



March 20, 2014

To Whom It May Concern:

Company : Sumitomo Heavy Industries, Ltd.
Representative : Shunsuke Betsukawa
President and Chief Executive Officer
Code : 6302
Contact : Tsuneyoshi Sato
General Manager, Corporate
Communications Department
Phone : +81-3-6737-2333

Notice Regarding the Factual Background Relating to the Lawsuit Filed by the City of Kyoto

Sumitomo Heavy Industries, Ltd. (hereinafter referred to as "SHI" or the "Company") announce the detail of the lawsuit and its background as provided below, as the City of Kyoto (hereinafter referred to as the "City") today made public that the City was intending to file the lawsuit against the Company.

Details

1. Developments To Date

- (1) On March 18, 2005, the Company and the City entered into a construction contract (hereinafter referred to as the "Contract") relating to the "Plant/Equipment Installation for the Kyoto City Incinerated Ash Melting Facility (Provisional Name) Construction Works".
- (2) During the testing phase of the facility in April 2010, a structural defect was discovered in the underground water tank. As a result of the defect, untreated effluent water was found to be entering the outfall tank in the facility and dioxin levels that exceeded standard levels was detected in the effluent. The Company established a special action team immediately upon this discovery, which was tasked to find out the reasons for the defect and to implement a drastic corrective action. In June 2011, the Company and the City verified and agreed that the problem was now resolved.
- (3) Subsequently, a few more defects were discovered at the facility, and for this reason, the Company commenced a full-scale inspection of the installation works in December 2011.
- (4) Based on the results of the inspection, the Company reviewed different improvement measures from various standpoints. In addition, over a course of six months, multiple tests at the manufacturer level as well as at research centers were carried out repeatedly, and approval was received from the City on the proposed improvement measures.
- (5) In July 2012, the Company and the City agreed to extend the project handover date to August 31, 2013 in order to provide enough time to implement such improvement measures.
- (6) After making operational adjustments at all phases of the treatment process and completing various tests, the first trial run was completed in June 2013. At the same time, the works passed the first phase of performance verification tests. Through this, the Company was able to confirm that the performance of the facility was satisfactory and verify the stability and safety of the completed works .
- (7) In the same month, the second trial run was carried out. At this time, it was discovered that un-melted residue (dust) was accumulating at the point where the slag from the melting furnace and un-melted waste is separated.
- (8) The Company submitted a report that analyzed the reasons for this problem as well as outlined corrective measures to the City and requested that it be allowed to implement such measures and re-commence commissioning activities. However, the "Performance Evaluation Committee" which was set up by the City that comprises of technical staff and experts concluded that it was not able to verify the effectiveness of such measures and denied the Company's request.
- (9) While not approving the Company's request to implement corrective measures and re-commence commissioning activities, in August 2013 the City announced that handover of the project would not be made before the deadline and moved to terminate the contract on the 5th of August (since a full month of operations is required to complete the second trial run, unless such activities commence on the 1st of the month, it would be impossible to handover the project prior to the deadline).

- (10) However, in the Contract there is no stipulation that requires that a “Performance Evaluation Committee” verify the effectiveness of any corrective measure. Of course, as the project principal, the City has the right to make its opinions known on an as needed basis during the performance of the contract and also establish a “Performance Evaluation Committee” to review any corrective measures proposed by the Company. Furthermore, the Company worked hard to incorporate the requests and wishes of the City as much as possible during the performance of the contract. Nonetheless, SHI feels strongly that the project handover date should be extended in line with the time required for the “Performance Evaluation Committee” to complete their review.
- (11) Moreover, the Company is confident that project handover by the deadline would have been possible but for the inability to carry out the simple and easy-to-implement corrective measures proposed by the Company.
- (12) In the Contract, there is a stipulation that states that if there are any disputes between the City and the Company regarding the performance of the contract, a resolution will be sought via mediation or arbitration through the Committee for the Adjustment of Construction Work Disputes as outlined in the Construction Industry Act. In accordance with this clause, on December 26, 2013, the Company submitted an arbitration request to the Central Committee for the Adjustment of Construction Work Disputes in regards to this contract dispute. However, the City stand firm on its stance to say that resolution via arbitration would not be possible unless the Company abdicate the arbitration claim and responds favorably to its claim for compensation. Further, the City has decided to file this recent lawsuit against the Company without waiting for the first deadline date for arbitration which was planned for next week.

2. Future Outlook and Other Notes

The Company has not yet received the written complaint from the City and therefore, has not been able to verify the details of their claim. Although there is potential for the Company’s financial performance to be affected by this lawsuit, it strongly believes that the compensation claim made by the City is baseless because the works passed the first phase of performance verification tests, and the cancellation of the contract by the City immediately prior to project completion is invalid. It is the Company’s intention to review the written complaint in great detail upon receipt and make clear the legitimacy of the Company’s counterarguments points. Future progress regarding the lawsuit will be made available as and when deemed appropriate.

END

<Reference – Previous Notices Regarding this Topic>

<http://www.shi.co.jp/english/info/2013/6kgpsq0000001jv0-att/6kgpsq0000001jvi.pdf>

<http://www.shi.co.jp/english/info/2013/6kgpsq0000001jy0-att/6kgpsq0000001jyi.pdf>

<http://www.shi.co.jp/english/info/2013/6kgpsq0000001kg0-att/6kgpsq0000001kgi.pdf>