

(Translation)

Reference Document Attached to the Notice of the Company's 119th Ordinary General Shareholders' Meeting

Sumitomo Heavy Industries, Ltd.

119th Business and Financial Report

(April 1, 2014 through March 31, 2015)

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(CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS, NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, STATEMENT OF CHANGES IN NET ASSETS and NOTES TO FINANCIAL STATEMENTS are posted on the Company's website (<http://www.shi.co.jp>) pursuant to the applicable laws and regulations and Article 16 of the Company's Articles of Incorporation. Therefore, these items are not included in this document.)

In this English translation, Sumitomo Heavy Industries, Ltd. is referred to as the "Company" and the Sumitomo Heavy Industries Group as the "Company Group" or the "Group."

BUSINESS AND FINANCIAL REPORT

(April 1, 2014 through March 31, 2015)

I. CURRENT STATUS OF THE COMPANY GROUP

1. PERFORMANCE AND RESULTS OF OPERATIONS

With regard to the overall Japanese economy for the fiscal year under review, although its recovery was delayed after economic deceleration caused by a reactionary decline in demand following a rush in demand before the consumption tax hike, capital investments progressed relatively steadily as corporate business performance improved, backed by such factors as continued yen depreciation. Overseas markets on the whole remained on a moderate deceleration trend. Despite a clear recovery trend of the U.S. economy, the European economy slowed against the backdrop of situations in Ukraine, etc., and the growth of the Chinese economy continued to be slow given the increasingly strong restraint of investments.

In this business environment, the Company Group launched the new Medium-Term Management Plan 2016 and operated businesses with the following priority measures for the fiscal year under review.

(1) Steady growth to establish the basis for sustainable growth

1) “Globalization (expanding)”

In the plastics machinery business, the Company strengthened its collaboration with Sumitomo (SHI) Demag Plastics Machinery GmbH, its German subsidiary, in sales and development of electric injection molding machines in Europe. In the power transmission and controls business, the Company promoted the integration of product platforms with Hansen Industrial Transmissions NV, its subsidiary in Belgium. In the construction machinery business, the Company Group strove to reinforce its collaboration with CNH Industrial N.V. in the supply of technologies for hydraulic excavators, etc.

2) “Innovation (changing)”

Our efforts at product development have been producing steady fruit. In the power transmission and controls business, we started selling gear motors that are compatible with efficiency restrictions (Premium Efficiency – IE3) under the Act on the Rational Use of Energy. The industrial machinery business saw the start of medical treatments using the world’s first vertically arranged compact proton therapy system, which was delivered by the Company. In addition, in each business segment, we strove to strengthen the after-market businesses, which is a priority issue under our medium-term management plan.

3) “Synergies within the Company Group (linking)”

Sales expanded for hybrid-type hydraulic excavators, which achieved technology differentiation by using the system control technology nurtured within the Group. Also, to reinforce the competitive edge of each business of the Company Group, we newly constructed a technology research center building within the Ehime Works, thereby establishing a foundation to further reinforce research on technologies related to materials and surface treatment.

4) Growth of energy-related fields

In energy-related fields, which are designated as a growth area under our medium-term management plan, we received increasing orders, including orders for the nation’s largest and most efficient biomass power generation equipment using wood chips as the main fuel.

(2) Return to high levels of profitability

The operating profit to sales ratio improved in the Precision Equipment segment among other segments. For example, in the plastics machinery business, the electric molding machines for light guide plates, which were launched in the previous fiscal year, benefited from the demand for smartphones, and thereby contributed to sales and profits.

(3) Persistent efforts for operational quality improvements

To strengthen the product quality management function of the Company Group, the Corporate Quality Department was upgraded to the Corporate Quality Group to reinforce the organization. With regard to measures to improve safety, the Company Group started the second phase of implementing the Group's Basic Health and Safety Improvement Plan. We are striving to strengthen our capacity for safety and sanitation management and to eradicate occupational accidents.

(4) Rigorous Compliance

Pursuant to the basic principle of "Compliance Comes First," during the fiscal year under review, to reinforce the compliance system in our overseas business activities, we provided compliance education for the employees of our overseas subsidiaries and affiliates. In Japan, we conducted discussion-based compliance training sessions and provided education on antitrust laws, etc.

As a result of implementing the above managerial measures in the fiscal year under review, total orders of the Company Group were a record high of ¥740.8 billion, a 13% increase compared with the previous fiscal year, and sales on a consolidated basis were ¥667.1 billion, an 8% increase.

As for our profits and losses, an increase in sales led to an increase of 34% in our operating income to ¥46.0 billion compared with the previous fiscal year, and ordinary income increased 37% year over year to ¥45.1 billion and net income rose 36% to ¥24.3 billion. In addition, the after-tax ROIC* was 6.5%.

The non-consolidated financial results of the Company for the fiscal year under review were orders of ¥237.4 billion, sales of ¥192.2 billion, operating income of ¥8.2 billion, ordinary income of ¥17.9 billion and net profit of ¥10.9 billion.

Taking into account the above business results and financial position, the Company proposes a dividend increase of ¥5 from the previous fiscal year to ¥12 per share including an interim dividend of ¥5 per share, which has already been distributed.

* The ROIC (Return on Invested Capital) is the ratio of after-tax to invested capital, which is an indicator to show the level of profitability in light of the invested capital (a sum of shareholders' equity and interest-bearing liabilities), thereby showing whether there was sufficient profitability to meet the investment costs.

(SUMMARY OF OPERATIONS AND PERFORMANCE BY SEGMENT)

(1) Machinery Components

Both orders and sales increased due to continuously strong domestic market conditions and favorable market conditions in other regions such as North America, although markets in Europe and China slowed.

As a result, in the overall segment, orders were ¥104.7 billion, a 6% increase compared with the previous fiscal year; sales were ¥102.6 billion, a 3% increase year over year; and operating income increased 9% to ¥6.6 billion.

(2) Precision Equipment

Both orders and sales increased in the plastics machinery business, reflecting the favorable progress in IT-related markets in Asia and steady market conditions in Japan and Europe.

In other businesses, both orders and sales increased, absorbing a recovery in demand for semiconductor-related product categories.

As a result, in the overall segment, orders were ¥154.6 billion, up 15% year over year; sales were ¥146.4 billion, a 10% increase compared with the previous fiscal year; and operating income increased 43% to ¥13.5 billion.

(3) Construction Machinery

Despite a decrease in demand in the Chinese market, the hydraulic excavator business recorded an increase both in orders and sales, supported by solid demand from the domestic market and continued favorable sales of products for the European and U.S. markets, where inventory adjustments have been completed.

The construction crane business recorded increases in orders, whereas sales decreased due to a delay in recovery in the North American market with the impact of a cold wave at the beginning of the term.

As a result, in the overall segment, orders were ¥206.5 billion, a 7% increase compared with the previous fiscal year; sales were ¥202.0 billion, up 5% year over year; and operating income increased 25% to ¥11.9 billion.

(4) Industrial Machinery

In the material handling systems business, orders increased due to sound performance thanks to a recovery in the investment appetite of the domestic shipbuilding business.

The turbines and pumps business recorded an increase both in orders and sales because of favorable sales of our turbines for overseas power generation.

As a result, in the overall segment, orders were ¥89.6 billion, a 6% increase compared with the previous fiscal year; sales were ¥75.8 billion, down 4% year over year; and operating income increased 46% to ¥5.8 billion.

(5) Ships

Although the overall shipbuilding market was sluggish, due to a recovery in markets for medium-sized tankers and yen depreciation, we received orders for nine new ships, four more than in the previous fiscal year, and sales increased, with the delivery of three ships, two more than in the previous fiscal year.

As a result, in the overall segment, orders were ¥61.9 billion, a 95% increase compared with the previous fiscal year; sales were ¥26.1 billion, up 76% year over year; and operating loss was ¥1.2 billion.

(6) Environmental Protection Facilities, Plants

In the energy-related plant business, both orders and sales increased, reflecting continued steady orders for biomass power generation boiler systems in Japan.

In the water treatment plant business, both orders and sales declined from the previous fiscal year due to a small number of new orders for maintenance and management services.

As a result, in the overall segment, orders were ¥113.4 billion, a 9% increase compared with the previous fiscal year; sales were ¥105.5 billion, up 22% year over year; and operating income was ¥7.5 billion, a 24% increase compared with the previous fiscal year.

(7) Other

In other businesses, both orders and sales decreased from those for the previous fiscal year. Orders decreased 11% to ¥10.1 billion, sales fell 9% to ¥8.6 billion and operating income decreased 9% to ¥1.9 billion.

Orders, Sales and Backlog of Orders by Segment of the Company Group

| Segment | Order Bookings | | Sales | | Year-end Backlog of Orders as of March 31 | |
|---|----------------|--------|--------|--------|---|-------|
| | FY2013 | FY2014 | FY2013 | FY2014 | 2014 | 2015 |
| Machinery Components | 98.5 | 104.7 | 100.0 | 102.6 | 30.1 | 32.2 |
| Precision Equipment | 134.5 | 154.6 | 133.5 | 146.4 | 42.6 | 50.8 |
| Construction Machinery | 193.3 | 206.5 | 192.5 | 202.0 | 27.6 | 32.1 |
| Industrial Machinery | 84.5 | 89.6 | 78.8 | 75.8 | 80.2 | 94.0 |
| Ships | 31.7 | 61.9 | 14.8 | 26.1 | 28.5 | 64.4 |
| Environmental Protection Facilities, Plants | 104.2 | 113.4 | 86.2 | 105.5 | 107.5 | 115.4 |
| Other | 11.4 | 10.1 | 9.5 | 8.6 | 3.8 | 5.3 |
| Total | 658.2 | 740.8 | 615.3 | 667.1 | 320.4 | 394.1 |

Note: Business terminated by customers and similar items are adjusted under the year-end backlog of orders as of March 31, 2014.

2. CAPITAL INVESTMENT

Our capital investment in the fiscal year under review focused on growth and investments in our highly profitable businesses to reinforce the competitiveness of such businesses according to the Medium-Term Management Plan 2016. Total capital investment was ¥20.7 billion, up 2% from the previous fiscal year.

In the Machinery Components and Construction Machinery segments, we invested to increase production capacity and enhance cost competitiveness by updating manufacturing facilities and equipment.

The Company Group as a whole implemented IT investments required for operational innovation and investments for improving the work environment while fully taking advantage of renovating existing facilities.

3. FINANCING

During the fiscal year under review, the Company issued the third unsecured straight bonds of ¥10 billion and appropriated an amount mainly for the redemption of corporate bonds. The Company Group's interest-bearing liabilities at the end of the fiscal year under review were ¥83.6 billion, down ¥23.8 billion from the previous fiscal year.

4. BUSINESS RESTRUCTURING

The Company conducted an absorption-type company split with July 1, 2014, as the effective date, by which the Company split off the power plant service business, ash treatment system business and dry desulfurization-denitrification system businesses to be succeeded by Sumiju Plant Engineering Co., Ltd., a subsidiary of the Company.

5. CHALLENGES FACING THE COMPANY GROUP

With regard to the economic environment surrounding our businesses, the Japanese economy as a whole has been on a recovery track thanks to the effects of the Japanese government's economic measures, an increase in exports resulting from yen depreciation, and an increase in capital investment due to the recovery in production. However, it will take a while to see a full recovery in consumer spending and capital investments. Overseas economies have remained uncertain. Although the U.S. economy is showing a continual recovery trend, economies in emerging countries such as China, which had led the world economy, slowed, and recovery of the European economy was delayed due to debt problems.

(1) Medium-Term Management Plan 2016

Under the Medium-Term Management Plan 2016, which was launched in fiscal 2014, the financial targets to be achieved by the end of fiscal 2016 are sales of ¥700 billion and an operating profit margin of 7.5%. Concerning ROIC, the Company Group's key performance indicator, we aim to secure an ROIC of 7% or more.

To achieve these financial targets, aiming to become "an enterprise that continues to provide first-rate products," the Company Group will solidify our foundation and attain steady growth in order to return to high profitability. With regard to our priority field, from among the broad business fields of the Company Group, we define energy-related fields, where higher growth in demand is predicted, as a growth area and vigorously carry out business activities in these fields.

In implementing the Plan, we will continue to maintain financial discipline and the Company Group has set a target dividend payout ratio of 30% during the three-year implementation period of the medium-term management plan.

(2) Priority Issues for Fiscal 2015

In fiscal 2015, the second year of the Medium-Term Management Plan 2016, we are seeing a bright sign in business growth thanks to the previous fiscal year's favorable order receipts. Although there is no room for optimism in the economic trend, the Company Group intends to undertake the following measures to achieve the objectives of the Plan.

1) Steady growth to establish the basis for sustainable growth

As a measure for business expansion, we will organically link past investments in overseas networks mainly in the mass-produced machinery business to other bases and functions in Japan and overseas to increase business opportunities. With the timely implementation of priority investments, we will strive to strengthen collaborations quickly. Although the measures to be taken may vary depending on the external and operational environments surrounding each business location, we will take specific measures from each perspective to optimize the whole Company Group.

To expand the heavy machinery business, we will not only refine the Company's proprietary technologies nurtured within each product category but also strengthen product capability drawing on our technologies related to materials and control systems, which are common across our product categories. We will continue to improve joining, processing and other production technologies, which are the foundations of our manufacturing; innovate production practices; and promote activities toward innovation that aim to reinforce engineering.

Also, as a measure for cooperation among business segments, positioning the reinforcement of the after-market business as a common issue of the Company Group, we will reinforce the foundations of our services including the business network, high-caliber human resources and computerization, etc., and promote the innovation of sales processes to expand businesses.

2) Return to high levels of profitability

We will continue portfolio management, clarify the target levels of profits and the priority issues based on the growth stage and external environment of each business, and promote reallocation of management resources and innovation of the business structure. In the Company Group's leading business segments, including the machinery component and precision equipment businesses, we will set a high target to achieve high profitability. At the same time, we will set minimum goals in all business segments, product categories and regions and aim to realize a return to high profits.

3) Persistent efforts for operational quality improvements

(a) Improvement in product quality

We will continue to operate businesses giving first priority to quality. Specifically, the Head Office cooperates with each business segment and together we strive to improve product quality with concerted efforts.

(b) Rigorous Compliance

Regarding compliance as one of its highest priorities, the Company Group conducts compliance training to domestic and overseas Group companies. The Group intends to continue to disseminate compliance awareness throughout the Group by educating executives and employees of the Company and our Group companies.

(c) Activities for safety

The Company Group has formulated the Group's Basic Health and Safety Improvement Plan, and fiscal 2015 will be the second year of the second phase of implementing the plan. To achieve the plan's targets, we will strengthen our safety and sanitation management capacity and strive to eradicate occupational

accidents.

The Company Group intends to implement and promote the above measures steadily based on the corporate mission to contribute to the development of society by providing first-class products and services. Our shareholders' continued understanding and support would be greatly appreciated.

6. CHANGES IN STATE OF ASSETS AND PROFIT/LOSS OF THE COMPANY GROUP AND THE COMPANY

(1) Changes in State of Assets and Profit/Loss of the Company Group

(Billions of yen, unless otherwise indicated)

| Items | FY2011 | FY2012 | FY2013 | FY2014 (this fiscal year) |
|--|--------|--------|--------|------------------------------|
| Orders | 571.3 | 550.7 | 658.2 | 740.8 |
| Sales | 624.1 | 585.9 | 615.3 | 667.1 |
| Operating income | 47.1 | 31.3 | 34.3 | 46.0 |
| Ordinary income | 44.6 | 31.0 | 33.0 | 45.1 |
| Net income | 19.5 | 5.9 | 17.9 | 24.3 |
| Net income per share of common stock (yen) | 31.75 | 9.56 | 29.17 | 39.71 |
| Total assets | 691.8 | 647.7 | 724.2 | 786.0 |
| Shareholders' equity | 282.1 | 292.8 | 331.1 | 365.1 |
| Shareholders' equity per share of common stock (yen) | 454.43 | 470.69 | 532.28 | 587.37 |

(2) Changes in State of Assets and Profit/Loss of the Company

(Billions of yen, unless otherwise indicated)

| Items | FY2011 | FY2012 | FY2013 | FY2014 (this fiscal year) |
|--|--------|--------|--------|------------------------------|
| Orders | 156.2 | 156.9 | 194.2 | 237.4 |
| Sales | 208.5 | 177.4 | 160.3 | 192.2 |
| Operating income (or loss) | -2.9 | 0.0 | 1.9 | 8.2 |
| Ordinary income | 5.4 | 14.3 | 10.8 | 17.9 |
| Net income (or loss) | -0.2 | -0.1 | 11.3 | 10.9 |
| Net income (or loss) per share of common stock (yen) | -0.35 | -0.22 | 18.45 | 17.79 |
| Total assets | 470.4 | 412.4 | 439.5 | 462.3 |
| Shareholders' equity | 141.4 | 134.7 | 142.5 | 147.7 |
| Shareholders' equity per share of common stock (yen) | 230.37 | 219.54 | 232.38 | 240.95 |

7. MAJOR LINES OF BUSINESS (as of March 31, 2015)

| Operating Group | Major Products |
|---|---|
| Machinery Components | Power Transmission Equipment, Motors |
| Precision Equipment | Plastic Injection Molding Machines, Extrusion Laminators, Semiconductor Manufacturing Equipment, Laser Processing Systems, Cryogenic Equipment, Precision-Positioning Stages, Precision Forgings, Control Systems, Defense Equipment, Machining Tools |
| Construction Machinery | Hydraulic Excavators, Construction Cranes, Road Construction Machinery |
| Industrial Machinery | Cyclotrons, Medical Equipment, Liquid Crystal Display Manufacturing Equipment, Forging Machines, Material Handling Systems, Logistics & Handling Systems, Automated Parking Systems, Turbines, Pumps |
| Ships | Ships |
| Environmental Protection Facilities, Plants | Power Generation Systems, Boiler Systems, Industrial Waste Treatment Plants, Air Pollution Prevention Equipment, Water Treatment Systems, Chemical Process Equipment & Plants, Pressure Vessels, Stirring Tanks, Air Conditioner, Food Production Equipment |
| Other | Real Estate, Software |

8. MAJOR SUBSIDIARIES (as of March 31, 2015)

| Name | Stated Capital (Millions of yen) | Company's Shareholding Ratio (%) | Major Line of Business |
|---|--|--|--|
| Sumitomo (S.H.I.) Construction Machinery Co., Ltd. | 16,000 | 100 | Manufacturing and distribution of hydraulic excavators, road construction machinery, etc. |
| Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd. | 4,000 | 100 | Domestic distribution of hydraulic excavators, road construction machinery, etc. |
| Nihon Spindle Manufacturing Co., Ltd. | 3,276 | 100 | Manufacturing and distribution of environmental, air conditioner and industrial equipment, etc. |
| Shin Nippon Machinery Co., Ltd. | 2,408 | 100 | Manufacturing and distribution of turbines, pumps, etc. |
| Sumitomo Heavy Industries Marine & Engineering Co., Ltd. | 2,000 | 100 | Manufacturing and distribution of ships, etc. |
| SEISA Gear, Ltd. | 841 | 100 | Manufacturing and distribution of gears and power transmission equipment |
| Sumitomo Heavy Industries Material Handling Systems Co., Ltd. | 480 | 100 | Manufacturing and distribution of general industrial machines |
| Sumitomo Heavy Industries Environment Co., Ltd. | 480 | 100 | Manufacturing and distribution of industrial waste water treatment systems, water and sewerage treatment systems, etc. |
| SEN Corporation | 480 | 100 | Manufacturing and distribution of ion implanters |
| Sumitomo Heavy Industries Process Equipment Co., Ltd. | 480 | 100 | Manufacturing and distribution of stirring tanks, pressure vessels, coke oven machinery, etc. |
| Sumitomo Heavy Industries PTC Sales Co., Ltd. | 400 | 100 | Distribution of power transmission equipment, etc., and provision of related services |
| Sumiju Environmental Engineering, Inc. | 400 | 100 | Maintenance, operation and administration, etc., of environmental and hygiene facilities and pollution prevention facilities |
| LBX Company, LLC (U.S.A.) | 41,000 (Thousands of U.S. Dollars) | 100 | Distribution of hydraulic excavators and provision of related services |
| Sumitomo Machinery Corporation of America (U.S.A.) | 12,423 (Thousands of U.S. Dollars) | 100 | Manufacturing and distribution of power transmission equipment, etc. |
| LBCE Holdings Inc. (U.S.A.) | 10,618 (Thousands of U.S. Dollars) | 100 | Control of overall business of construction cranes, etc. |
| Hansen Industrial Transmissions NV (Belgium) | 7,000 (Thousands of Euros) | 100 | Manufacturing and distribution of power transmission equipment |

| Name | Stated Capital (Millions of yen) | Company's Shareholding Ratio (%) | Major Line of Business |
|--|-------------------------------------|--|---|
| Sumitomo (SHI) Demag Plastics Machinery GmbH (Germany) | 20,025 (Thousands of Euros) | 100 | Manufacturing and distribution of plastic injection molding machines |
| Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd. (China) | 798,938 (Thousands of Yuan) | 100 | Manufacturing and distribution of hydraulic excavators |
| Sumitomo (SHI) Cyclo Drive China, Ltd. (China) | 87,000 (Thousands of Yuan) | 100 | Manufacturing and distribution of power transmission equipment |

- Notes: 1. The Company's Shareholding Ratio includes the indirect holdings.
2. SEN Corporation changed its company name to Sumitomo Heavy Industries Ion Technology Co., Ltd., as of April 1, 2015.

9. MAJOR LENDERS (as of March 31, 2015)

| Name | Loans Outstanding (Millions of yen) |
|--|--|
| Sumitomo Mitsui Banking Corporation | 33,707 |
| Sumitomo Mitsui Trust Bank, Limited | 9,715 |
| Mizuho Bank, Ltd. | 9,037 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 5,916 |

10. EMPLOYEES (as of March 31, 2015)

| Segment | Number of Employees | Increase or Decrease from End of Last Fiscal Year |
|--|---------------------|--|
| Machinery Components | 5,353 | 36 |
| Precision Equipment | 4,042 | 27 |
| Construction Machinery | 3,036 | 89 |
| Industrial Machinery | 1,846 | 9 |
| Ships | 476 | -8 |
| Environmental Protection Facilities, Plants | 2,272 | -18 |
| Corporate Operations & Others | 1,036 | -10 |
| Total | 18,061 | 125 |

11. MAJOR PLACES OF BUSINESS AND PLANTS (as of March 31, 2015)

| | | |
|--------------|------------------|---|
| Company | Principal office | 1-1, Osaki 2-chome, Shinagawa-ku, Tokyo, Japan |
| | Business offices | Chubu Office (Nagoya-shi), Kansai Office (Osaka-shi), Kyushu Office (Fukuoka-shi) |
| | Plants | Tanashi Works (Nishitokyo-shi, Tokyo), Chiba Works (Chiba-shi), Yokosuka Works (Yokosuka-shi, Kanagawa Pref.), Nagoya Works (Obu-shi, Aichi Pref.), Okayama Works (Kurashiki-shi, Okayama Pref.), Niihama Plant of Ehime Works (Niihama-shi, Ehime Pref.), Saijo Plant of Ehime Works (Saijo-shi, Ehime Pref.) |
| | Laboratories | Technology Research Center (Yokosuka-shi, Kanagawa Pref.) |
| Subsidiaries | Plants | Sumitomo (S.H.I.) Construction Machinery Co., Ltd., Chiba Works (Chiba-shi) Sumitomo Heavy Industries Marine & Engineering Co., Ltd., Yokosuka Shipyard (Yokosuka-shi, Kanagawa Pref.) SEISA Gear, Ltd., Head Office and Head Plant (Kaizuka-shi, Osaka Pref.) Nihon Spindle Manufacturing Co., Ltd., Head Office and Head Plant (Amagasaki-shi, Hyogo Pref.) Shin Nippon Machinery Co., Ltd., Kure Works (Kure-shi, Hiroshima Pref.) Sumitomo Heavy Industries Material Handling Systems Co., Ltd., Niihama Plant (Niihama-shi, Ehime Pref.) SEN Corporation, Ehime Plant (Saijo-shi, Ehime Pref.) Sumitomo Heavy Industries Process Equipment Co., Ltd., Head Office and Head Plant (Saijo-shi, Ehime Pref.) Sumitomo Machinery Corporation of America (U.S.A.) Link-Belt Construction Equipment Company, L.P., LLLP (U.S.A.) Hansen Industrial Transmissions NV (Belgium) Sumitomo (SHI) Demag Plastics Machinery GmbH (Germany) Sumitomo (SHI) Cyclo Drive Germany GmbH (Germany) Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd. (China) Sumitomo (SHI) Cyclo Drive China, Ltd. (China) Ningbo Sumiju Machinery Ltd. (China) Sumitomo Heavy Industries (Vietnam) Co., Ltd. (Vietnam) |

Note: SEN Corporation changed its company name to Sumitomo Heavy Industries Ion Technology Co., Ltd., as of April 1, 2015.

12. OTHER IMPORTANT MATTERS REGARDING THE CURRENT STATUS OF THE COMPANY GROUP

1) Regarding the construction work of an incinerated ash melting facility ordered by the city of Kyoto, the Company received a notice of cancelation of the contract from the city on August 5, 2013, for the reason that it would be impossible for the Company to deliver the facility by the delivery date. In addition, on March 20, 2014, the city filed a suit against the Company demanding compensation for damages, etc. The case is still in dispute.

We consider the cancellation of the contract by the city to be invalid and that the city's demand for compensation for damages, etc., is baseless. In response to this lawsuit, we are taking legal action to make it clear that our argument is reasonable.

2) As of May 8, 2015, Sumitomo Heavy Industries Material Handling Systems Co., Ltd. ("SHI-MH"), a subsidiary of the Company, entered into a contract to implement an absorption-type company split with Mitsubishi Heavy Industries Machinery Technology Corporation ("MHIMT"), a subsidiary of Mitsubishi Heavy Industries, Ltd. ("MHI"). Through this contract, SHI-MH will acquire the material handling systems business from MHIMT, effective on October 1, 2015, in exchange for 2,000 common shares of SHI-MH. Using these common shares of Sumitomo Heavy Industries Material Handling Systems as dividend property, MHIMT will pay dividends of surplus to MHI, whereby MHI will acquire 17.2% of the common stock outstanding of SHI-MH.

II. CURRENT CONDITIONS OF THE COMPANY

1. STOCK (as of March 31, 2015)

- (1) Total number of authorized shares: 1,800,000,000
(2) Total number of issued shares: 614,527,405
(3) Number of shareholders: 42,236
(4) Major shareholders:

| Name of Shareholders | Number of Shares in Thousands | Shareholding Ratio (%) |
|--|-------------------------------|------------------------|
| The Master Trust Bank of Japan, Ltd. (trust account) | 29,718 | 4.8 |
| Japan Trustee Services Bank, Ltd. (trust account) | 27,853 | 4.5 |
| Sumitomo Life Insurance Company | 21,666 | 3.5 |
| Japan Trustee Services Bank, Ltd. (trust account 9) | 16,032 | 2.6 |
| Sumitomo Mitsui Banking Corporation | 15,531 | 2.5 |
| Sumitomo Heavy Industries, Ltd. Kyoeikai | 12,606 | 2.1 |
| Morgan Stanley & Co. LLC | 10,351 | 1.7 |
| State Street Bank and Trust Company 505225 | 9,683 | 1.6 |
| State Street Bank and Trust Company 505001 | 9,353 | 1.5 |
| Japan Trustee Services Bank, Ltd. Sumitomo Mitsui Trust & Banking Retirement Benefit Account | 8,244 | 1.3 |

Note: Shareholding ratios are calculated based on the total number of shares excluding treasury shares (1,496,994 shares). The treasury shares include 1,000 shares registered in the name of the Company in the Register of Shareholders but not substantially owned by the Company.

2. DIRECTORS AND CORPORATE AUDITORS OF THE COMPANY

(1) Directors and Corporate Auditors (as of March 31, 2015)

| Name | Title | Position, Responsibilities, and Significant Positions Held at Other Companies |
|--------------------|---|---|
| Yoshinobu Nakamura | Representative Director Chairman of the Board | |
| Shunsuke Betsukawa | Representative Director President (CEO) | |
| Shinji Nishimura | Representative Director Senior Executive Vice President | General Manager of Corporate Planning Group |
| Yuji Takaishi | Representative Director Executive Vice President | General Manager of Export Administration Department |
| Akio Yoshikawa | Director Senior Vice President | China Head Representative, Chairman of the Board of Sumitomo Heavy Industries (China), Ltd.; Chairman of the Board of Sumitomo Heavy Industries (Shanghai) Management, Ltd.; Executive Managing Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.; Chairman of the Board of Sumiju SCE (Xiamen) Construction Machinery Co., Ltd. |
| Toshiharu Tanaka | Director Senior Vice President | General Manager of Power Transmission & Controls Group |
| Yoshiyuki Tomita | Director Senior Vice President | General Manager of Corporate Technology Operations Group |
| Kazuto Kaneshige * | Director Senior Vice President | General Manager of the Industrial Equipment Division |
| Mikio Ide | Director | Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.; Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd. |
| Susumu Takahashi * | Director | Chairman of The Japan Research Institute, Limited; Member of Council on Economic and Fiscal Policy, Cabinet Office |
| Yukio Kinoshita | Standing Corporate Auditor | |
| Kazumi Fujita * | Standing Corporate Auditor | |
| Hideo Kojima | Corporate Auditor | CPA, Hideo Kojima CPA Office; Outside Corporate Auditors of Alpine Electronics, Inc.; Outside Corporate Auditors of Mitsubishi UFJ Financial Group, Inc. |
| Takeo Wakae | Corporate Auditor | Lawyer, Kumagai & Wakae Law Firm |

Notes:

1. The persons marked with * are a new Director and a new Corporate Auditor who assumed office on June 27, 2014.
2. Director Susumu Takahashi is an Outside Director.
3. Corporate Auditors Hideo Kojima and Takeo Wakae are Outside Corporate Auditors.
4. Although the Company holds the shares of Mitsubishi UFJ Financial Group, Inc., at which

Corporate Auditor Hideo Kojima concurrently holds a significant position, the Company's shareholding ratio is approximately 0.002% of the outstanding shares of Mitsubishi UFJ Financial Group., Inc. There are no material relationships between other companies where Outside Directors or Outside Corporate Auditors concurrently hold significant positions and the Company.

5. The Company reported the appointments of Director Susumu Takahashi and Corporate Auditors Hideo Kojima and Takeo Wakae to the Tokyo Stock Exchange as Independent Directors/Corporate Auditors.
6. Corporate Auditor Hideo Kojima has adequate expertise with regard to finance and accounting as a CPA.
7. The Director and the Corporate Auditor who resigned during this term (resigned as of June 27, 2014):
 Director Kensuke Shimizu (expiration of term of office)
 Director Toshiaki Kakimoto (expiration of term of office)
 Corporate Auditor Shigeru Toyosumi (resignation)
8. As of April 1, 2015, the titles and positions or principal responsibilities held at other companies of the Directors, Corporate Auditors and Executive Officers are as below.

| Name | Title | Responsibilities and Significant Positions Held at Other Companies |
|--------------------|---|---|
| Yoshinobu Nakamura | Representative Director Chairman of the Board | |
| Shunsuke Betsukawa | Representative Director President (CEO) | |
| Shinji Nishimura | Representative Director Senior Executive Vice President | General Manager of Corporate Planning Group |
| Yuji Takaishi | Representative Director Executive Vice President | General Manager of Export Administration Department; General Manager of Regional General Manager of Kansai Office |
| Akio Yoshikawa | Director Senior Vice President | China Head Representative, Chairman of the Board of Sumitomo Heavy Industries (China), Ltd.; Chairman of the Board of Sumitomo Heavy Industries (Shanghai) Management, Ltd.; Executive Managing Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.; Chairman of the Board of Sumiju SCE (Xiamen) Construction Machinery Co., Ltd. |
| Toshiharu Tanaka | Director Executive Vice President | General Manager of Power Transmission & Controls Group |
| Yoshiyuki Tomita | Director Senior Vice President | General Manager of Corporate Technology Operations Group |
| Kazuto Kaneshige | Director Senior Vice President | General Manager of the Industrial Equipment Division |
| Mikio Ide | Director | Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd. |
| Susumu Takahashi | Director | Chairman of The Japan Research Institute, Limited; Member of Council on Economic and Fiscal Policy, Cabinet Office |
| Yukio Kinoshita | Standing Corporate Auditor | |
| Kazumi Fujita | Standing Corporate Auditor | |
| Hideo Kojima | Corporate Auditor | CPA, Hideo Kojima CPA Office; Outside Corporate Auditors of Alpine Electronics, |

| Name | Title | Responsibilities and Significant Positions Held at Other Companies |
|---------------------|--------------------------|--|
| | | Inc.; Outside Corporate Auditors of Mitsubishi UFJ Financial Group, Inc. |
| Takeo Wakae | Corporate Auditor | Lawyer, Kumagai & Wakae Law Firm |
| Katsuhiko Taniguchi | Executive Vice President | General Manager of Corporate Quality Group |
| Katsuhide Yokota | Executive Vice President | General Manager of Ehime Works, Representative Director and President of Sumitomo Heavy Industries Material Handling Systems Co., Ltd. |
| Chuck Martz | Executive Vice President | President, CEO & Chairman of LBCE Holdings, Inc. |
| Tetsuya Okamura | Senior Vice President | CEO of Sumitomo (SHI) Demag Plastics Machinery GmbH |
| Nobutaka Miyawaki | Senior Vice President | General Manager of Ship & Marine Division; Representative Director and President of Sumitomo Heavy Industries Marine & Engineering Co., Ltd. |
| Hideo Suzuki | Senior Vice President | General Manager of Corporate Finance, Accounting & Administration Group |
| Shinji Shimomura | Senior Vice President | Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd. |
| Masami Deguchi | Senior Vice President | Representative Director and President, Shin Nippon Machinery Co., Ltd |
| Hiroo Morita | Senior Vice President | General Manager of Human Resources Group |
| Yukio Kumata | Vice President | Deputy General Manager of Corporate Technology Operations Group |
| Isao Kono | Vice President | General Manager of Gear Motor, Power Transmission & Controls Group |
| Kazuo Hiraoka | Vice President | General Manager of Plastics Machinery Division |

(2) Total Amount of Compensation, etc., Paid to Directors and Corporate Auditors

12 Directors ¥349 million
5 Corporate Auditors ¥80 million

Notes: The maximum compensation per month is ¥40 million in total for all Directors as a group (under the resolution of the 110th Ordinary General Meeting of Shareholders held on June 29, 2006), and ¥7.5 million in total for Corporate Auditors (under the resolution of the 109th Ordinary General Meeting of Shareholders held on June 29, 2005).

(3) Outside Officers

(i) Total amount of compensation etc., paid to Outside Officers

¥19 million for 4 Outside Officers

(ii) Primary activities by Outside Officers

| Name | Primary Activities |
|------------------|--|
| Susumu Takahashi | Attended 10 of 11 meetings of the Board of Directors held since he took office as a Director on June 27, 2014, and expressed opinions based on his specialized knowledge about the economy and management, and his broad experience. |
| Hideo Kojima | Attended all 15 meetings of the Board of Directors and 15 of 16 meetings of the Board of Corporate Auditors held during this fiscal year and expressed opinions particularly from a perspective as an expert on finance and accounting as a CPA. |
| Takeo Wakae | Attended all 15 meetings of the Board of Directors and all 16 meetings of the Board of Corporate Auditors held during this fiscal year, and expressed opinions particularly from the perspective of an expert on legal issues as a lawyer. |

(iii) Outline of agreement for limited liability

The Company has entered into a contract with Outside Director Susumu Takahashi and Outside Corporate Auditors Hideo Kojima and Takeo Wakae respectively, to limit their liability to the Company for damages under Article 423, Paragraph 1, of the Companies Act to ¥10 million or the minimum liability amount as provided in Article 425, Paragraph 1, of the Companies Act, whichever is higher.

3. INDEPENDENT CORPORATE AUDITORS

(1) Name: KPMG AZSA LLC.

(2) Amount of Compensation, etc.

(i) Amount of compensation, etc., to be paid to the Independent Corporate Auditors related to this fiscal year

151 million yen

(ii) Total amount of compensation, etc., and other financial benefits to be provided to the Independent Corporate Auditors by the Company and its subsidiaries

239 million yen

Notes: 1. The compensation for auditing under the Companies Act and auditing under the Financial Instruments and Exchange Act is not clearly differentiated in the Audit Agreement between the Company and the Independent Corporate Auditors and cannot be differentiated as a practical matter. Accordingly, the above-indicated amount of compensation, etc., to be paid to the Independent Corporate Auditors related to this fiscal year includes the total of such compensation amounts.

2. Among the important subsidiaries of the Company, LBX Company, LLC, Sumitomo Machinery Corporation of America, LBCE Holdings, Inc., Hansen Industrial Transmissions NV, Sumitomo (SHI) Demag Plastics Machinery GmbH, Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd., and Sumitomo (SHI) Cyclo Drive China, Ltd. were audited by auditing firms other than the Independent Corporate Auditors engaged by the Company.

(3) Details of Non-Audit Duties

The Company outsources to Independent Corporate Auditors the preparation of comfort letters, which is outside the scope of work (non-audit duties) stipulated under Article 2, Paragraph 1, of the Certified Public Accountants Act.

(4) Policy for Determination to Dismiss or Not to Reappoint Independent Corporate Auditors

The Board of Corporate Auditors shall dismiss the Independent Corporate Auditors upon the consent of all Corporate Auditors in the event it is determined that any item under paragraph 1 of Article 340 of the Companies Act applies to the Independent corporate Auditors. In this case, a Corporate Auditor appointed by the Board of Corporate Auditors shall report the dismissal and the reason thereof at the Shareholders' Meeting first called after such dismissal. In addition, if it is determined that it is difficult for the Independent Corporate Auditors to perform their duties appropriately, the Board of Corporate Auditors shall propose the dismissal or non-reappointment of the Independent Corporate Auditors at a Shareholders' Meeting.

4. OPERATIONAL STRUCTURE TO ENSURE THE APPROPRIATE CONDUCT OF OPERATIONS

The Company has developed the following basic policies to ensure appropriate conduct of its operations:

Structure and basic policies of the internal control system

I. Purpose

The purpose of these basic policies is to improve corporate value and ensure the sustainable development of the Company Group by formulating basic policies on the establishment of an internal control system by resolution of the Board of Directors of the Company and by operating the system.

II. Basic Policies

- (1) Establishment of a structure to ensure the appropriate conduct of business by the Company
 - 1) Structure to ensure the execution of duties by the Directors of the Company in compliance with laws and regulations and the Articles of Incorporation
 - (a) The Board of Directors of the Company shall determine the basic policies to establish an internal control system, verify its effectiveness as necessary and strive toward the continuous enhancement and improvement of the Company's internal control system including the internal control system of the Group.
 - (b) The Company shall elect Outside Director(s), who are independent of management, to improve the supervisory function of the Board of Directors.
 - (c) The Corporate Auditors of the Company shall supervise the appropriateness of the execution of duties by the Directors concerning the establishment and operation of the Company's internal control system including the internal control of the Group.
 - 2) Structure for maintenance and administration of information relating to the execution of duties by the Directors of the Company
 - (a) The information related to the execution of duties by the Directors of the Company shall be recorded and maintained under the related rules of the Company, and such records shall be made available to the Directors and the Corporate Auditors of the Company for inspection at any time.
 - (b) The Company shall make efforts to disclose material information related to the execution of duties by Directors of the Company pursuant to related laws and regulations in an appropriate and timely manner.
 - 3) Rules on loss-risk management of the Company and other relevant corporate structures
 - (a) The Company shall establish an internal control promotion structure that consists of the persons responsible for the promotion of internal control deployed in each section. The Company's Internal Control Group shall operate the internal control system and promote risk management.
 - (b) The section(s) responsible for the specific types of risks shall stipulate the rules relevant to risk management, and shall provide education, training, audits, etc., based on such rules in order to mitigate the risks.
 - (c) The Company shall deploy persons responsible for being a liaison for emergencies in each section. At the occurrence of an emergency situation, the persons responsible for being a liaison for emergencies shall report such emergency situation promptly to the top management in accordance with the related rules. The management who receive such a report shall take appropriate actions in a timely manner.

- 4) Structure to ensure the reliability of the financial reporting of the Company
 - (a) The Company shall develop a necessary structure to ensure the appropriateness of financial information and to prepare and disclose reliable financial reports.
 - (b) The Company's internal audit department shall audit the operational status of the internal control system related to financial reporting to ensure the reliability of the Company's financial reporting.
- 5) Structure to ensure the efficient execution of duties by the Directors of the Company
 - (a) To conduct the efficient execution of duties, the Company shall adopt a system of Executive Officers wherein the Directors delegate authority to Executive Officers within an appropriate range under the Company's rules such as rules on approval authority.
 - (b) The Company shall adopt a structure to monitor the status of the execution of medium-term management plans and annual budgets, which are determined by the Board of Directors of the Company. Under this structure, the responsible Executive Officer(s) shall report the status of the execution of duties to the monthly meetings of the Executive & Operating Officers Committee, etc.
 - (c) In order to make decisions on material managerial matters based on a multi dimensional review, the Management Strategy Committee, etc., shall be established as advisory organs to the President to consider and discuss such matters.
- 6) Structure to ensure the execution of duties by the Company's Executive Officers and employees in compliance with laws and regulations and the Articles of Incorporation
 - (a) The basic policies on compliance shall be determined at the Ethics Committee chaired by the President of the Company, and the Internal Control Group shall promote rigorous observance of such policies through the internal control promotion structure.
 - (b) The Company shall continue to provide education related to compliance. The Company shall also make the Directors, the Executive Officers and all managerial staff submit a pledge to observe specific compliance requirements, as necessary.
 - (c) The Company shall take a resolute position against entities or individuals that threaten the order and safety of civil society and sever any relations with such entities or individuals.
 - (d) The Company shall set up an in-house whistleblower system through which actual or suspected violations of laws and regulations or corporate ethics should be reported, and the use of this system shall be encouraged so that problems can be detected at an early stage.
 - (e) The execution of duties by the Executive Officers and employees of the Company shall be audited by the responsible section(s) to ensure such execution of duties is in compliance with laws and regulations and the Articles of Incorporation.
- (2) Establishment of a structure to ensure the appropriate conduct of business by the entire Group comprising the Company and its subsidiaries
 - 1) Structure for reporting to the Company on matters regarding the execution of duties by directors, etc., of the Company's subsidiaries
 - (a) The Company shall pursue strengthened governance and the efficient execution of duties of its subsidiaries based on the rules concerning the management of the business of the Group.
 - (b) The Company shall have its major subsidiaries formulate basic policies for establishing an internal control system, and the status of operation of the system shall be reported to the Company's Board of Directors through the Company's Internal Control Group.
 - 2) Rules on loss-risk management of the Company's subsidiaries and other relevant corporate structures
 - (a) The Company's Internal Control Group shall promote group-wide risk management through the internal control promotion structure that has been established at major subsidiaries of the Company.

- (b) The Company shall have its subsidiaries stipulate the rules to manage the specific types of risks. The Company shall strive for group-wide risk reduction through education, training, auditing, etc., by the Company's responsible section for each risk.
 - (c) The Company shall deploy persons responsible for being a liaison for emergencies at its major subsidiaries. At the occurrence of an emergency situation, the persons responsible for being a liaison for emergencies shall report such emergency situation promptly to the director of the subsidiary and the top management of the Company in accordance with the related rules. The management who receive such a report shall take appropriate actions in a timely manner.
- 3) Structure to ensure the efficient execution of duties by the directors, etc., of the Company's subsidiaries
- (a) Pursuant to the rules concerning the management of the business of the Group, the Company's subsidiaries shall formulate rules on approval authority and execute their duties efficiently.
 - (b) The medium-term management plans and annual budgets of the Company's major subsidiaries shall be executed after the Company's Board of Directors approves them. The Company shall adopt a structure to monitor the status of the execution of the businesses of the entire Group. Under this structure, the subsidiaries' directors, etc., shall report the status of the execution of duties to the Executive & Operating Officers Committee, etc., of the Company.
 - (c) To make decisions on the material managerial matters of the Company's major subsidiaries based on a multidimensional review, such matters shall be discussed and deliberated at the Company's Management Strategy Committee, etc.
- 4) Structure to ensure the execution of duties by the directors, etc., and employees of the Company's subsidiaries in compliance with laws and regulations and the Articles of Incorporation
- (a) The Company's Internal Control Group shall promote rigorous compliance throughout the Group through the internal control promotion structure that has been installed at major subsidiaries of the Company.
 - (b) The Company shall have its subsidiaries continue to provide education related to compliance. The Company shall also make the directors and all managerial staff of the subsidiaries submit a pledge to observe specific compliance requirements, as necessary.
 - (c) Cooperating with its subsidiaries, the Company and its subsidiaries shall take a resolute position against entities or individuals that threaten the order and safety of civil society and sever any relations with such entities or individuals.
 - (d) The Company shall have its subsidiaries set up an in-house whistleblower system, of which the contact persons shall include the subsidiary's Corporate Auditor(s). Contact persons of the in-house whistleblower system of major subsidiaries of the Company shall include the Company's Internal Control Group.
 - (e) The Company shall send a Director or a Corporate Auditor to its major subsidiaries to reinforce the internal control of the Group. The execution of duties by directors of the subsidiaries of the Company shall be audited by the responsible section(s) of the Company to ensure such execution of duties is in compliance with laws and regulations and the Articles of Incorporation.
- 5) Structure to ensure the reliability of financial reporting of the subsidiaries of the Company
- (a) To ensure the appropriateness of financial information of the subsidiaries of the Company and prepare and disclose reliable financial reports, the Company shall require its major subsidiaries to establish the internal control system related to financial reporting.
 - (b) The Company's internal audit department shall audit the operational status of the internal control system related to financial reporting at major subsidiaries of the Company to ensure the reliability of the financial reporting by subsidiaries of the Company.

- (3) Necessary matters for the execution of auditing duties by the Corporate Auditors of the Company
- 1) Matters related to the staff who assist the Corporate Auditors when the Corporate Auditors request to place such assistant staff
As a department under the direct control of the Board of Corporate Auditors, the Corporate Auditor's Department, which includes dedicated staff who assist the Corporate Auditors of the Company with the execution of auditing duties, shall be established.
 - 2) Matters related to independence of the staff who assist the Corporate Auditors with the execution of auditing duties from the Directors
The personnel changes, performance appraisals to and disciplinary action against the staff of the Corporate Auditor's Department shall require approval of the Corporate Auditors of the Company.
 - 3) Matters for ensuring the effectiveness of instructions given to staff who assist the Corporate Auditors of the Company with the execution of auditing duties
Concerning the duties of staff who assist the Corporate Auditors of the Company with the execution of auditing duties, instructions and commands to the staff of the Corporate Auditor's Department shall be given by the Corporate Auditors of the Company.
 - 4) Structure for reporting to the Corporate Auditors of the Company
 - (a) Structure for Directors, Executive Officers and employees of the Company reporting to the Corporate Auditors of the Company
 - (i) To audit the execution of duties by the Directors and the Executive Officers, the Corporate Auditors of the Company shall attend the meetings of the Board of Directors, the Executive & Operating Officers Committee and other important meetings of the Company and may inspect major *ringisho* (documents for approval) and other important documents relating to the execution of duties.
 - (ii) If any actual and potential violation of laws and regulations, the Articles of Incorporation or compliance obligations exists, the Directors, the Executive Officers and employees of the Company shall report such to the Corporate Auditors of the Company promptly.
 - (iii) The contact persons for the Company's in-house whistleblower system shall include the Company's Corporate Auditors.
 - (b) Structure for directors or employees of subsidiaries of the Company or those who received a report from them reporting to the Corporate Auditors of the Company
 - (i) If any actual and potential violation of laws and regulations, the Articles of Incorporation or compliance exists, Directors, Corporate Auditors or employees of the subsidiaries of the Company shall promptly report such to the Corporate Auditors of the Company through the responsible section(s) of the Company.
 - (ii) From among the issues reported to the in-house whistleblower system of the major subsidiaries of the Company, important issues shall be reported, as necessary, by the Company's Internal Control Group to the Company's Corporate Auditors as to the content of the report and how the issue has been addressed.
 - (iii) Results of audits of the Company's subsidiaries conducted by the Company's internal audit department shall be reported to the Company's Corporate Auditors without delay.
 - (c) Structure to ensure that reporters in the preceding section will not receive detrimental treatment because of the reporting
The Company and its major subsidiaries shall stipulate in their internal rules that whistleblowers or persons who report to the Company's Corporate Auditors shall not receive detrimental treatment because of such reporting, and their employees shall be well informed of this stipulation.

- 5) Policies related to the treatment of expenses or liabilities incurred by the execution of duties by the Company's Corporate Auditors
Expenses, etc., incurred by the execution of duties by the Company's Corporate Auditors shall be included in the budget. In case legally prescribed prepayments, etc., are billed, the Company shall make such payments except in the case it is determined that such payments are unnecessary for the execution of duties by such Corporate Auditors.
- 6) Other structures to ensure effective auditing by the Company's Corporate Auditors
- (a) The Company's Directors and Executive Officers and the directors of the Company's subsidiaries shall establish a structure for effective auditing by the Company's Corporate Auditors through liaisons and cooperation with the Company's internal audit department and internal control department, as well as the Corporate Auditors of subsidiaries and the Independent Corporate Auditors, etc.
 - (b) To exchange information related to auditing and to enhance the auditing functions across the Company Group, the Company shall hold a group Corporate Auditor meeting on a regular basis, attended by Corporate Auditors of the Company and the Corporate Auditors of its subsidiaries.
 - (c) Corporate Auditors elected by the Company shall include those who have an appropriate level of knowledge of finance and accounting.

III. Revision and Abolition of these Policies

The necessary revision of these policies shall be undertaken by resolution of the Board of Directors.

Note: These policies were revised as of May 1, 2015, in line with revisions made to the Companies Act and the Ordinance for Enforcement of the Companies Act.

5. BASIC POLICY ON CONTROL OVER DECISIONS ON FINANCIAL AND BUSINESS POLICIES OF THE COMPANY

(1) Contents of the Basic Policy

The Company believes that the issue of by whom and how decisions on the financial and business policies of the Company should be controlled should be ultimately decided by the shareholders from the standpoint of improving the Company's corporate value and ensuring shareholders' common interests. Therefore, the Company believes that the issue of whether to accept a large-scale acquisition action resulting in a change of control of the Company, etc., should be ultimately determined by the intention of the shareholders.

However, the Company anticipates that certain large-scale acquisitions of shares may materially affect the corporate value or the shareholders' common interests, for instance, where they are expected to plainly infringe upon corporate value or the shareholders' common interests in light of the purpose of the acquisition and the managerial policy to be adopted after the acquisition, or fail to provide shareholders with reasonably necessary information to enable a judgment on the acquisition proposal. The Company believes that the Company should make an exception in the above instances wherein a party who makes such a large-scale acquisition of shares is inappropriate as an entity to hold control over decisions regarding the financial and business policies of the Company.

The Company's corporate value derives from offering first-class products; synergy generated by the value chain through the Company's business segments and global network; and the relationship of trust among shareholders, customers, business partners, employees and the society as a whole, maintained and enhanced by management in conformity with the Sumitomo Business Spirit. These sources of corporate value function in an organically integrated manner in order to generate further value.

The Company therefore has adopted the following basic policy: Our primary duty is to increase corporate value and maximize the shareholders' common interests through sharing generated profits with shareholders, and the Company accepts in principle the fact that the Company is supported by shareholders who have obtained shares of the Company through free trading in the market. However, when a party who intends to obtain 20% or more of all the voting rights of the Company through such an acquisition threatens to infringe upon the Company's corporate value or the shareholders' common interests, the Company will consider such a party who intends to acquire shares of the Company to be inappropriate to hold control over decisions regarding financial and business policies of the Company and shall take measures to ensure and increase the Company's corporate value or the shareholders' common interests to the extent necessary and reasonable.

(2) Special Measures to Pursue the Basic Policy

The Company Group will take the following measures in order to pursue the above-stated basic policy.

1) New medium-term management plan and implementation thereof

In the new medium-term management plan, "Medium-Term Management Plan 2016," the Company Group aims to achieve the financial targets of fiscal year 2016: sales of ¥700 billion and an operating margin of 7.5%. In addition, the Company Group will continue to set ROIC as a management indicator of the Company Group and to maintain ROIC > WACC (weighted average of cost of capital)* and continually ensure an ROIC of 7% or higher.

To achieve the above financial targets, the Company Group sets forth three objectives: (i) steady growth to establish the basis for sustainable growth; (ii) a shift to a high-profitability financial structure; and (iii) persistent efforts for operational quality improvements to be "an enterprise that continues to provide

first-rate products.” It is important for the Company Group to achieve steady corporate growth not only in scale but also by forging a solid footing that enables a shift to a highly profitable financial structure.

The targeted payout ratio is set at 30% over the three years covered by the Medium-Term Management Plan 2016.

2) Enhanced corporate governance

The Company has been promoting the enhancement of its corporate governance. Specifically, the Company has been striving to invigorate the Board of Directors and maintain the transparency of management, for instance, through the adoption of the system of executive officers in 1999, the election of Outside Directors since 2002, the adoption of a shortened term of Directors from two years to one year in 2007, etc.

In order to enhance auditing functions across the Company Group, the Corporate Auditors of the Company hold group Corporate Auditor meetings on a regular basis. In addition, the Corporate Auditors conduct on-site audits annually at overseas subsidiaries in response to the increasingly globalized business conditions within the Company Group.

The Company has also notified Tokyo Stock Exchange, Inc. of all outside officers as independent officers, having determined that they are unlikely to have conflicts of interest with general shareholders. These independent officers are required to conduct activities taking into account the protection of general shareholders’ interests, for example, by giving necessary opinions, when the Board of Directors, etc., make decisions with respect to the execution of duties, to give consideration to general shareholders’ interests.

3) Measures to share generated profits with shareholders

The Company is committed to making further efforts through implementation of the above-stated measures and strategies in order to improve corporate value by the further growth of the businesses and to share profits with shareholders by continuously increasing dividends, thus increasing the shareholders’ common interests.

(3) Plan to Prevent Any Inappropriate Party, According to the Company’s Basic Policy, from Controlling Decisions of the Financial and Business Policies of the Company

The Company’s proposal regarding the introduction of a plan for countermeasures against large-scale acquisition actions of the Company’s shares was approved at the 112th Ordinary General Meeting of Shareholders of the Company held on June 27, 2008. Thereafter, at the 115th Ordinary General Meeting of Shareholders of the Company held on June 29, 2011, and the 118th Ordinary General Meeting of Shareholders of the Company held on June 27, 2014, necessary changes thereto were made, and it was approved by a majority vote of the shareholders to continue the countermeasures against large-scale acquisition actions of the Company’s shares (hereinafter such continued plan is referred to as the “Plan”).

The Plan requires an acquirer to comply with the Large-Scale Acquisition Rules. The Large-Scale Acquisition Rules provide that a Large-Scale Acquirer shall furnish the Company with necessary and sufficient information prior to actually performing the acquisition; the Board of Directors shall assess and consider such an acquisition action; the Board of Directors or a meeting of the Shareholders as necessary shall resolve to take, not to take, or cease to take countermeasures while respecting as much as possible the proposal of the Corporate Value Committee; and the acquirer may actually perform such acquisition only where a resolution not to take or to cease to take countermeasures is made.

Our countermeasures may be implemented in order to ensure corporate value and the shareholders’ common

interests where (i) the acquirer does not comply with the Large-Scale Acquisition Rules or (ii) it is determined that the large-scale acquisition will bring substantial damage to the Company's corporate value and the shareholders' common interests in spite of its compliance with such rules. Our countermeasures to be implemented under the Plan shall include an allotment of stock acquisition rights without consideration under Article 277 and subsequent articles of the Companies Act or such measures as the Board of Directors deems to be most appropriate at that time after considering the opinions of the Corporate Value Committee, provided these countermeasures shall be implemented to whatever extent necessary and reasonable to ensure maximization of the Company Group's corporate value and the shareholders' common interests or otherwise to protect such value and interests.

(4) Opinion on Specific Measures and Actions and Grounds for Opinion of the Board of Directors

The Company believes that the medium-term management plan and implementation thereof is a specific measure to produce a continuous and sustainable increase in the Company's corporate value and the shareholders' common interests, and thus is in conformity with our basic policy.

Moreover, the Company believes that the Plan is in conformity with our basic policy because it has been adopted in order to ensure and increase the Company's corporate value and the shareholders' common interests in the following respects: an acquirer is required to furnish the Company with necessary and sufficient information prior to actually performing the acquisition and to provide time for consideration or negotiation by the Company, which enables shareholders to make an appropriate judgment whether to accept such an acquisition proposal and enable the Board of Directors to provide its opinion on whether or not to accept such an acquisition proposal, make any alternative proposals to shareholders, or negotiate with the acquirer on behalf of shareholders.

The Company would like to emphasize the following regarding the Plan: in the Plan, disclosure in advance by the acquirer is made more effective; shareholders' intention is respected effectively; hearing of opinions from outside experts is allowed; possible arbitrary decisions by the Board of Directors of the Company are eliminated by establishing the Corporate Value Committee; setting guidelines enhances objectivity and transparency with respect to the standards upon which judgments to take, not to take or to cease to take countermeasures are to rely; and no dead-hand or slow-hand type defensive measures are included. These and other points lead to our conclusion that the Plan meets the three principles stipulated in the "Guideline on Takeover Defense Measures to Ensure and Enhance Corporate Value and Shareholders' Common Interests" released by the Ministry of Economy, Trade and Industry and the Ministry of Justice on May 27, 2005: (a) the principle to ensure corporate value and the shareholders' common interests, (b) the principle to ensure prior disclosure and shareholders' intention, and (c) the principle to ensure the necessity and reasonableness of countermeasures. Also, the Plan's content is based on the "Takeover Defense Measures in Light of Recent Environmental Changes" released by the Corporate Value Study Group set up at the Ministry of Economy, Trade and Industry on June 30, 2008, as well as other practices and discussion regarding takeover defense measures. For all these reasons, the Plan is highly reasonable and does not aim to maintain the positions of the officers of the Company.

* WACC (Weighted Average Cost of Capital): The typical method of calculating the cost of capital where the cost of liability and the cost of equity capital are weighted-averaged.

Note: Figures indicated in this BUSINESS AND FINANCIAL REPORT are rounded off for fractions less than units.

CONSOLIDATED FINANCIAL STATEMENTS

(From April 1, 2014 to March 31, 2015)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENT OF INCOME

(For Reference Purposes)

CONSOLIDATED STATEMENT OF CASH FLOWS

(From April 1, 2014 to March 31, 2015)

FINANCIAL STATEMENTS

(From April 1, 2014 to March 31, 2015)

BALANCE SHEET

STATEMENT OF INCOME

CONSOLIDATED BALANCE SHEET
(As of March 31, 2015)

(Millions of yen)

| Assets | | Liabilities | |
|--------------------------------------|----------------|--|----------------|
| Current assets | 492,000 | Current liabilities | 312,771 |
| Cash and deposits | 57,423 | Trade payable | 140,436 |
| Trade receivables | 194,916 | Short-term bank loans | 42,110 |
| Marketable securities | 35,000 | Long-term debt due within one year | 15,201 |
| Inventories | 153,835 | Accrued Income taxes | 8,590 |
| Deferred tax assets | 17,176 | Advances payments received on contracts | 44,698 |
| Other current assets | 34,852 | Allowance for warranty | 7,985 |
| Allowance for doubtful receivables | -1,202 | Allowance for losses on construction contract | 1,518 |
| Fixed assets | 294,027 | Allowance for losses on business operations | 3,542 |
| Property, plant and equipment | 228,302 | Allowance for losses on business transfer | 742 |
| Buildings and structure | 50,553 | Allowance for compensation for damages | 565 |
| Machinery and delivery equipment | 54,417 | Other current liabilities | 47,385 |
| Land | 108,749 | Long-term liabilities | 108,155 |
| Construction in progress | 3,288 | Bonds payable | 10,000 |
| Other tangible fixed assets | 11,294 | Long-term debt | 16,333 |
| Intangible fixed assets | 9,333 | Allowance for losses on business transfer | 161 |
| Other intangible fixed assets | 9,333 | Allowance for losses from product liability | 42 |
| Investments, and other assets | 56,392 | Defined benefit liability | 46,162 |
| Investment securities | 29,509 | Deferred tax liabilities on land revaluation | 22,293 |
| Long-term loans | 8,340 | Other long-term liabilities | 13,163 |
| Deferred tax assets | 9,607 | Total liabilities | 420,926 |
| Other assets | 11,121 | Net assets | |
| Allowance for doubtful receivables | -2,184 | Stockholders' equity | 293,712 |
| | | Common stock | 30,872 |
| | | Capital surplus | 23,789 |
| | | Retained earnings | 239,815 |
| | | Treasury stock | -764 |
| | | Accumulated other comprehensive income | 66,367 |
| | | Unrealized gains (losses) on securities, net of income taxes | 5,437 |
| | | Unrealized gains (losses) on hedging derivatives, net of income taxes | -2,229 |
| | | Revaluation difference on land | 40,476 |
| | | Foreign currency translation adjustments | 26,641 |
| | | Re-measurement of defined benefit plans | -3,957 |
| | | Minority interests | 5,022 |
| Total assets | 786,027 | Total net assets | 365,101 |
| | | Total liabilities and net assets | 786,027 |

“English Translation of Financial Statements Originally Issued in the Japanese Language”

(Note) Amounts shown in this financial statement have been rounded to the nearest million yen.

CONSOLIDATED STATEMENT OF INCOME

(From April 1, 2014 to March 31, 2015)

(Millions of yen)

| | | |
|--|--------|----------------|
| Net sales | | 667,099 |
| Cost of sales | | 516,735 |
| Gross profit | | 150,364 |
| Selling, general and administrative expenses | | 104,366 |
| Operating income | | 45,998 |
| Other income | | |
| Interest and dividend income | 1,459 | |
| Equity in net income of unconsolidated subsidiaries and affiliated companies | 1,549 | |
| Gain on foreign currency exchange | 1,807 | |
| Other – net | 2,028 | 6,843 |
| Other expenses | | |
| Interest expense | 2,148 | |
| Other – net | 5,580 | 7,728 |
| Ordinary income | | 45,113 |
| Special losses | | |
| Impairment losses | 3,463 | |
| Business restructuring costs | 1,852 | |
| Compensation for damages | 1,071 | 6,386 |
| Income before income taxes and minority interests | | 38,727 |
| Income tax – current | 16,622 | |
| Income tax – deferred | -2,235 | 14,387 |
| Income before minority interests | | 24,339 |
| Minority interests in net loss | | 9 |
| Net income | | 24,348 |

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(Note) Amounts shown in this financial statement have been rounded to the nearest million yen.

(For Reference Purposes)

CONSOLIDATED STATEMENT OF CASH FLOWS

(From April 1, 2014 to March 31, 2015)

(Millions of yen)

| Item | Amount |
|--|---------|
| Cash flows from operating activities | 62,170 |
| Cash flows from investing activities | -14,112 |
| Cash flows from financing activities | -36,889 |
| Effect of exchange rate changes on cash and cash equivalents | 2,812 |
| Net increase in cash and cash equivalents | 13,980 |
| Cash and cash equivalents at beginning of year | 76,418 |
| Increase from the change in consolidation scope | 46 |
| Decrease from the change in consolidation scope | -120 |
| Cash and cash equivalents at the end of year | 90,324 |

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(Note) Amounts shown in this financial statement have been rounded to the nearest million yen.

BALANCE SHEET
(As of March 31, 2015)

(Millions of yen)

| Assets | | Liabilities | |
|--|----------------|--|----------------|
| Current assets | 181,328 | Current liabilities | 196,930 |
| Cash and deposits | 21,240 | Notes payable | 3,460 |
| Notes receivable | 959 | Accounts payable | 56,787 |
| Accounts receivable | 56,480 | Short-term bank loans | 5,000 |
| Marketable securities | 35,000 | Long-term payable debt due within one year | 9,300 |
| Finished goods | 10,161 | Lease obligations | 113 |
| Work in process | 14,985 | Accounts payable, other | 10,216 |
| Raw materials and supplies | 626 | Accrued expenses | 3,476 |
| Advances to suppliers | 10,063 | Accrued income taxes | 4,682 |
| Prepaid expenses | 737 | Advances payments received on contracts | 29,576 |
| Deferred tax assets | 6,666 | Deposits received | 65,991 |
| Accounts receivable, other | 14,396 | Allowance for warranty | 3,350 |
| Other current assets | 11,744 | Allowance for losses on construction contract | 907 |
| Allowance for doubtful receivables | -1,729 | Allowance for losses on business transfer | 742 |
| Fixed assets | 280,994 | Allowance for compensation for damages | 565 |
| Property, plant and equipment | 118,665 | Other current liabilities | 2,763 |
| Buildings | 17,788 | Long-term liabilities | 117,683 |
| Structures | 2,326 | Bonds payable | 10,000 |
| Machinery and equipment | 5,265 | Long-term payable debt | 12,500 |
| Ships | 0 | Lease obligations | 110 |
| Vehicles and delivery equipment | 32 | Allowance for losses on business transfer | 161 |
| Tools, furniture and fixtures | 1,609 | Allowance for retirement benefits | 16,354 |
| Land | 90,521 | Asset retirement obligations | 293 |
| Leased assets | 180 | Deferred tax liabilities on land revaluation | 22,293 |
| Construction in progress | 943 | Long-term deposits received | 55,637 |
| Intangible fixed assets | 2,975 | Other long-term liabilities | 335 |
| Software | 1,127 | Total liabilities | 314,613 |
| Other intangible fixed assets | 1,849 | Net assets | |
| Investments and other assets | 159,354 | Stockholders' equity | 104,703 |
| Investment securities | 14,629 | Common stock | 30,872 |
| Stock of subsidiaries and affiliates | 106,280 | Capital surplus | 27,073 |
| Investment in capital of subsidiaries and affiliates | 27,824 | Capital reserve | 27,073 |
| Long-term loans to employees | 1 | Retained earnings | 47,522 |
| Claims in bankruptcy and rehabilitation | 86 | Legal reserve of retained earnings | 6,295 |
| Long-term prepaid expenses | 114 | Other retained earnings | 41,227 |
| Deferred tax assets | 7,498 | Retained earnings brought forward | 41,227 |
| Other assets | 3,296 | Treasury stock | -764 |
| Allowance for doubtful receivables | -375 | Valuation and translation adjustments | 43,007 |
| | | Unrealized gains (losses) on securities, net of income taxes | 4,582 |
| | | Unrealized gains (losses) on hedging derivatives, net of income taxes | -2,051 |
| | | Revaluation difference on land | 40,476 |
| | | Total net assets | 147,710 |
| Total assets | 462,323 | Total liabilities and net assets | 462,323 |

“English Translation of Financial Statements Originally Issued in the Japanese Language”

(Note) Amounts shown in this financial statement have been rounded to the nearest million yen.

STATEMENT OF INCOME
(From April 1, 2014 to March 31, 2015)

(Millions of yen)

| | | |
|---|--------|----------------|
| Net sales | | 192,162 |
| Cost of sales | | 163,343 |
| Gross profit | | 28,819 |
| Selling, general and administrative expenses | | 20,630 |
| Operating income | | 8,189 |
| Other income | | |
| Interest and dividend income | 10,837 | |
| Gain on foreign currency exchange | 1,014 | |
| Other – net | 1,835 | 13,686 |
| Other expenses | | |
| Interest expenses paid on loans and bonds | 794 | |
| Other – net | 3,189 | 3,983 |
| Ordinary income | | 17,893 |
| Special losses | | |
| Impairment loss | 516 | |
| Revaluation loss on investments in affiliates | 5,778 | |
| Compensation for damages | 1,071 | 7,365 |
| Income before income taxes | | 10,528 |
| Income tax – current | 900 | |
| Income tax – deferred | -1,281 | -381 |
| Net income | | 10,909 |

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(Note) Amounts shown in this financial statement have been rounded to the nearest million yen.

OTHER SHAREHOLDER INFORMATION

The fiscal year of the Company is April 1 each year through March 31 of the following year.

The Ordinary General Meeting of Shareholders is held in the month of June every year.

Record dates:

March 31st for Ordinary Shareholders Meeting; March 31st for payment of year-end dividends; and September 30th for payment of interim dividends

Custodian of the Register of Shareholders and the Institution that Manages the Special Accounts:

Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan

Handling Place of Register of Shareholders:

Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department
1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan

Mailing Address: Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department
2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan

Telephone Inquiries: Toll free number: 0120-782-031

Website: <http://www.smtb.jp/personal/agency/index.html>

[Special Accounts]

For shareholders who did not use Japan Securities Depository Center, Inc. (JASDEC) before share certificates were made electronic, we have set up an account (“special account”) at Sumitomo Mitsui Trust Bank, Limited, our Custodian of the Register of Shareholders.

For any inquiry about the special account or to report a change of address, etc., please contact the phone number indicated above.

Method of Public Notices: To be posted on the Company’s Website (<http://www.shi.co.jp>).

However, where required by unavoidable circumstances, public notices will be made in the Nihon Keizai Shimbun.

SUMITOMO HEAVY INDUSTRIES, LTD.