>	<u>(328)</u>

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

Income (loss) excluding the net income tax expense (benefit) summarized by region for the years ended March 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
United States	\$ 455	(279)
Foreign	28	(49)
Income (loss) excluding net income tax expense (benefit)	<u>\$ 483</u>	<u>(328)</u>

The reconciliations between the U.S. federal statutory tax rate and the Company's effective tax rate for the years ended March 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
Statutory U.S. federal income tax rate	21.0 %	21.0 %
State and local income taxes, net of federal income tax benefit	3.1	1.3
Nondeductible items	(3.2)	(1.5)
Credits	(4.8)	7.3
Foreign source items	—	(0.1)
Undistributed earnings	(3.7)	0.3
Recognition (derecognition) of prior tax attributes	4.7	(3.1)
Other, net	<u>(1.7)</u>	<u>(2.7)</u>
Effective income tax rate	<u>15.4 %</u>	<u>22.5 %</u>

Credits are primarily renewable energy production tax credits generated by the Company's equity investments in qualifying projects.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(15) Deferred Tax Assets and Liabilities

Deferred tax assets (liabilities) as of March 31, 2022 and 2021 are attributable to the following:

	<u>2022</u>	<u>2021</u>
Property and equipment	\$ (213)	(180)
Investments	(39)	(27)
Derivatives	(20)	(17)
Other comprehensive income (loss)	(12)	4
Unremitted earnings	(5)	(22)
Post-retirement obligations	1	1
Other	13	(6)
Deferred rent	13	13
Inventory adjustments	15	22
Acquired intangibles	19	23
Accruals and reserves	45	36
Tax loss and credit carryforwards	82	110
Net deferred tax liabilities	\$ <u>(101)</u>	<u>(43)</u>

Deferred tax assets and deferred tax liabilities are offset as the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority or if there is the right to set off current tax assets against current tax liabilities. In the consolidated statements of financial position, the deferred tax assets and liabilities are not classified into current and noncurrent segments.

At March 31, 2022, the Company and certain of its subsidiaries have deferred tax assets related to state and foreign net operating loss (NOL) carryforwards of approximately \$18. These NOL carryforwards are available to offset future state and foreign taxable income.

(16) Equity

(a) Other Components of Equity

(i) Translation Reserve

The translation reserve includes all foreign currency differences arising from the translation of the financial statements of foreign operations, including the Company's investments in associated companies.

(ii) Hedging Reserve

The hedging reserve includes the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(iii) Fair Value Reserve

The fair value reserve includes the cumulative net change in the fair value of financial assets designated as FVTOCI until the investments are derecognized or impaired.

(b) Dividends

SC implemented a dividend guideline for overseas subsidiaries that required the Company to pay a dividend beginning in the year ended March 31, 2011. The ultimate dividend amount is subject to adjustment depending on the effects of taxation as well as equity and asset levels.

In the year ended March 31, 2022, the Company distributed its 40% ownership interest in Eryngium Limited to SC in the form of a dividend from retained earnings in the amount of \$97.

The Company did not pay a dividend to SC during the year ended March 31, 2021.

On April 8, 2022, the Company declared and paid a dividend of \$400 from retained earnings to SC.

(c) Reserves Recognized Directly in Equity

The following table shows the changes in reserves directly recognized in equity:

Balance – March 31, 2020, net of taxes of \$24	\$	(102)
Unrealized appreciation of securities, net of taxes of (\$4)		12
Unrealized losses on derivatives, net of taxes of (\$1)		(2)
Foreign currency translation adjustment, net of taxes of (\$16)		28
Balance – March 31, 2021, net of taxes of \$3		(64)
Unrealized appreciation of securities, net of taxes of (\$10)		27
Unrealized gains on derivatives, net of taxes of (\$2)		10
Foreign currency translation adjustment, net of taxes of (\$2)		31
Balance – March 31, 2022, net of taxes of (\$11)	\$	<u>4</u>

(17) Employee Benefit Plans

(a) Defined Contribution Savings Plans

The Company and certain of its subsidiaries sponsor defined contribution 401(k) savings plans (the Savings Plans) for eligible employees. The Company at its discretion matches employees' contributions up to specific limitations and made contributions to the Savings Plans of \$10 and \$8 in the years ended March 31, 2022 and 2021, respectively.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(b) Defined Benefit Pension Plans

A subsidiary of the Company has a plan covering key employees, which provides key employees with a lump sum payment upon their retirement. The Company recognized pension costs related to the plans in net income (loss) and in other comprehensive income (loss) of \$0 and \$1 in the years ended March 31, 2022 and 2021, respectively. The subsidiary has purchased certain life insurance policies to fund these benefits, which are held in a rabbi trust. The cash surrender value of these policies was \$1 and \$2 as of March 31, 2022 and 2021, respectively. The liabilities under these plans was \$4 as of March 31, 2022 and 2021.

(18) Fair Value of Financial Instruments

For the Company's financial instruments classified as current in the consolidated statements of financial position (cash and cash equivalents, accounts receivable, commercial paper, notes payable, current portion of long-term debt and accounts payable), the carrying values approximate fair value based on the relatively short period of time between the origination of the instruments, their expected realization or the frequent repricing of the instrument to market price.

The Company's long-term receivables and long-term debt primarily bear floating rates of interest and their carrying values approximate their fair values.

The fair value hierarchy described below reflects the significance of inputs used to determine the valuation of derivative assets and liabilities measured at fair value:

Level 1 - quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access

Level 2 - quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities

Level 3 - inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

The tables below include financial instruments carried at fair value as of March 31, 2022 and 2021.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
2022:			
Derivative assets:			
Physical commodity contracts	\$ —	272	40
Futures, swaps and options	4,673	30	—
Loan deals	—	—	—
Total assets	<u>\$ 4,673</u>	<u>302</u>	<u>40</u>
Derivative liabilities:			
Physical commodity contracts	\$ —	(229)	(44)
Futures, swaps and options	—	(4)	—
Loan deals	(4,640)	(15)	—
	<u>\$ (4,640)</u>	<u>(248)</u>	<u>(44)</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
2021:			
Derivative assets:			
Physical commodity contracts	\$ —	463	41
Futures, swaps and options	1,113	9	—
Loan deals	2	—	—
Total assets	<u>\$ 1,115</u>	<u>472</u>	<u>41</u>
Derivative liabilities:			
Physical commodity contracts	\$ —	(387)	(40)
Futures, swaps and options	(1,090)	(3)	—
Loan deals	—	(2)	—
	<u>\$ (1,090)</u>	<u>(392)</u>	<u>(40)</u>

The derivative financial instruments in the above table include those of PSE, which are carried at fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In the tables above, when the fair value of derivatives listed on an organized exchange market (futures, options on futures, and swaps) is offset with the margin call received or paid on the balance sheet, this fair value is presented on a net basis. Fair value is based on assumptions that market participants would use, including consideration of nonperformance risk. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Company's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Company based on the best information available in the circumstances, including expected cash flows and risk-adjusted discount rates, and available observable and unobservable inputs.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

Fair value of the Company's Level 2 assets and liabilities is determined using the income approach through various models and techniques that require significant unobservable inputs. Level 3 assets and liabilities include the Company's physical commodity contracts where the valuations utilize significant unobservable inputs related to tenor and volatility. Inputs used and the fair value of Level 3 instruments are reviewed period over period and compared with market conditions to determine reasonableness.

The following table sets forth the Company valuation techniques and significant unobservable inputs used to determine fair value for Level 3 assets and liabilities:

		<u>Assets</u>	<u>Liabilities</u>	<u>Valuation Technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>
March 31, 2022:						
Physical commodity contract	\$	0.7	—	Proxy spread model	Forecasted pricing	\$0.5 - \$0.9
		—	(5.2)	Linear regression model	Historical and forecasted load	(\$4.9) - (\$5.4)
March 31, 2021:						
Physical commodity contract	\$	0.3	—	Proxy spread model	Forecasted pricing	\$0.2 - \$0.3
		0.3	—	Linear regression model	Historical and forecasted load	(\$0.2) - (\$0.8)

The following table sets forth a summary of changes in the Company's fair value of Level 3 net derivative assets and liabilities:

		<u>2022</u>	<u>2021</u>
Fair value of net assets at beginning of year	\$	1	2
Net change in fair value (unrealized)		(5)	(1)
Transfer out of Level 3		(1)	—
Fair value of net assets at end of year	\$	<u>(5)</u>	<u>1</u>
Changes during the period in unrealized gains related to assets and liabilities, net held at the end of year recognized in the net trading gains profit	\$	1	43

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

The fair values of the Company's physical commodity contract contain intrinsic value and time value. Intrinsic value is the difference between the market price and strike price of the underlying commodity. Time value is made up of several extrinsic components, including volatility, time to expiration and interest rates.

For physical commodity contracts where the Company is supplier of energy, increases in volatility of the underlying commodity prices would result in increases to fair value as it represents greater price movement risk. As power and gas prices decrease where the Company is the supplier of energy, the fair value of the arrangement tends to decrease. As power and gas prices increase where the Company is the purchaser of energy, the fair value of the arrangement tends to increase. The value of the arrangement is also impacted by the correlation between gas and power prices.

The Company and certain of its subsidiaries make financial investments in operating entities and early-stage to initial public offering entities to facilitate strategic business partnerships and to realize long-term capital appreciation and are included in noncurrent other assets. The table below includes the balances of such investments accounted at FVTOCI and FVTPL and the related pretax gains recognized.

	<u>2022</u>	<u>2021</u>
Carrying values:		
FTVOCI	\$ 211	165
FTVTPL	<u>131</u>	<u>97</u>
Total included in noncurrent other assets	\$ <u>342</u>	<u>262</u>
Net gains recognized		
FTVOCI	\$ 37	16
FTVTPL	31	21

(19) Derivatives and Hedge Accounting

Derivative Financial Instruments Not Designated as Hedges

In the normal course of business, the Company is exposed to foreign exchange rate fluctuation risks due to transactions originally denominated in foreign currencies. To manage these risks, the Company routinely enters into foreign currency forward contracts. The change in fair value of these foreign currency forward contracts is recorded in the Company's consolidated statements of comprehensive income (loss).

As of March 31, 2022 and 2021, the Company held certain cross-currency swaps that did not qualify as hedges for accounting purposes to manage foreign currency exposures. Gains and losses for changes in the fair value of these derivatives, which were recorded in the Company's consolidated statements of comprehensive income (loss), were not significant.

The derivative instruments of PSE include a variety of commodity instruments to purchase or supply natural gas (NG) and electric power at specified delivery points and at specified future dates. The derivative commodity instruments are offered to customers and suppliers in the marketplace as a marketing and risk

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

management service. PSE also trades crude oil derivative commodity instruments. Under some circumstances, the open positions expose the Company to risk that fluctuating market prices may adversely impact its financial condition or results of operations. However, the net open positions are actively managed with policies designed to limit the exposure to market risk.

Occasionally, PSE enters into loan agreements, whereby NG is effectively loaned or borrowed to and from utility companies, involving a receipt of physical gas and an obligation to return the same quantity of physical gas at a specified later date. Commodity derivative positions are entered into economically hedge loan activity. Loan transactions are treated as financing arrangements with an embedded derivative.

PSE loaned 2,764 MMBtu with a fair value of \$(15) as of March 31, 2022 and 699 MMBtu with a fair value of \$(2) as of March 31, 2021.

Derivatives not designated as hedges as of March 31, 2022 were as follows:

	Physical NG commodity contracts	Physical power commodity contracts	Futures, swaps and options	Loan deals	Offsetting	Cash collateral	Total derivatives not designated as hedges
Current derivative assets	\$ 115	85	4,699	—	(4,558)	(231)	110
Noncurrent derivative assets	104	8	1	—	(30)	—	83
Total derivative assets	\$ 219	93	4,700	—	(4,588)	(231)	193
Current derivative liabilities	\$ (126)	(89)	(4,643)	(15)	4,558	198	(117)
Noncurrent derivative liabilities	(50)	(8)	(1)	—	30	—	(29)
Total derivative liabilities	\$ (176)	(97)	(4,644)	(15)	4,588	198	(146)

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

Derivatives not designated as hedges as of March 31, 2021 were as follows:

	Physical NG commodity contracts	Physical power commodity contracts	Futures, swaps and options	Loan deals	Offsetting	Cash collateral	Total derivatives not designated as hedges
Current derivative assets	\$ 81	59	1,117	—	(1,173)	(23)	61
Noncurrent derivative assets	313	50	1	—	(270)	—	94
Total derivative assets	\$ 394	109	1,118	—	(1,443)	(23)	155
Current derivative liabilities	\$ (61)	(59)	(1,092)	(2)	1,173	—	(41)
Noncurrent derivative liabilities	(257)	(50)	—	—	270	—	(37)
Total derivative liabilities	\$ (318)	(109)	(1,092)	(2)	1,443	—	(78)

Derivative Financial Instruments Designated as Hedges

The Company enters into cross-currency swaps related to debt denominated in Japanese Yen, Euro, Canadian Dollar, British Pound and Norwegian Krone. The Company designates these derivatives as fair value hedges. Gains and losses resulting from changes in the fair value of these derivatives were recorded as income (loss) in the Company's consolidated statements of comprehensive income (loss).

The following table presents the Company's outstanding derivative contracts designated as hedges as of March 31, 2022 and 2021:

	2022		2021	
	Notional amount	Carrying amount at fair value	Notional amount	Carrying amount at fair value
Derivative assets:				
Cross-currency and interest rate swaps	\$ 200	12	200	1
Foreign currency forward contracts and other	108	4	156	4
Derivative liabilities:				
Foreign currency forward contracts	5	—	—	—

The current and long-term portions of derivative assets are recorded in accounts receivable and long-term receivables, respectively, and the current and long-term portions of derivative liabilities are recorded in accrued expenses and other current liabilities and other long-term liabilities, respectively, in the

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

accompanying consolidated statements of financial position. Gains and losses are included in revenue, cost of sales and interest expense in the accompanying consolidated statements of comprehensive income (loss) and other components of equity.

(20) Capital and Financial Risk Management

(a) Capital Management

The Company's capital management philosophy is guided by SC policies. The fundamental principles of SC's capital management are to maintain appropriate capital levels by optimizing debt and equity balances to manage business risks in order to maintain management soundness and efficiency and to promote continuous growth. The key metrics used for capital management are risk-adjusted assets and equity balances along with a net debt-to-equity ratio.

Management reviews the strategies for earnings and investments and the metrics on a semi-annual planning and assessment basis.

(b) Financial Risk Management

The Company's operations expose it to the risk of changes in foreign exchange rates and interest rates. Derivative financial instruments are used by the Company to reduce these risks. The Company assesses foreign currency exchange rate risk and interest rate risk by continuously monitoring changes in these exposures and by evaluating hedging opportunities. The Company is also exposed to credit related losses in the event of nonperformance by counterparties to financial assets, but it is not expected that any counterparties will fail to meet their obligations because most of the counterparties are internationally recognized financial institutions. The Company's basic policy for fund raising activities is to secure stable, short to long-term funds and liquidity for operations.

(i) Foreign Currency Exchange Rate Risk

The Company operates internationally and is exposed to foreign currency risks related to purchasing, selling, financing and investing in currencies other than the U.S. dollar. The Company's strategy to manage foreign currency risks is mainly to preserve the economic value of cash flows in its functional currency by using foreign currency forward contracts, cross-currency swaps, considering the netting effect of foreign currency exposures on recognized assets, liabilities and unrecognized firm commitments. The net of foreign currency risk exposure as of March 31, 2022 and 2021 are as follows. A positive balance represents a receivable position and a negative balance represents a payable position.

		2022		
		Japanese Yen	Euro	Total
U.S. dollars	\$	—	1	1
Local currency millions		6	1	

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

			2021		
	Japanese Yen	Euro	Canadian Dollar	Norwegian Krone	Total
U.S. dollars	\$ —	4	1	—	5
Local currency millions	3	5	1	(1)	

An analysis of a hypothetical impact on income (loss) before income taxes as reported in the consolidated statements of comprehensive income (loss) that would result from a 1% appreciation of the U.S. Dollar against all foreign currencies as of the end of the fiscal year indicated that the effects would be insignificant. The analysis is based on the assumption that other factors such as outstanding balance and interest rates are constant.

(ii) Interest Rate Risk Management

The Company is exposed to risks arising from changes in interest rates while financing its business activities. In particular, interest rate fluctuations affect borrowing costs because a major part of the outstanding debt instruments are floating rate instruments and short-term borrowings are refinanced from time to time.

However, the impact on borrowing costs are partially offset by returns on certain assets which may also be impacted by interest rate fluctuations. In addition, the Company is engaged in financing activities, which could be affected by interest rate fluctuations. The Company monitors interest rate risk arising from its assets and liabilities and the Company's risk management structure utilizes derivative contracts, such as interest rate swaps, to manage fluctuations of earnings or losses due to the fluctuations of interest rates.

The following table represents the hypothetical impact on the Company's income (loss) before income taxes that is attributable to financial instruments exposed to the fluctuation risk of interest rates in the case where interest rates would increase by 1%. The analysis is calculated by multiplying 1% by the net amounts of floating rate interest bearing financial assets and liabilities as of March 31, 2022 and 2021, without considering changes in balances, currency fluctuations and the dispersing effect for floating rate borrowings derived from the timing differences to refund and revise the rate in the future and is based on the assumption that other variable factors are held constant.

A sensitivity analysis to fluctuations of market interest rates is performed for the potential cash flow exposures from interest rate bearing debt and loans with a floating rate. The floating rate loans include those with fixed rates, which are converted to floating rate with interest rate swap contracts.

	2022	2021
Income before income taxes	\$ (19)	(17)

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(iii) Interest Rate Benchmark Reform and Associated Risk

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBOR) with alternative nearly risk-free rates referred to as "IBOR reform". The Company has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. The Company's main IBOR exposure at March 31, 2021 and 2022 was indexed to US dollar LIBOR. The alternative reference rate for US dollar LIBOR is the Secured Overnight Financing Rate (SOFR). Although the US dollar LIBOR was planned to be discontinued by the end of 2021, the ICE Benchmark Administration, the authorized administrator of LIBOR, announced that it intends to determine and publish certain US dollar LIBORs until the end of June 2023. The Company has begun the process of implementing appropriate fallback provisions for all US dollar LIBOR indexed exposure by March 31, 2023.

The Company monitors and manages the transition to alternative rates and evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

The Company monitors the progress of transition from LIBOR to new benchmark rates by reviewing the total amount of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Company considers that a contract is not yet transitioned to an alternative rate when the interest under the contract is indexed to a benchmark rate that is still subject to reform, even if it includes a fallback clause that deals with the cessation of the existing LIBOR.

The following table shows the total amounts of unreformed contracts and those with appropriate fallback language at April 1, 2021 and March 31, 2022. The amounts of financial assets and financial liabilities are shown at their carrying amounts.

	March 31, 2022	April 1, 2021
Financial assets - corporate debt securities		
Total amount of unreformed contracts	\$ 110	202
Amount with appropriate fallback clause	—	—
Financial liabilities - secured loans		
Total amount of unreformed contracts	1,848	1,957
Amount with appropriate fallback clause	552	282

(iv) Market Risk Management

The Company is exposed to the risk fluctuations in the market price of the commodities being traded (NG and electric power) and the associated commodity derivative instruments, which is influenced by supply and demand. Market risk is also influenced to the extent that the performance or nonperformance by market participants of their contractual obligations and commitments affect the supply and demand of the commodity. The Company manages the market risks inherent in its commodity trading business according to risk policies established by the Company.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(v) *Credit Risk Management*

The Company's receivables are from a large number of customers and counterparties, spread across diverse industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of accounts receivable. The Company may also seek contractual or other forms of protection or mitigation, including cash collateral, letters of credit or parent company guarantees.

(vi) *Liquidity Risk Management*

The Company's basic policy for financing operations is to secure stable short to long-term funds and sufficient liquidity for its operations. The Company secures liquidity from the cash flows from operations, borrowing from financial institutions and issuance of commercial paper. The Company deposits these funds at highly creditable financial institutions to which generally high credit ratings are given by the credit rating agencies.

(21) Segment and Related Information

The Company's reportable business segments are organized in a manner that reflects how management views those business activities. The Company reports for each segment a measure of segment profit or loss, certain specific revenue and expense items and segment assets. The Company's principal business activities have been classified into the following reportable segments:

The Tubular products segment supplies a wide variety of high grade oil country tubular goods, line pipe, specialty tubing and oil field equipment to companies in the oil, gas, petrochemical, automobile, and boiler fabrication industries.

The Steel and nonferrous metal segment supplies flat-rolled products, railway products, forging and casting products, specialty steel and nonferrous metal.

The Automotive segment includes supplying parts to the automotive industry.

The Construction and transportation systems segment includes operating dealerships and distributorships for the sale and rental of construction equipment.

The Infrastructure segment activities include investing in and operating electrical generation assets, using renewable and nonrenewable energy sources and delivering commuter rail cars and other products for transportation systems.

The Chemicals and electronics segment activities include trade dealings in petrochemicals, plastics, fine and specialty chemicals and inorganic chemicals.

The Media and digital business segment includes investment activities of technology and media activities.

The Materials, supplies and real estate segment includes investment in and development of commercial and residential real estate.

The Food and lifestyle segment supports the production of organic foods and eco-friendly farming practices and provides import and export trade services.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

The Mineral resources segment includes investment, development and production of nonferrous metals, precious metals and base metals.

The Energy segment includes investment, trading and marketing activities of natural gas, electricity and crude oil.

The Treasury and corporate segment includes finance-related activities such as derivatives transactions and consumer and business financing and logistics services. Also included, are the Company's interests in Sumitomo Canada Limited (through June 30, 2021), Sumitomo Corporation de Mexico (through February 28, 2022) and Sumitomo Corporation do Brazil.

The Company evaluates segment performance based on net income (loss) attributable to the owners of the parent company. Information on the Company's reportable segments as of and for the years ended March 31, 2022 and 2021, respectively, is as follows:

Segment	2022				2021			
	Revenues	Gross profit	Income (loss)	Segment assets	Revenues	Gross profit	Income (loss)	Segment assets
Tubular products	\$ 3,437	397	205	1,810	2,426	84	(314)	1,761
Steel and nonferrous metal	1,224	157	73	1,049	686	59	17	631
Automotive	1	1	21	711	4	1	(7)	770
Construction and transportation	1,288	426	79	1,839	1,118	338	76	1,939
Infrastructure	152	25	(19)	599	133	12	(36)	593
Chemicals and electronics	402	91	(95)	486	306	79	14	513
Media and digital business	3	3	25	225	4	4	11	175
Food and lifestyle	9	7	1	33	9	9	4	31
Materials, supplies & real estate	45	2	6	667	41	1	(1)	693
Mineral resources	4	4	4	48	6	6	3	64
Energy	1,459	168	118	718	940	56	(15)	428
Treasury and corporate	24	14	(9)	2,289	93	23	(6)	1,902
Intersegment eliminations	(41)	(14)	—	(1,824)	(23)	(14)	—	(1,581)
Total	\$ 8,007	1,281	409	8,650	5,743	658	(254)	7,919

Changes in the carrying amount of goodwill for the years ended March 31, 2022 and 2021 are as follows:

	Construction and transportation systems	Chemicals and electronics	Treasury and corporate	Total
March 31, 2020	\$ 90	16	1	107
Acquisitions	13	—	—	13
March 31, 2021	103	16	1	120
Disposal	—	—	(1)	(1)
March 31, 2022	\$ 103	16	—	119

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(22) Commitments and Contingencies

(a) Leases as lessee

The Company leases assets including building and improvements, machinery and equipment and vehicles. Future minimum annual rental payments and the related liabilities included in the consolidated statements of financial position as of March 31, 2022 and 2021 were as follows:

	2022	2021
Undiscounted cash flows:		
Less than one year	\$ 65	62
Between one and five years	170	168
More than five years	111	121
Total undiscounted cash flows	\$ 346	351
Lease liabilities:		
Current	\$ 54	52
Long-term	243	269
Total	\$ 297	321

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of property and equipment that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease. The future minimum annual rental payments of leases under which the Company as a lessee is immaterial with rent expense of \$4 for each of the years ended March 31, 2022 and 2021.

Interest expense related to lease liabilities totaled \$14 and \$15 for the years ended March 31, 2022 and 2021.

(b) Leases as lessor

The Company leases out its investment property and railcars under long-term operating leases. The railcars leased under these agreements are included in machinery and equipment with cost and accumulated depreciation of \$11 and \$5, respectively, at March 31, 2022. The minimum annual rentals as of March 31, 2022 for the next five years and thereafter were as follows:

Less than one year	\$ 30
Between one and five years	100
More than five years	74
	\$ 204

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(c) Indemnification and Guarantee Agreements

The Company has outstanding guarantees for credit facilities of certain Associate companies for up to \$19, of which \$15 of liabilities were outstanding at March 31, 2022.

In the normal course of business, the Company secures certain obligations with Performance and Labor, and Material Bonds (performance bonds). In certain situations, the ability to obtain performance bonds is directly related to the Company's credit rating. As such, the Company may arrange for issuance of performance bonds through third parties. As of March 31, 2022 and 2021, the Company had \$185 and \$250, respectively, of such performance bonds outstanding, of which \$54 and \$88, respectively, were at risk in ongoing projects. These amounts are expected to decrease over time as the Company completes the work in process or transfers ownership to other companies.

The Company believes that it is not reasonably likely that it will be required to perform under the performance bonds or that any performance requirement would have a material impact on its consolidated financial statements. As a result, the estimated fair value of these agreements is considered to be immaterial to the consolidated financial statements.

As of March 31, 2022, the Company has commitments to make additional equity investments totaling approximately \$6.

(d) Performance Obligations under Long-term Sales Contracts

The aggregate amount of the revenue expected to be recognized in the future related to the Company's performance obligations (unsatisfied or partially unsatisfied) resulting from long-term sales contracts was \$14,857 as of March 31, 2022. The amount of revenue expected from the PSE LNG long-term sales agreement represented approximately 99% of the aggregate amount and is based on Henry Hub prices multiplied by an estimated fuel factor plus amounts for fixed costs, annual unit charges and a risk premium.

(e) Natural Gas Purchase and Liquefied Natural Gas Sale Commitments

The Company has a definitive gas purchase agreement, which commenced in 2018, with an unrelated party to purchase 350,000 MMBtu of NG per day for approximately 20 years, which will be utilized for LNG production to fulfill its sales commitments. In order to convert the NG into LNG, the Company entered into a 20-year terminal service agreement with another unrelated party. To facilitate LNG sales, a LNG sales agreement was entered into, which is also for approximately 20 years.

Although it is foreseeable that the PSE will be required to sell unavoidable excess gas acquired under the contract rather than use it for the intended purpose of converting it into LNG, management believes that it is appropriate to account for the contract as an executory contract rather than report it at its fair value.

SUMITOMO CORPORATION OF AMERICAS AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2022 and 2021

(In millions of U.S. dollars)

(f) Litigation

The Company is involved in several lawsuits and regulatory inquiries and investigations incidental to its business. In the opinion of management, the outcome of such matters facing the Company will not have a material adverse effect on the financial position, cash flows or operating results of the Company.

(23) Selling, General and Administrative Expenses

The components of selling, general and administrative expenses were as follows for the years ended March 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Employee benefits expenses	\$ 434	402
Depreciation and amortization	86	101
Service fees	52	67
Travel and communication expenses	29	25
Office expenses and supplies	30	31
Taxes, other than income taxes	14	15
Rent expense	4	4
Other	<u>50</u>	<u>54</u>
Selling, general and administrative expenses	<u>\$ 699</u>	<u>699</u>

(24) Subsequent Event

The Company has evaluated subsequent events from the consolidated statement of financial position date through May 16, 2022, the date at which the consolidated financial statements were available to be issued, and determined that there are no items to disclose other than the dividend to SC, see note 16.