

(Translation)

Reference Document Attached to the Notice of the 121st Ordinary General Meeting of Shareholders

**Sumitomo Heavy Industries, Ltd.**

**121st Business and Financial Report**

(April 1, 2016, through March 31, 2017)

## Business Principles

### Corporate Mission Statement

We will aim to become a machinery manufacturer that continues to provide excellent products and services to the world.

With integrity being a key principle in the Group, we will contribute towards society by gaining high respect and confidence from all stakeholders.

### Our Values

#### ■ Customer First:

We exceed customer expectations by providing sophisticated efficient products and services, giving the utmost consideration to their needs and requirements.

#### ■ Embrace Changes:

We will continue to drive and embrace changes without accepting the status quo.

#### ■ Commitment to Technology and Innovation:

We are passionate about contributing to society by further developing our unique, in-house technologies.

#### ■ Respect People:

We will nurture an organizational climate that fosters mutual respect, tolerance and learning for growth.

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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 published 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, 2016, through March 31, 2017)

### **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, it trended towards a gentle recovery as corporate income increased against a backdrop of higher export levels. In terms of personal consumption, there was a lack of positive signs. On the corporate side, however, capital investments into a labor-saving plant and equipment as well as updates to an aging plant and equipment continued against a backdrop of problems such as progressive dilapidation of facilities as well as a shortage of labor supply. In overseas markets, the recovery of the U.S. economy continued to progress due to several factors, including the rise in personal consumption levels. Europe also continued to show signs of a gentle economic recovery. As for China, investments in the public sector continued to prop up the economy for the time being. However, there was continued slowdown in the pace of investments in the private sector. Finally, the bottoming out of resource prices in other emerging markets resulted in improved economic conditions. In overall terms, the global economy remained in an unclear state in its future direction, mainly due to the risk of political uncertainty in the U.S. and Europe as well as the risk of a slowdown of the Chinese economy. Amid this environment, the Company Group focused on executing the following key strategies during the final implementation year of the Medium-Term Management Plan 2016.

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

1) “Globalization (expanding)”

In the plastics machinery business, the Group focused on strengthening ties with its Germany-based subsidiary, Sumitomo (SHI) Demag Plastics Machinery GmbH, to further push the sale and development of all-electric injection molding machines. During the current fiscal year under review, the Group established a European sales subsidiary and expanded its distribution network. In the power transmission and control business, the Company Group worked to improve management efficiency through management integrations of Group companies with Sumitomo (SHI) Cyclo Drive Germany GmbH being the center of focus. In addition, efforts were made to strengthen the sales capabilities of the Group’s products in the EMEA (Europe, the Middle East and Africa) region.

2) “Innovation (changing)”

In the power transmission and control business, the Company Group launched a new model of the PARAMAX gearbox that boasts over half a century of operational performance. The new PARAMAX Series 10 was made available for sale in China, Southeast Asia and Oceania. In the plastics machinery business, the SEEV-A-LGP was developed and brought to market. This new all-electric injection molding machine designed for light guide plates boasts the ability to mold the “world’s thinnest” wall.

Finally, in the construction machinery business, the Company Group launched a new hydraulic excavator that meets the 2014 emission standards for non-road special motor vehicles and also achieves high-speed operation as well as a high fuel efficiency level. The SH250-7, which is the representative model within the new product line-up, was awarded the 2016 Good Design Award and has received much praise from customers.

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

Through the use of system control technologies developed over the years by the Company Group, efforts to differentiate plastics machinery, cryogenic equipment and hydraulic excavators have

been accelerated. In the energy and environment field, cooperation between the boiler and turbine businesses was strengthened, and the new facility construction business and the after-sales service business of the water treatment plant division were merged, with the aim of increasing competitiveness through improved collaboration between Group companies.

(2) Return to high levels of profitability

The material handling machinery business continued to strengthen its core operating base after succeeding the material handling systems business of Mitsubishi Heavy Industries Machinery Technology Corporation, a subsidiary of Mitsubishi Heavy Industries, Ltd. The energy plant business was able to secure orders for one of Japan's largest biomass mix-fuel combustion power plants and the boiler unit for a biomass mono-fuel combustion power plant. As a result, the Company Group's high efficiency biomass-fueled power plants were praised for their high market share and performance.

(3) Persistent efforts for operational quality improvements

The Corporate Quality Group of the Head Office took the initiative in continuing to implement measures to strengthen the product quality management function of the Company Group. As a result, product quality is now well-rooted within the culture of the Company Group. With regard to measures to improve safety, the Company Group has strived to strengthen our capacity for safety and sanitation management and to eradicate occupational accidents based on the second phase of implementation of the Basic Health and Safety Improvement Plan.

(4) Rigorous Compliance

Pursuant to the basic principle of "Compliance Comes First," during the fiscal year under review, the Company Group carried out educational sessions regarding prevention of foreign anti-competitive activities and compliance training sessions involving discussion-based methods and e-learning. In addition, the Company Group carried out e-learning compliance training sessions across its Chinese bases to strengthen their compliance systems.

As a result of implementing the above managerial measures, during the fiscal year under review, total orders received by the Company Group were ¥711.1 billion, a 4% increase from the previous fiscal year, and sales on a consolidated basis were ¥674.3 billion, a 4% decrease from the previous fiscal year.

As for profits and losses, operating income was ¥48.4 billion, a 4% decrease from the previous fiscal year, ordinary income was ¥48.3 billion, a 2% decrease from the previous fiscal year, and net income attributable to shareholders of the parent company was ¥33.6 billion, a 1% increase from the previous fiscal year. In addition, the after-tax ROIC\* was 7.3%.

The non-consolidated financial results of the Company for the fiscal year under review were orders of ¥209.5 billion, sales of ¥189.3 billion, operating income of ¥3.6 billion, ordinary income of ¥13.3 billion, and net profit of ¥5.7 billion.

Taking into account the above business results and financial position, the Company proposes a dividend in the same amount as the previous fiscal year, ¥16 per share, including an interim dividend of ¥7 per share, which has already been distributed.

\* The ROIC (Return on Invested Capital) is the ratio of after-tax profitability 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

Although there was positive movement in the market for small- to medium-sized power transmission and control equipment in the domestic and overseas markets such as China and EMEA (Europe, the Middle East and Africa), market conditions for large-scale models in both domestic and overseas markets remained in decline. As a result, both orders and sales declined.

As a result, in the overall segment, orders were ¥97.4 billion, a 7% decrease from the previous fiscal year; sales were ¥98.6 billion, an 8% decrease from the previous fiscal year; and operating income was ¥9.1 billion, a 2% increase from the previous fiscal year.

### (2) Precision Equipment

With respect to the plastics machinery business, there was positive movement in the European market, while electrical and electronics related demand from China and other markets fell. As a result, both orders and sales decreased.

In other businesses, there was strong growth in cryogenic equipment and other products. As a result, both orders and sales increased.

As a result, in the overall segment, orders stayed at almost the same level as the previous fiscal year at ¥154.7 billion; sales were ¥145.7 billion, a 6% decrease from the previous fiscal year; and operating income was ¥14.6 billion, a 22% decrease from the previous fiscal year.

### (3) Construction Machinery

With respect to the hydraulic excavator business, the trend of falling demand from China looks to be bottoming out, while efforts were made to increase market share in Japan and North America against a backdrop of declining demand. Despite this, the hydraulic excavator business showed a drop both in orders and sales, mainly due to a stronger Japanese yen.

With respect to the construction crane business, both orders and sales decreased mainly due to the long-term slowdown of the North American market.

As a result, in the overall segment, orders were ¥190.3 billion, a 3% decrease from the previous fiscal year; sales were ¥182.5 billion, a 10% decrease from the previous fiscal year; and operating income was ¥1.4 billion, a 68% decrease from the previous fiscal year.

### (4) Industrial Machinery

In the material handling business, there was an increase in orders, mainly due to the succession of the material handling systems business of Mitsubishi Heavy Industries Machinery Technology Corporation, a subsidiary of Mitsubishi Heavy Industries, Ltd., by the Company Group. However, orders fell in the industrial equipment business and turbine business. As a result, there was a drop in orders across the whole segment as compared to the previous fiscal year. In terms of sales, steady progress was made to complete various projects in material handling and other businesses, which resulted in an increase as compared to the previous fiscal year.

As a result, in the overall segment, orders were ¥91.3 billion, a 1% decrease from the previous fiscal year; sales were ¥98.9 billion, a 12% increase from the previous fiscal year; and operating income was ¥10.8 billion, an 8% increase from the previous fiscal year.

### (5) Ships

Although there is a continuing slowdown in the market conditions in the ships segment, the Company Group received orders for three new vessels during the fiscal year under review, one vessel more than the

previous fiscal year. With regard to sales, three vessels were delivered during the fiscal year under review, which was the same number as the previous fiscal year.

As a result, in the overall segment, orders were ¥30.0 billion, a 33% increase from the previous fiscal year; sales were ¥32.6 billion, a 13% increase from the previous fiscal year; and operating income was ¥1.3 billion, a 37% increase from the previous fiscal year.

#### (6) Environmental Protection Facilities, Plants

In the energy plant business, the Company Group was able to secure orders for one of Japan's largest biomass power plant projects, as well as large-scale ash treatment plants. Therefore, orders increased, but sales fell due to a decline in the number of construction projects.

In the water treatment plant business, both orders and sales increased, mainly due to receiving an order for a long-term operation and maintenance project and steady progress in a large-scale refurbishment project.

As a result, in the overall segment, orders were ¥139.4 billion, a 31% increase from the previous fiscal year; sales were ¥107.6 billion, a 2% decrease from the previous fiscal year; and operating income was ¥9.1 billion, a 57% increase from the previous fiscal year.

#### (7) Other

In other businesses, orders were ¥8.0 billion, a 1% decrease from the previous fiscal year; sales were ¥8.3 billion, an 18% decrease from the previous fiscal year; and operating income was ¥2.0 billion, a 9% increase from the previous fiscal year.

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

(Billions of yen)

Segment	Order Bookings		Sales		Year-end Backlog of Orders as of March 31	
	FY2015	FY2016	FY2015	FY2016	2016	2017
Machinery Components	105.0	97.4	107.6	98.6	27.3	26.1
Precision Equipment	154.6	154.7	154.6	145.7	46.6	55.6
Construction Machinery	197.1	190.3	201.9	182.5	28.6	36.4
Industrial Machinery	92.6	91.3	87.9	98.9	102.7	95.1
Ships	22.5	30.0	29.0	32.6	58.6	56.0
Environmental Protection Facilities, Plants	106.1	139.4	109.7	107.6	109.7	141.4
Other	8.1	8.0	10.1	8.3	1.9	1.6
Total	685.9	711.1	700.8	674.3	375.4	412.1

## **2. CAPITAL INVESTMENT**

Our capital investments during the fiscal year under review were mainly focused on growth and reinforcing the competitiveness of our highly profitable businesses in accordance with the Medium-Term Management Plan 2016. Total capital investment was ¥27.5 billion, a 16% increase from the previous fiscal year.

In the Machinery Components, Precision Equipment, and Construction Machinery segments, we made investments to increase production capacity and update manufacturing facilities and equipment, with the aim of enhancing cost competitiveness.

The Company Group as a whole made investments to renovate existing facilities mainly located in Japan and IT investments required for operational innovation.

## **3. FINANCING**

During the fiscal year under review, the Company Group did not raise a significant amount of funds through capital increases or issuances of corporate bonds.

## **4. BUSINESS RESTRUCTURING**

- (i) As of March 31, 2017, the Company acquired further shares of Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., an equity-method affiliate of the Company. As a result, Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. became a consolidated subsidiary of the Company.
- (ii) As of March 31, 2017, the Company acquired shares of Persimmon Technologies Corporation, a manufacturer and distributor of vacuum robotics. As a result, Persimmon Technologies Corporation became a subsidiary of the Company.
- (iii) As of March 2, 2017, the Company entered into a stock purchase agreement with Foster Wheeler LLC, a group company of Amec Foster Wheeler plc, to make FW Energie B.V. a subsidiary of the Company and to acquire the circulating fluidized bed boiler business of Amec Foster Wheeler plc.
- (iv) As of November 29, 2016, the Company entered into an agreement for an absorption-type company split with Sumitomo Heavy Industries Gearbox Co., Ltd., a subsidiary of the Company, with an effective date of April 1, 2017, to split the gearbox business of the Company and transfer it to Sumitomo Heavy Industries Gearbox Co., Ltd.
- (v) As of August 30, 2016, Sumitomo Heavy Industries Environment Co., Ltd., a subsidiary of the Company, and Sumiju Environmental Engineering Inc., a subsidiary of Sumitomo Heavy Industries Environment Co., Ltd., entered into an agreement for an absorption-type merger, with an effective date of April 1, 2017, with Sumitomo Heavy Industries Environment Co., Ltd. being the surviving company and Sumiju Environmental Engineering Inc. being the disappearing company.

## **5. CHALLENGES FACING THE COMPANY GROUP**

With respect to the economic environment surrounding our business, in Japan, a gentle recovery is continuing due to the support of the government and other public agencies, as well as higher export levels. Although the employment situation is firm, the lack of growth in real wages has led to a standstill in personal consumption levels. On the corporate side, both manufacturing and shipments seem to be recovering. Overseas, the European economy is gently recovering, the U.S. economy seems to be moving forward on a positive path, and the economy of emerging markets such as the Chinese economy also seems to be recovering. However, there is continuing uncertainty, such as the risk of a slowdown

in the Chinese economy, as well as geopolitical risks in the Middle East and East Asia.

#### (1) Overview of Medium-Term Management Plan 2016

Under the Medium-Term Management Plan 2016, which was launched in fiscal 2014, the financial targets were achieved for the first two years, due to enhancement of the product competitiveness of the precision equipment segment and others, the effect of integration of the material handling systems business of Mitsubishi Heavy Industries Machinery Technology Corporation, as well as the weakened yen due to a new dimension of monetary easing, and the support from the domestic economy. However, the Company Group was not able to achieve the financial targets in the final year of implementation, mainly due to the slower growth in emerging markets such as China. Nevertheless, the Company Group has firmly taken key measures for sustainable growth under the basic concepts of “globalization,” “innovation,” and “synergies within the Company Group,” and by reconstruction of the global supply chain, enhancing competitiveness by strengthening cooperation within the Company Group, and launching new products into the market. Further, the Company Group took the opportunity to grow each business and has actively conducted corporate restructuring and M&A, such as making Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. a consolidated subsidiary of the Company and Persimmon Technologies Corporation, a manufacturer and distributor of vacuum robotics, a subsidiary by acquiring shares thereof.

In order to produce results from these key policies, the Company Group has created the Medium-Term Management Plan 2019.

#### (2) Medium-Term Management Plan 2019

In the Medium-Term Management Plan 2019, the financial targets are to achieve sales of ¥800.0 billion yen and an operating income ratio of 7.5%. In addition, the Company Group will continue to set ROIC as a performance indicator of the Company Group and to maintain  $ROIC > WACC^*$  and continually ensure an ROIC of 7.5% or higher.

In order to achieve the above financial targets, the Company Group has established the following basic policies: (i) achievement of steady growth, (ii) conversion into a high profit company, (iii) creation of first-class products and services through persistent efforts for operational quality improvements, (iv) active participation in M&A and formation of business alliances, and (v) active pursuit of CSR. Ultimately, the aim is to continue to be a company that globally provides first-class products and services and to contribute to society through the recognition and trust of the stakeholders.

With regard to our priority fields, from among the broad business fields of the Company Group, we define the energy-environment field and the material handling systems field as priority areas, and will vigorously carry out business activities in these fields.

In implementing the plan, we will continue to maintain financial discipline and actively make investments for growth using the enhanced financial structure. Specifically, “¥132.0 billion in capital investments and development investments are intended to be made under the plan in three years, which exceeds the investment plan under the Medium-Term Management Plan 2016 by ¥37.0 billion.

The Company Group has set a target dividend payout ratio of 30% during the three-year period of implementation of the medium-term management plan.

#### (3) Priority Issues for Fiscal 2017

During fiscal 2017, which is the commencement year of implementation of the Medium-Term Management Plan 2019, the Company Group will focus on the following measures to achieve the targets:

##### 1) Achievement of steady growth

As measures for business expansion, focused and timely investments will be made in accordance with

the roles of each business, with the aim of achieving steady growth of the Company Group as a whole.

In addition, we will strengthen product capability by not only refining our proprietary technologies nurtured within each product category but also our technologies related to materials and control systems, which are common across our product categories. Moreover, as for the Production Engineering Center established in the Corporate Technology Operations Group in April 2017, we will strategically preside over the production technologies of the Company Group and strengthen our manufacturing skills.

2) Conversion into a high profit company

We will continue portfolio management and, under the roles within the Company Group, will clarify the target levels of profits and the priority issues based on the growth stage and external environment of each business, and we will 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 growth and high profitability. At the same time, we will set goals to be achieved in all business segments, product categories, and regions, and through such achievements, we will aim to transform the Company Group into a highly profitable company with strong business units at its core.

3) Creation of first-class products and services through 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 will cooperate with each business segment, and together we will strive to improve product quality with concerted efforts. In addition, as a measure for contribution between business units, the Company positions the enhancement of the after-market business as a common issue of the Group and will proceed with an innovation of the sales process to share customer needs within the Group and use them actively. Moreover, we will proceed with ICT and IoT projects, centering the technology development unit and the information system unit, and will also tackle the establishment of necessary infrastructure.

(b) Rigorous Compliance

The Company Group considers rigorous compliance as one of its highest priorities and has continued to provide compliance training sessions to officers and employees of the Company and our Group companies to ensure further heightened compliance awareness throughout the Group. Further, we believe that the maintenance and the use of the internal whistleblowing system will contribute to the progression of compliance management, and we will therefore integrate the internal whistleblowing systems individually operated formally by the Group companies into a system common to the Company Group by using an external whistleblowing contact system.

(c) Activities for safety

The Company Group has formulated the Basic Health and Safety Improvement Plan, and the Company will work on the activities related to health and safety as the third phase of implementation of the plan, from fiscal 2017 to fiscal 2019. To achieve the plan's targets, we will strengthen our safety and sanitation management capacity, will strive to eradicate occupational accidents, and will promote health management.

4) Active participation in M&A and formation of business alliances

To realize the effect of synergies between businesses within the Company Group, we will seek corporate integrations and alliances between corporations as necessary. In addition, we will also actively take

opportunities for the growth of each business, conduct M&A and business alliances and collaborate with other companies.

5) Active pursuit of CSR

The Company Group has established a CSR Medium-Term Plan in coordination with the Medium-Term Management Plan. To begin practice in 2017, the Company has determined four priority fields: “products and services,” “environment,” “society,” and “human resources.”

In “products and services,” for the realization of a sustainable society, the Company will make efforts to resolve social problems and enhance corporate value through the provision of products and services that contribute to economic and technological development. Through activities participated in by all members of the business, the Company will create value as the Company Group.

In “environment,” based on the reduction of greenhouse gases, which is the most important issue of the global warming problem and the basic policy of the Company Group’s fifth Environment Medium-Term Plan, the Company will work for the reduction of the environmental burden in the product lifecycle as a whole.

In “society,” to gain the trust of society, the Company will aim to circulate the procurement guidelines as well as various laws and regulations, social norms, etc. to the clients of the Company Group and develop a sustainable relationship. We will also strengthen the relationship between the Company Group and the community by proactively participating in community support and contribution.

In “human resources,” the Company aims to create a healthy workplace in terms of both the mind and the body and will newly work on “health management.” Further, to make the employees and the organization become more active by establishing a foundation under which various personnel could be active in the organization and linking it with the sustainable growth of the business, we will work on promoting diversity; in particular, promoting the success of women and work-life balance.

These practices will be comprehensively communicated in and outside of the Company, and the Company will make an effort to promote the CSR activities.

Our shareholders’ continued understanding and support would be greatly appreciated.

\* WACC (Weighted Average Cost of Capital) is: The typical method of calculating the cost of capital where the cost of liabilities and the cost of equity capital are proportionately weighted.

**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	FY2013	FY2014	FY2015	FY2016 (this fiscal year)
Orders	658.2	740.8	685.9	711.1
Sales	615.3	667.1	700.8	674.3
Operating income	34.3	46.0	50.6	48.4
Ordinary income	33.0	45.1	49.1	48.3
Net income attributable to shareholders of the parent company	17.9	24.3	33.1	33.6
Net income per share of common stock (yen)	29.17	39.71	54.06	54.85
Total assets	724.2	786.0	782.9	796.5
Shareholders' equity	331.1	365.1	382.8	409.2
Shareholders' equity per share of common stock (yen)	532.28	587.37	614.51	650.47

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

(Billions of yen, unless otherwise indicated)

Items	FY2013	FY2014	FY2015	FY2016 (this fiscal year)
Orders	194.2	237.4	173.9	209.5
Sales	160.3	192.2	196.9	189.3
Operating income	1.9	8.2	5.4	3.6
Ordinary income	10.8	17.9	20.9	13.3
Net income	11.3	10.9	18.9	5.7
Net income per share of common stock (yen)	18.45	17.79	30.78	9.29
Total assets	439.5	462.3	450.2	443.4
Shareholders' equity	142.5	147.7	158.5	156.4
Shareholders' equity per share of common stock (yen)	232.38	240.95	258.61	255.29

**7. MAJOR LINES OF BUSINESS (as of March 31, 2017)**

Segment	Major Products
Machinery Components	Power Transmission and Control Equipment, Motors
Precision Equipment	Plastic Injection Molding Machines, Extrusion Laminator Machines, 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, 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, Mixing Vessels, Air Conditioner, Food Production Equipment
Other	Real Estate, Software

## 8. MAJOR SUBSIDIARIES (as of March 31, 2017)

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 equipment, 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.
Sumitomo Heavy Industries Gearbox Co., Ltd.	841	100	Manufacturing and distribution of gears and power transmission and control equipment
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.	480	82.8	Manufacturing and distribution of general industrial machines
Sumitomo Heavy Industries Ion Technology Co., Ltd.	480	100	Manufacturing and distribution of ion implanters
Sumitomo Heavy Industries Process Equipment Co., Ltd.	480	100	Manufacturing and distribution of mixing vessels, pressure vessels, coke oven machinery, etc.
Sumitomo Heavy Industries Environment Co., Ltd.	480	100	Manufacturing and distribution of industrial waste water treatment systems, water and sewerage treatment systems, etc.
Sumitomo Heavy Industries PTC Sales Co., Ltd.	400	100	Distribution of power transmission and control 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 and control equipment, etc.
LBCE Holdings Inc. (U.S.A.)	10,618 (Thousands of U.S. Dollars)	100	Control of overall business of construction cranes, etc.
Sumitomo (SHI) Demag Plastics Machinery GmbH (Germany)	20,025 (Thousands of Euros)	100	Manufacturing and distribution of plastic injection molding machines
Sumitomo (SHI) Cyclo Drive Germany GmbH (Germany)	6,136 (Thousands of Euros)	100	Manufacturing and distribution of power transmission and control equipment
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 and control equipment

Notes: 1. The Company's Shareholding Ratio includes the indirect holdings.

2 Sumiju Environmental Engineering, Inc. merged with Sumitomo Heavy Industries Environment Co., Ltd. and dissolved as of April 1, 2017.

**9. MAJOR LENDERS (as of March 31, 2017)**

Name	Loans Outstanding (Millions of yen)
Sumitomo Mitsui Banking Corporation	21,712
Sumitomo Mitsui Trust Bank, Limited	10,109
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3,267
Mizuho Bank, Ltd.	2,698

**10. EMPLOYEES (as of March 31, 2017)**

Segment	Number of Employees	Increase or Decrease from End of Last Fiscal Year
Machinery Components	5,493	99
Precision Equipment	4,115	45
Construction Machinery	3,454	331
Industrial Machinery	2,117	34
Ships	522	9
Environmental Protection Facilities, Plants	2,277	11
Corporate Operations & Others	1,343	301
Total	19,321	830

## 11. MAJOR PLACES OF BUSINESS AND PLANTS (as of March 31, 2017)

Company	Head 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.) Sumitomo Heavy Industries Gearbox Co., Ltd., 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.) Sumitomo Heavy Industries Ion Technology Co., Ltd., 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: Link-Belt Construction Equipment Company, L.P., LLLP changed its company name to Link-Belt Cranes, L.P, LLLP as of April 12, 2017.

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

On March 20, 2014, the city of Kyoto filed a suit against the Company demanding compensation for damages, etc., regarding the effectiveness of cancelation of a contract for construction of an incinerated ash melting facility. On May 27, 2016, a decision in the first instance was given dismissing the claim of the city. On June 10, 2016, the city appealed to the court due to its dissatisfaction with the decision, and the proceedings before the court of second instance are still pending as of today.

## II. CURRENT CONDITION OF THE COMPANY

### 1. STOCK (as of March 31, 2017)

- (1) Total number of authorized shares: 1,800,000,000
- (2) Total number of issued shares: 614,527,405
- (3) Number of shareholders: 37,371
- (4) Major shareholders:

Name of Shareholders	Number of Shares in Thousands	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	39,183	6.4
Japan Trustee Services Bank, Ltd. (trust account)	31,736	5.2
Sumitomo Life Insurance Company	21,666	3.5
BNYMSANV AS AGENT/CLIENTS LUX UCITS NON TREATY 1	18,378	3.0
Japan Trustee Services Bank, Ltd. (trust account 9)	13,974	2.3
Sumitomo Heavy Industries, Ltd. Kyoeikai	13,328	2.2
Sumitomo Mitsui Banking Corporation	13,310	2.2
Japan Trustee Services Bank, Ltd. (trust account 5)	11,216	1.8
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	9,564	1.6
JPMorgan Securities Japan Co., Ltd.	9,195	1.5

Note: Shareholding ratios are calculated based on the total number of shares excluding treasury shares (1,742,792 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, 2017)

Name	Title	Position, Responsibilities, and Significant Positions Held at Other Companies
Yoshinobu Nakamura	Representative Director Chairman of the Board	Chairperson of the Board of Directors
Shunsuke Betsukawa	Representative Director President (CEO)	
Shinji Nishimura	Representative Director Senior Executive Vice President	Assistant to the President across the business; General Manager of Corporate Planning Group; General Manager of Export Administration Department
Yoshiyuki Tomita	Director Executive Vice President	General Manager of Corporate Technology Operations Group
Toshiharu Tanaka	Director Executive Vice President	General Manager of Power Transmission & Controls Group
Kazuto Kaneshige	Director Senior Vice President	General Manager of Industrial Equipment Division
Mikio Ide	Director	Representative Director and Chairman of the Board of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Shinji Shimomura *	Director Senior Vice President	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
Hideo Kojima	Director	CPA, Hideo Kojima CPA Office; Outside Director (Audit and Supervisory Committee Member) of Alpine Electronics, Inc.
Yuji Takaishi *	Standing Corporate Auditor	
Kazumi Fujita	Standing Corporate Auditor	
Takeo Wakae	Corporate Auditor	Lawyer, Kumagai & Wakae Law Firm
Tomoyuki Kato *	Corporate Auditor	CPA, Kato CPA Office

Notes:

- The persons marked with \* are a new Director and new Corporate Auditors who assumed office on June 29, 2016.
- Directors Susumu Takahashi and Hideo Kojima are Outside Directors.
- Corporate Auditors Takeo Wakae and Tomoyuki Kato are Outside Corporate Auditors.
- The Company reported the appointments of Directors Susumu Takahashi and Hideo Kojima and Corporate Auditors Takeo Wakae and Tomoyuki Kato to the Tokyo Stock Exchange as independent officers.
- Corporate Auditor Tomoyuki Kato has adequate expertise with regard to finance and accounting as a CPA.
- The Director and the Corporate Auditors who resigned during this term (resigned as of June 29, 2016):  
 Director Yuji Takaishi (expiration of term of office)  
 Corporate Auditor Yukio Kinoshita (expiration of term of office)  
 Corporate Auditor Takashi Miyazawa (resignation)
- As of April 1, 2017, the positions, responsibilities, and significant positions held at other companies of the Directors, Corporate Auditors and Executive Officers are as below.

Name	Title	Position, Responsibilities, and Significant Positions Held at Other Companies
Yoshinobu Nakamura	Representative Director Chairman of the Board	Chairperson of the Board of Directors
Shunsuke Betsukawa	Representative Director President (CEO)	
Shinji Nishimura	Representative Director Senior Executive Vice President	Assistant to the President across the business; General Manager of Export Administration Department
Yoshiyuki Tomita	Director Executive Vice President	General Manager of Corporate Technology Operations Group
Toshiharu Tanaka	Director Executive Vice President	General Manager of Power Transmission & Controls Group
Kazuto Kaneshige	Director	
Mikio Ide	Director	Representative Director and Chairman of the Board of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.

Name	Title	Position, Responsibilities, and Significant Positions Held at Other Companies
Shinji Shimomura	Director Senior Vice President	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
Hideo Kojima	Director	CPA, Hideo Kojima CPA Office; Outside Director (Audit and Supervisory Committee Member) of Alpine Electronics, Inc.
Yuji Takaishi	Standing Corporate Auditor	
Kazumi Fujita	Standing Corporate Auditor	
Takeo Wakae	Corporate Auditor	Lawyer, Kumagai & Wakae Law Firm
Tomoyuki Kato	Corporate Auditor	CPA, Kato CPA Office
Tetsuya Okamura	Senior Vice President	General Manager of Industrial Equipment Division
Akio Yoshikawa	Senior Vice President	Representative Director and President of Shin Nippon Machinery Co., Ltd.
Hideo Suzuki	Senior Vice President	General Manager of Corporate Finance, Accounting & Administration Group
Hiroo Morita	Senior Vice President	General Manager of Human Resources Group; Chairman of the Board of Sumitomo Heavy Industries (China), Ltd.
Kazuo Hiraoka	Senior Vice President	General Manager of Plastics Machinery Division
Tatsuya Endo	Senior Vice President	Representative Director and President & CEO of Sumitomo Heavy Industries Material Handling Systems Co., Ltd.; General Manager of Ehime Works
Taiji Tsuchiya	Senior Vice President	General Manager of Precision Equipment Group
Eiji Kojima	Senior Vice President	General Manager of Energy & Environment Group
Hiroshi Arito	Senior Vice President	Representative Director, President and CEO of Nihon Spindle Manufacturing Co., Ltd.
Hideshi Shimamoto	Senior Vice President	General Manager of Ship & Marine Division; Representative Director, President and CEO of Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Morihiro Kondo	Senior Vice President	General Manager of Corporate Planning 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; General Manager of Nagoya Works
Toshihiko Chijiwa	Vice President	General Manager of Technology Research Center, Corporate Technology Operations Group
Shaun Dean	Vice President	General Manager of Global HQ, Power Transmission & Controls Group; Managing Director and CEO of Sumitomo (SHI) Cyclo Drive Germany GmbH

Notes: The Company has established policies and procedures for the appointment of Executive Officers in the Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd. and appoints Executive Officers in accordance with those policies and procedures, comprehensively taking into account the knowledge, experience and ability possessed by the candidates.

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

9 Directors                      ¥350 million

6 Corporate Auditors      ¥88 million

- Notes: 1. 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).
2. In addition to the above, the Directors who concurrently serve as directors of the Company's subsidiaries received compensation, etc. from these subsidiaries, and the total amount of such compensation, etc. was ¥74 million (two Directors).

**(3) Outside Officers**

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

¥38 million for 5 Outside Officers

(ii) Primary activities by Outside Officers

Name	Primary Activities
Susumu Takahashi	Attended all 15 meetings of the Board of Directors held during this fiscal year, and expressed opinions based on his specialized knowledge about the economy and management, and his broad experience.
Hideo Kojima	Attended 14 out of 15 meetings of the Board of Directors held during this fiscal year and expressed opinions particularly from the perspective of an expert on finance and accounting as a CPA. In addition, he acts as a Chairperson of the Nomination Committee and the Compensation Committee.
Takeo Wakae	Attended 14 out of 15 meetings of the Board of Directors and 12 out of 13 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.
Tomoyuki Kato	Attended all 11 meetings of the Board of Directors and all 9 meetings of the Board of Corporate Auditors held after he took office as a Corporate Auditor on June 29, 2016, and expressed opinions particularly from the perspective of an expert on finance and accounting as a CPA.

(iii) Outline of agreement for limited liability

The Company has entered into a contract with Outside Directors Susumu Takahashi and Hideo Kojima and Outside Corporate Auditors Takeo Wakae and Tomoyuki Kato, 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., and Reason that the Board of Corporate Auditors Agreed to Such Compensation, etc.
  - (i) Amount of compensation, etc. to be paid to the Independent Corporate Auditors related to this fiscal year  
142 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  
242 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., Sumitomo (SHI) Demag Plastics Machinery GmbH, Sumitomo (SHI) Cyclo Drive Germany 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.

(iii) Reason that the Board of Corporate Auditors agreed to the compensation, etc. of the Independent Corporate Auditors

Having confirmed and considered the contents of the audit plan, the previous audit status and compensation record, and the grounds for calculation of the estimated compensation, etc. provided by the related internal departments and Independent Corporate Auditors in accordance with the Guidelines for Practices Regarding Cooperation with Independent Corporate Auditors released by the Japan Audit & Supervisory Board Members Association, the Board of Corporate Auditors of the Company has determined that the compensation, etc. of Independent Corporate Auditors related to this fiscal year is appropriate, and therefore the agreement pursuant to Article 399, Paragraph 1 of the Companies Act was made.

(3) Details of Non-Audit Duties

The Company outsources to Independent Corporate Auditors the provision of advice regarding the introduction of systems, etc. which are 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 that 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 determine the content of an agenda item regarding the dismissal or non-reappointment of the Independent Corporate Auditors to be submitted to a Shareholders' Meeting.

#### **4. OPERATIONAL STRUCTURE FOR ENSURING THE APPROPRIATE CONDUCT OF OPERATIONS**

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

##### **Basic Policies for Establishment of an Internal Control System**

###### **I. Purpose**

The purpose of these basic policies is to improve the corporate value and ensure the sustainable development of the Company Group through the formulation and implementation by the Board of Directors of the Company of basic policies for the establishment of an internal control system.

###### **II. Basic Policies**

- (1) Establishment of a structure necessary to ensure the appropriate conduct of business by the Company
  - 1) Structure for ensuring that the execution of duties by the Directors of the Company is in compliance with laws and regulations and the Articles of Incorporation
    - (a) The Board of Directors of the Company shall determine the basic policies for the establishment of an internal control system, verify its effectiveness as necessary, and strive toward the continuous enhancement and improvement of the Company's internal control system as well as 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 audit the appropriateness of the execution of duties by the Directors concerning the establishment and operation of the Company's internal control system as well as the internal control system 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 the Directors of the Company pursuant to related laws and regulations in an appropriate and timely manner.
  - 3) Rules and other relevant corporate structures on loss-risk management of the Company
    - (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 supervise the internal control promotion structure and promote risk management.
    - (b) The section(s) responsible for specific types of risks shall stipulate the rules relevant to risk management, and shall strive to reduce risk through education, training, auditing, etc. based on such rules.
    - (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 for ensuring 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 for ensuring 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 duties by having the responsible Executive and Operating Officers report the status of the execution of medium-term management plans and annual budgets that are determined by resolution of the Board of Directors of the Company at the monthly meetings of the Executive & Operating Officers Committee, etc.
    - (c) To make decisions on material managerial matters based on a multi-dimensional review, the Management Strategy Committee, etc. shall be established as an advisory organ to the President to consider and discuss such matters.
  - 6) Structure for ensuring that the execution of duties by the Company's Executive Officers and employees is 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 training 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 shall 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 that such execution of duties is in compliance with laws and regulations and the Articles of Incorporation.
- (2) Establishment of a structure necessary 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 the establishment of 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 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 directors 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 for ensuring 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 by having the subsidiaries' directors, etc. report the status of the execution of duties at the meetings of 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 multi-dimensional review, such matters shall be discussed and deliberated at the Company's Management Strategy Committee, etc.
- 4) Structure for ensuring that the execution of duties by the directors, etc. and employees of the Company's subsidiaries is 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 training 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) The Company shall cooperate with its subsidiaries, ensuring that the subsidiaries shall also take a resolute position against entities or individuals that threaten the order and safety of civil society and shall 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 Director(s) or Corporate Auditor(s) 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 that such execution of duties is in compliance with laws and regulations and the Articles of Incorporation.
- 5) Structure for ensuring 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 Audit 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 Audit 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 Audit 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 shall inspect major *ringisho* (documents for approval) and other important documents relating to the execution of duties.
- (ii) If any actual or 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 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 or potential violation of laws and regulations, the Articles of Incorporation or compliance obligations exists, directors, corporate auditors or employees of the subsidiaries of the Company shall promptly report 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 for ensuring 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 in connection with the execution of duties by the Company's Corporate Auditors
- Expenses, etc. incurred in connection with the execution of duties by the Company's Corporate Auditors shall be included in the budget. In the case where legally prescribed prepayments, etc. are billed, the Company shall make such payments except in the case where it is determined that such payments are unnecessary for the execution of duties by such Corporate Auditors.
- 6) Other structures for ensuring 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-wide Corporate Auditor meeting on a regular basis, attended by the 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.

#### **(Outline of Operational Status of the Structure for Ensuring the Appropriate Conduct of Operations)**

An outline of the operational status of the structure for ensuring the appropriate conduct of operations for this fiscal year is as follows:

- 1) Structure for ensuring that the execution of duties by the Directors of the Company is in compliance with laws and regulations and the Articles of Incorporation  
The Company established the Basic Policies for Establishment of an Internal Control System, evaluated the operational status thereof, and confirmed their effectiveness.
- 2) Structure for maintenance and administration of information relating to the execution of duties by the Directors of the Company  
The Company appropriately maintains and administers the minutes of Shareholders' Meetings and Board of Directors meetings, etc. in accordance with the internal rules.
- 3) Rules and other relevant corporate structures on loss-risk management of the Company
  - (a) In accordance with the internal rules of the Company, each section conducts self-risk assessment each fiscal year, sets categories to prioritize risk management, and reports the status of the improvement of risks to the Company on a quarterly basis.
  - (b) Each section has a system in place for reporting the occurrence and status of emergency situations to top management in accordance with the internal rules of the Company and taking action in a timely manner.
- 4) Structure for ensuring the reliability of the financial reporting of the Company  
The Company established the Internal Control Group to develop an internal control system regarding reliable financial reporting and deploys persons responsible for internal control and the promotion thereof to each business section. The Internal Audit Department audits the establishment and operational status of the internal control system regarding financial reporting.
- 5) Structure for ensuring the efficient execution of duties by the Directors of the Company  
The Company ensures the efficient execution of duties by adopting a system of Executive

Officers wherein the Directors delegate authority to the Executive Officers in accordance with the internal rules, etc. In addition, the Company has the responsible Executive and Operating Officers report the monthly performance, the status of execution of medium-term management plans and annual budgets at the monthly meetings of the Executive & Operating Officers Committee.

- 6) Structure for ensuring that the execution of duties by the Company's Executive Officers and employees is in compliance with laws and regulations and the Articles of Incorporation
  - (a) The Ethics Committee confirms the basic policies on compliance and reports the status of general compliance for this fiscal year, such as the operational status of the in-house whistleblower system and the implementation status of training related to compliance.
  - (b) The Company provides training to and familiarizes all employees with the compliance necessary for their positions. In addition, the Company monitors the status of employee awareness of compliance through an annual compliance awareness investigation and implements improvement plans when necessary.
  - (c) The Company makes all managerial staff submit a pledge to observe compliance requirements every year.
- 7) Establishment of a structure necessary to ensure the appropriate conduct of business by the entire Group comprising the Company and its subsidiaries
  - (a) To ensure the appropriate and efficient operation of the Company Group's business, the Company established the Regulations of Prior Consultation and Reporting and keeps the domestic and overseas subsidiaries informed of those rules. In addition, major subsidiaries each formulated the Basic Policies for Establishment of an Internal Control System and report the operational status thereof to the Company.
  - (b) Major subsidiaries conduct self-risk assessment each fiscal year in accordance with the internal rules, set categories to prioritize risk management, and report the status of improvements to the Company on a quarterly basis.
  - (c) Domestic and overseas subsidiaries provide training regarding compliance and keep their employees informed of compliance issues. Also, domestic subsidiaries monitor employee awareness of compliance through compliance awareness investigations annually and report the results thereof and the status of improvements to the Company.
  - (d) For cases where a report is made to the in-house whistleblower system established by a domestic subsidiary, there is a system in place for the prompt reporting of such fact to such subsidiary's corporate auditors and the Company by such in-house whistleblower system.
  - (e) For the establishment of internal control systems regarding reliable financial reporting, major domestic and overseas subsidiaries deploy persons responsible for internal control and the promotion thereof. In addition, the Company's Internal Audit Department audits the establishment and the operational status of the internal control systems regarding the financial reporting of major domestic and overseas subsidiaries.
- 8) Structure for ensuring efficient auditing by the Corporate Auditors of the Company
  - (a) The Company established the Corporate Auditors' Department as a dedicated organization tasked with assisting the Corporate Auditors with their duties, and the Corporate Auditors instruct and direct the members of the Corporate Auditors' Department.

- (b) The Company includes the expenses, etc. to be incurred in connection with the execution of duties by the Corporate Auditors in the annual budget and manages them appropriately.
- (c) To ensure that the audits by the Corporate Auditors are effective, the Company provides information to the Corporate Auditors through important meetings such as the Board of Directors' meetings, Executive & Operating Officers Committee meetings, and Management Strategy Committee meetings, and also provides the Corporate Auditors and the Representative Director with regular opportunities to exchange opinions. In addition, the corporate auditors of affiliates and the Internal Audit Department and the Independent Corporate Auditors of the Company exchange information regarding their duties with the Corporate Auditors of the Company regularly or as necessary to enhance the audit functions across the Company Group.
- (d) The Company reports without delay cases or matters that are of violations of laws and regulations or compliance obligations to the Corporate Auditors through the Company's department in charge. The Company and the domestic subsidiaries also establish rules regarding the protection of whistleblowers and keep each company informed of those rules.

## **5. BASIC POLICY ON POSITION OF THE PERSON CONTROLLING DECISIONS ON FINANCIAL AND BUSINESS POLICIES OF THE COMPANY**

### **(1) Contents of the Basic Policy**

The Company believes that the position of the person controlling decisions on the financial and business policies of the Company should be ultimately decided by the shareholders from the standpoint of improving the Company's corporate value and protecting shareholders' common interests. Therefore, the Company believes that the issue of whether to accept a proposal for a large-scale acquisition of shares, etc. resulting in a change of control of the Company should be ultimately decided based on the intention of the shareholders.

However, the Company anticipates that certain large-scale acquisitions of shares may materially affect our corporate value or the shareholders' common interests, for instance, where they are expected to plainly infringe upon our 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 where they are conducted without providing the shareholders with reasonably necessary information to enable a decision on the acquisition proposal. The Company believes that it should make an exception in the above instances wherein a party who makes such a large-scale acquisition of shares is inappropriate as a person controlling decisions regarding the financial and business policies of the Company.

The Company's corporate value derives from offering "excellent products"; synergy generated by the value chain through the Company's business segments; and the Company's global network; as well as the relationship of trust among shareholders, customers, business partners, employees and the society as a whole, maintained and enhanced through a global network and management in conformity with the Sumitomo Business Spirit. These sources of our 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 our 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 there is a possibility that an acquisition of shares of the Company by a party who intends to obtain 20% or more of all the voting rights of the Company may 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 control decisions regarding financial and business policies of the Company and shall take measures to protect 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) Medium-term management plan and implementation thereof**

In the Medium-Term Management Plan 2016 formulated in May 2014, the Company Group set the financial targets for fiscal year 2016, the final fiscal year for that plan: sales of ¥700 billion; an operating profit margin of 7.5%; and an ROIC of 7% or higher. The Company Group also set forth its basic policies: (i) steady growth; (ii) return to high levels of profitability; and (iii) persistent efforts for operational quality improvements. Based on these policies, the Company Group has made concerted efforts to take various measures.

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, the election of more than one Outside Director since 2015, etc.

In addition, in November 2015, the Company established the Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd. in order to increase the corporate value of the Company Group and to enhance the evaluations by and trust of stakeholders, for the purpose of establishing an efficient and highly-transparent management structure.

In order to enhance auditing functions across the Company Group, the Corporate Auditors of the Company hold Corporate Auditor meetings across the Company's subsidiaries and affiliates 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 the implementation of the above-stated measures and strategies, to improve our corporate value through 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, in Light of the Company's Basic Policy, from Controlling Decisions on the Financial and Business Policies of the Company

The Company's proposal regarding the introduction of a plan for responding to large-scale acquisitions 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 plan for responding to large-scale acquisitions of the Company's shares (hereinafter such continued plan is referred to as the "Plan").

The Plan requires a large-scale acquirer to comply with the Large-Scale Acquisition Rules. The Large-Scale Acquisition Rules provide that a large-scale acquirer shall furnish the Board of Directors with necessary and sufficient information prior to actually performing the acquisition; the Board of Directors

shall assess and consider such an acquisition; the Board of Directors or the Shareholders' Meeting as necessary shall resolve to take, not to take, or cease to take countermeasures while respecting as much as possible the recommendations by the Corporate Value Committee; and the large-scale 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 protect our corporate value and the shareholders' common interests where (i) the large-scale 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 despite its compliance with such rules. Our countermeasures against large-scale acquisitions 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) The Board of Directors' Opinion on Specific Measures and Actions and Grounds for Opinion

The Board of Directors 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 the Company's basic policy.

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

The Board of Directors would like to emphasize the following regarding the Plan: in the Plan, disclosure in advance 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 decisions 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 Guidelines Regarding Takeover Defense for the Purposes of Protection and Enhancement of 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 protect and increase corporate value and 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 report "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.

Note: Figures indicated in this Business and Financial Report are rounded off for fractions less than units.

(Reference)

The effective period of the Plan is scheduled to expire at the conclusion of the 121st Ordinary General Meeting of Shareholders to be held on June 29, 2017. The Company adopted a resolution at the Board of Directors' meeting held on May 26, 2017, to not renew the Plan at the expiry of the effective period stated above.

**CONSOLIDATED FINANCIAL STATEMENTS**

(From April 1, 2016, to March 31, 2017)

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(For Reference Purposes)

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(From April 1, 2016, to March 31, 2017)

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## CONSOLIDATED BALANCE SHEET

(As of March 31, 2017)

(Millions of yen)

Assets		Liabilities	
<b>Current assets</b>	507,648	<b>Current liabilities</b>	290,585
Cash and deposits	63,820	Notes and accounts payable	147,318
Notes and accounts receivable	242,459	Short-term bank loans	36,711
Inventories	162,737	Commercial papers	5,000
Deferred tax assets	15,321	Long-term debt due within one year	1,481
Other current assets	27,045	Accrued income taxes	8,904
Allowance for doubtful receivables	(3,735)	Advances received on contracts	32,182
<b>Fixed assets</b>	288,837	Allowance for warranty	9,609
<b>Property, plant and equipment</b>	227,741	Allowance for losses on construction contracts	2,732
Buildings and structures	50,209	Allowance for losses on business	979
Machinery and delivery equipment	51,499	Other current liabilities	45,669
Land	107,762	<b>Long-term liabilities</b>	96,728
Construction in progress	3,098	Bonds payable	10,000
Other tangible fixed assets	15,173	Long-term debt	7,268
<b>Intangible fixed assets</b>	15,243	Allowance for losses on business transfer	115
Other intangible fixed assets	15,243	Allowance for losses on product liabilities	44
<b>Investments and other assets</b>	45,853	Defined benefit liability	44,853
Investment securities	24,168	Deferred tax liabilities on land revaluation	20,942
Long-term loans receivable	5,143	Other long-term liabilities	13,505
Deferred tax assets	11,407		
Other assets	10,300		
Allowance for doubtful receivables	(5,164)		
		<b>Total liabilities</b>	387,313
		<b>Net assets</b>	

		<b>Stockholders' equity</b>	344,810
		<b>Common stock</b>	30,872
		<b>Capital surplus</b>	25,267
		<b>Retained earnings</b>	289,587
		<b>Treasury stock</b>	(915)
		<b>Accumulated other comprehensive income</b>	53,791
		<b>Unrealized gains (losses) on securities, net of income taxes</b>	4,128
		<b>Deferred gains (losses) on hedges, net of income taxes</b>	320
		<b>Land revaluation difference</b>	41,289
		<b>Foreign currency translation adjustments</b>	13,824
		<b>Re-measurement of defined benefit plans</b>	(5,770)
		<b>Non-controlling interests</b>	10,570
		<b>Total net assets</b>	409,171
<b>Total assets</b>	796,484	<b>Total liabilities and net assets</b>	796,484

“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, 2016, to March 31, 2017)

		(Millions of yen)
<b>Net sales</b>		674,328
<b>Cost of sales</b>		518,046
<b>Gross profit</b>		156,282
<b>Selling, general and administrative expenses</b>		107,852
<b>Operating income</b>		48,431
<b>Other income</b>		
Interest and dividend income	2,098	
Equity in net income of consolidated subsidiaries and affiliated companies	2,428	
Other - net	2,788	7,315
<b>Other expenses</b>		
Interest expenses	1,320	
Foreign exchange losses	753	
Expenses relating to late deliveries	982	
Patent expenses	794	
Other - net	3,622	7,472
<b>Ordinary income</b>		48,274
<b>Extraordinary income</b>		
Gain from amortization of prior service cost	1,038	
Gain on step acquisitions	941	1,979
<b>Extraordinary losses</b>		
Impairment losses	2,955	2,955
<b>Net income before income taxes and non-controlling interests</b>		47,298
Income tax - current	13,835	
Income tax - deferred	(434)	13,401
Net income		33,897
Non-controlling interest in net loss		284
<b>Net income attributable to shareholders of the parent company</b>		33,613

“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.

(For Reference Purposes)

## CONSOLIDATED STATEMENT OF CASH FLOWS

(From April 1, 2016, to March 31, 2017)

(Millions of yen)

Item	Amount
Cash flows from operating activities	38,158
Cash flows from investing activities	(25,852)
Cash flows from financing activities	(17,809)
Effect of exchange rate changes on cash and cash equivalents	(2,105)
Net decrease in cash and cash equivalents	(7,608)
Cash and cash equivalents at beginning of year	68,625
Cash and cash equivalents at the end of year	61,017

“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.

## BALANCE SHEET

(As of March 31, 2017)

(Millions of yen)

Assets		Liabilities	
<b>Current assets</b>	160,659	<b>Current liabilities</b>	173,967
Cash and deposits	27,386	Notes payable	3,012
Notes receivable	3,629	Accounts payable	55,783
Accounts receivable	64,417	Short-term bank loans	5,600
Finished goods	10,929	Commercial papers	5,000
Work in process	17,193	Lease obligations	46
Raw materials and supplies	550	Accounts payable, other	9,189
Advances	10,052	Accrued expenses	3,456
Prepaid expenses	484	Accrued income taxes	3,681
Deferred tax assets	5,585	Advances received on contracts	21,644
Accounts receivable, other	14,993	Deposits received	62,042
Other current assets	7,004	Allowance for warranty	3,213
Allowance for doubtful receivables	(1,564)	Allowance for losses on construction contracts	1,294
<b>Fixed assets</b>	282,770	Other current liabilities	5
<b>Property, plant and equipment</b>	119,212	<b>Long-term liabilities</b>	113,024
Buildings	17,033	Bonds payable	10,000
Structures	2,576	Long-term debt	6,600
Machinery and equipment	6,897	Lease obligations	66
Ships	0	Allowance for losses on business transfer	115
Vehicles and delivery equipment	52	Allowance for retirement benefits	13,822
Tools, furniture and fixtures	2,274	Asset retirement obligations	297
Land	89,453	Deferred tax liabilities on land revaluation	20,942
Leased assets	82	Long-term deposits received	60,898
Construction in progress	843	Other long-term liabilities	284
<b>Intangible fixed assets</b>	5,269	<b>Total liabilities</b>	286,991
Software	2,988	<b>Net assets</b>	
Other intangible fixed assets	2,282	<b>Stockholders' equity</b>	111,081
<b>Investments and other assets</b>	158,289	<b>Common stock</b>	30,872
Investment securities	13,234	<b>Capital surplus</b>	27,073
Stock of subsidiaries and affiliates	100,655	Capital reserve	27,073
Investment in capital of subsidiaries and affiliates	34,427	<b>Retained earnings</b>	54,051
Long-term loans to employees	1	Legal reserve of retained earnings	6,295
Claims in bankruptcy and rehabilitation	143	Other retained earnings	47,757
Long-term prepaid expenses	176	Retained earnings brought forward	47,757
Deferred tax assets	6,754	<b>Treasury stock</b>	(915)
Other assets	3,284	<b>Valuation and translation adjustments</b>	45,357
Allowance for doubtful receivables	(383)	<b>Unrealized gains (losses) on securities, net of income taxes</b>	3,718
		<b>Deferred gains (losses) on hedges, net of income taxes</b>	350
		<b>Land revaluation difference</b>	41,289
		<b>Total net assets</b>	156,438
<b>Total assets</b>	443,429	<b>Total liabilities and net assets</b>	443,429

“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, 2016, to March 31, 2017)

(Millions of yen)

<b>Net sales</b>		189,332
<b>Cost of sales</b>		164,027
<b>Gross profit</b>		25,305
<b>Selling, general and administrative expenses</b>		21,746
<b>Operating income</b>		3,559
<b>Other income</b>		
Interest and dividend income	11,448	
Other – net	1,991	13,440
<b>Other expenses</b>		
Interest expenses paid on loans and bonds	304	
Foreign exchange losses	556	
Patent expenses	551	
Other – net	2,248	3,659
<b>Ordinary income</b>		13,339
<b>Extraordinary income</b>		
Gain from amortization of prior service cost	1,038	1,038
<b>Extraordinary losses</b>		
Loss from stock of subsidiaries and affiliates	6,824	
Impairment loss	1,575	8,398
<b>Net income before income taxes</b>		5,978
Income tax – current	(629)	
Income tax – deferred	917	288
<b>Net income</b>		5,690

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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.