SHI

Annual Report 2016

For the year ended March 31, 2016

Sumitomo Heavy Industries, Ltd.

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Contents

Cautionary Note Concerning Forward-Looking Statements

This annual report includes forward-looking statements regarding the future performance of Sumitomo Heavy Industries, Ltd. These forward-looking statements are based on information currently available to the Company and determined subjectively. Future performance is not guaranteed and all information related to future performance contained herein is subject to changes in the business environment.

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.

Customer First

Based on feedback from customers, we developed an on-board monitor for a hydraulic excavator that prevents accidents.

"I want blind spots to be eliminated from the driver seat of a hydraulic excavator".
After hearing this type of safety-improvement related feedback from customers at construction sites, we decided to develop a revolutionary on-board monitor system that enables drivers to directly detect danger over a 270° angle.

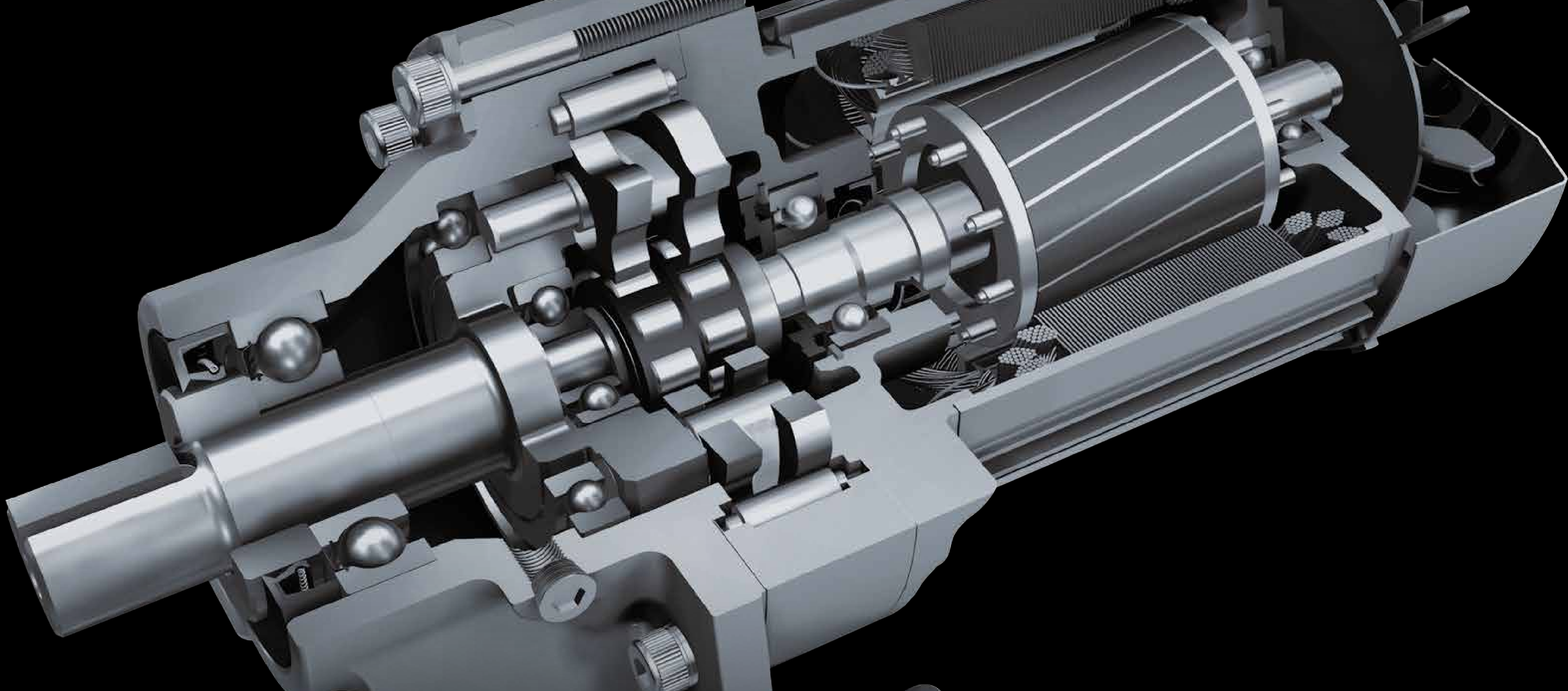
By using three cameras, we developed a "field-view monitor" that allows for a 270° view of the back of a hydraulic excavator. By creating a bird's-eye view of the situation on the monitor, it allows operators to directly detect danger before accidents happen.

We boast more than 40 years of experience in the field of plastic injection molding machines. We are currently developing models for a variety of industries including automobile, precision machinery, medical equipment, and IT devices in response to the needs of an ever-industrializing society.

Embrace Changes

Injecting 40 years' worth of accumulated know-how in advanced technology into a new cutting-edge product.

Expansion of scope of use and market size. A heightened need for reductions in energy consumption. Greater demand for more advanced quality and performance capabilities. In order to respond to "new values required as a result of a changing era" such as these, we are currently developing new injection molding machines that use the 40 years' worth of accumulated experience, performance and know-how in advanced technologies.



Commitment to Technology and Innovation

New possibilities for cyclo gear reducers that are an amalgamation of 70 years' worth of innovation.

The gear reducer, a piece of equipment that is essential for industrial motors. The leading name in gear reducers is our CYCLO®DRIVE, a cyclo gear reducer which is expanding its scope of use around the world.

70 years have passed since we first launched a Japan-made cyclo gear reducer to the market. In these years, we have worked to increase precision, improve materials used, and made every effort to reduce its size. In recent years, we are expanding the use of these products into new areas such as joints for industrial robotics, wind power generation, and other precision components.

Respect People

Create an organization and culture that allows employees of diverse backgrounds to thrive and bring forth new innovations and actions to the Group.

The differing capabilities, knowledge, experience and values of each and every employee within the Group are what will create new innovations and actions that will allow us to navigate through a changing era. With this in mind, we embarked on a challenge in April 2016 to make revolutionary changes in our management style to promote "Human Resource Diversity".

Under new business principles, we will steadily implement the Medium-Term Management Plan 2016.

President and CEO, **Shunsuke Betsukawa**

Q The business principles were completely revised in 2015. What was the purpose for this?

A **Based on the current condition of the Group, we wanted to clearly identify the "Corporate Mission Statement" and "Our Values" with the goal to increase corporate value.**

The Group completely revised its business principles in November 2015. During the 16 years that have passed since the last revision of the business principles, the business structure, financial condition and management environment of the Group have significantly changed. FY2015 marked the start of the Group adopting the corporate governance code, which forms the guiding principles for improving corporate value. With a view toward this code, we decided to re-define the "Corporate Mission Statement" which outlines what kind of corporate entity we want to be, and "Our Values" which are formed from four acting principles.

Our Corporate Mission Statement states that "We will aim to become a machinery manufacturer that continues to provide excellent products and services to the world". We felt that this statement is simple, has a clear message, and forms a core identity, allowing it to permeate within the Group and also externally. In addition our commitment to grow in a sustainable manner is specified in Our Values, which are to put the "Customer First", "Embrace Changes", exhibit a "Commitment to Technology and Innovation" and "Respect People". If each and every Group employee implements the new business principles that are guided by the "Sumitomo Business Spirit" that has been passed down over 400 years, I am confident that we will be able to increase both the shareholder and social values of our company in the future.

Q Please provide some insight in the performance of the Group in FY2015.

A **We achieved growth in both sales and profits, highlighted by the record figures set in sales.**

Group sales for FY2015 hit JPY 700.8 billion, an increase of 5.1% as compared to the previous fiscal year, and also a record high. From a profitability perspective, the Group posted operating income of JPY 50.6 billion (a 9.9% increase as compared to the previous fiscal year), and ordinary income of JPY 49.1 billion (an 8.9% increase as compared to the previous fiscal year). As such, we were able to record a growth in both sales and profits for the fiscal year. The profits attributed to shareholders of the parent company was JPY 33.1 billion (a 36.1% increase as compared to the previous fiscal year), and after-tax ROIC[1] was 7.6%. Although most financial indicators showed signs of positivity, orders fell by 7.4% as compared to the previous year, dropping from JPY 740.8 billion in FY2014 to JPY 685.9 billion in FY2015.

1) ROIC (Return on Invested Capital) =

$$\frac{\text{(Operating income + Interest and dividends received) x (1- Effective tax rate*)}}{\text{(FY average of stockholders' equity + FY average of interest-bearing debt)}}$$

* Effective Tax Rate: 40% in FY2014 and 35% in FY2015.

Financial Summary (Unit: JPY billion)

	FY2014	FY2015	Change
Orders	740.8	685.9	↘ (54.9)
Net sales	667.1	700.8	↗ 33.7
Operating income	46.0	50.6	↗ 4.6
Operating income ratio	6.9%	7.2%	↗ 0.3%
Ordinary income	45.1	49.1	↗ 4.0
Ordinary income ratio	6.8%	7.0%	↗ 0.2%
Extraordinary income or loss	(6.4)	(2.0)	↗ 4.4
Current net income before tax adjustments	38.7	47.2	↗ 8.4
Current net income	24.3	33.1	↗ 8.8
Current net income ratio	3.6%	4.7%	↗ 1.1%

Q How do you view the progress made in implementing the Medium-Term Management Plan 2016?

A **The targets for sales and operating income were almost achieved one year in advance of the set date; a remarkable feat.**

The Medium-Term Management Plan 2016 (MTMP16), which was formulated in May 2014, called for the implementation of various initiatives across the entire Group based on achieving “Steady Growth”, “Returning to Higher Levels of Profitability”, and making “Persistent Efforts for Operational Quality Improvements”.

In FY2015, the second year of implementing the MTMP16, we achieved the sales target of JPY 700 billion, which was one year in advance of the original target year of FY2016. In addition, the Group posted operating income of JPY 50.6 billion (operating profit margin of 7.2%), slightly shy of the MTMP16 target of JPY 52.5 billion (operating profit margin of 7.5%). This meant that we were close to hitting the targets for both sales and operating income one year in advance of the set date; a remarkable feat.

As for initiatives to achieve “Steady Growth”, each of the business segments was, for the most part, on plan with sales targets. However, with regard to “Returning to Higher Levels of Profitability”, we found that certain segments surpassed targets while other segments did not.

In terms of Machinery Components, although there was a global drop in demand for large-scale gear reducers, demand remained strong from the domestic market along with North America’s and Europe’s. Moreover, the gear reducers targeted at small-scale robots also showed signs of positivity. For areas where profit conditions have been tough such as Europe, Australia, South Africa and Brazil, we made an effort to strengthen the supply chain and worked to build an operating platform that allows for the generation of steady profits.

In the Precision Machinery segment, sales of a new line of injection molding machines, which contribute towards the increased productivity of molded items, trended well and profit conditions improved. Moreover, reviews of the new line of semiconductor-related equipment were also positive, pushing up sales and income in this segment.

In the Industrial Machinery segment, the demand from the domestic shipbuilding market trended positively, and the benefits from integrating Mitsubishi Heavy Industries’ industrial crane business also contributed to strong business performance. Even in the Ships segment, although the number of vessels handed over was the same as in the previous fiscal year, we were able to improve the level of operational capacity and, as a result, were able to return the segment to profitability from an operating income standpoint.

On top of the strong performance from the various segments, we also strengthened our strategy to expand our after-market businesses, an area which we have positioned as a key growth driver across all areas of the Group. By doing so, we were able to build a foundation for generating steady profits in the future.

As outlined above, certain business areas were able to meet or exceed their plan figures. On the other hand, the Construction Machinery, and Environmental Plant and Facilities segments fell short of plan. For the Construction Machinery segment, the significant drop in demand from China as a result of the economic slowdown, as well as the drop in demand from the domestic market due to the accelerated timing of purchases ahead of the change in emission rules significantly impacted the hydraulic excavator business.

In the Environmental Plant and Facilities segment, there was an increase in costs due to construction delays for certain products, while in the Industrial Machinery business, profit margins fell due to the impact of long-standing quality problems relating to boilers and medical devices.

Finally, with regard to making “Persistent Efforts for Operational Quality Improvements”, we strengthened the operating foundation in the areas of “Compliance”, “Safety” and “Product Quality”. Continuing on from the previous fiscal year, during FY2015 we enhanced our product quality management functions within the Group, made improvements to our health and safety management capabilities, took measures to eliminate occupational disasters, and conducted compliance training on anti-trust laws. Moreover, we carried out discussion-based compliance training across our China operations, which enabled us to strengthen our compliance framework across the Group.

Progress Status of “MTMP16” (Overall)

(Unit: JPY billion)

		FY13 actual	FY14 actual	FY15 actual	MTMP16 plan	FY16 forecast
❶“Steady growth” to establish a strong foundation for sustainable growth	Sales	615.3	667.1	700.8	**700.0**	**700.0**
	CAPEX	19.1	FY14-FY16 (3 years)		**50.0**	**70.0**
	R&D	18.6			**45.0**	**44.0**
	Recruiting	152			**600 persons**	**Approx. 900**
❷“Return to higher levels of profitability”	Operating income	34.3	46.0	50.6	**52.5**	**47.0**
	Operating income ratio	5.6%	6.9%	7.2%	**7.5%**	**6.7%**
	ROIC	4.8%	6.5%	7.6%	**7.0% or more**	**7.1%**
	Dividend payout ratio	24.0%	30.2%	29.6%	**30%**	**30.6%**
❸“Persistent efforts for operational quality improvements”		–	Activities to push-up the level of compliance, safety and product quality will continue to be carried out.			

Q To achieve even further growth, what kind of initiatives will you focus on during FY2016?

A **We will carry out portfolio management from the standpoint of optimizing Group functions and carry out activities aimed at “strengthening product capabilities”, “expanding service-related businesses”, and “improving and/or achieving world-class product quality”.**

Depending on each location and each business, the business environment is different. For example, the stagnation of the Chinese economy as well as the strengthening of the Japanese yen will have a different impact on certain parts of the business. As such, the initiatives for each location and each business will need to differ. Nevertheless, in order to continue our focus on achieving “Steady Growth”, “Returning to Higher Levels of Profitability”, and making “Persistent Efforts for Operational Quality Improvements”, we will actively make strategic investments in a timely manner in areas we believe are optimal for the Group, and continue to implement portfolio management activities. At the same time, in order to achieve growth in each of the business segments, we will clarify profit targets and priorities based on the growth stage and external environment of the particular segment, and then redistribute management resources and promote business restructuring as required.

I strongly believe that to increase profits in accordance with these initiatives, we need to be mindful of three key phrases that are common to all segments of the Group.

•Strengthening Product Capabilities

In addition to brushing up the in-house technologies that we have cultivated for various products, we will look to strengthen our product capabilities through the use of common technologies such as materials and controls. In addition, we will focus on developing the next generation of products by accurately reflecting the needs of customers in the technologies adopted. For example, with regard to “STAF”, a revolutionary manufacturing system that achieves weight reductions to the automobile body, we are working jointly with automobile body makers with a view to adopting the system for automobile body components. We are aiming to commercialize this business by FY2017. Moreover, we are carrying out development activities for new products and services that utilize ICT.

Progress of Achieving Issues Outlined in “MTMP16”

Implementation Condition	Issues
Exceeded plan	● **Focused investment in business areas with potential for growth and high profitability** (Facilities, R&D, Human Resources, M&A / Industrial Crane) ● **Improve Profitability** (Injection molding machines, industrial cranes, turbines) ● **Grow service-related businesses**
According to plan	● **Introduce new products to the market** (Gear speed reducers, injection molding machines) ● **Re-energize domestic manufacturing plants, and improve competitiveness** (Gear speed reducers, injection molding machines, hydraulic excavators, industrial cranes, turbines) ● **Re-establish and strengthen global supply chain** (Gear speed reducers / Europe and Brazil; Injection molding machines / Europe)
Did not meet plan (need for plan continuation)	● **Decline in profitability due to product quality issues** (boilers, medical-related equipment) → Need to strengthen profitability and engineering capabilities

•Expanding Service-Related Businesses

With regard to strengthening our service-related businesses, we have plans to make fundamental investments in areas such as marketing, service location network, human resources and informatization. In addition, we will restructure the sales process and by doing so promote business expansion in this area.

•Improving and/or Achieving Excellent Product Quality

One of the Group's missions is to contribute towards the development of society through the provision of excellent products and services. In order to achieve this, we must look to increase profits as this forms the current in which we can improve product quality and add value. Areas that we are looking at include continuous improvements to manufacturing technologies especially in core areas such as bonding and processing, carrying out reforms to the manufacturing process, and promoting innovation activities aimed at strengthening our engineering capabilities.

On top of all these initiatives, we will continue to seek out new growth areas through M&A and alliances, and rebuild parts of the business that are currently unprofitable.

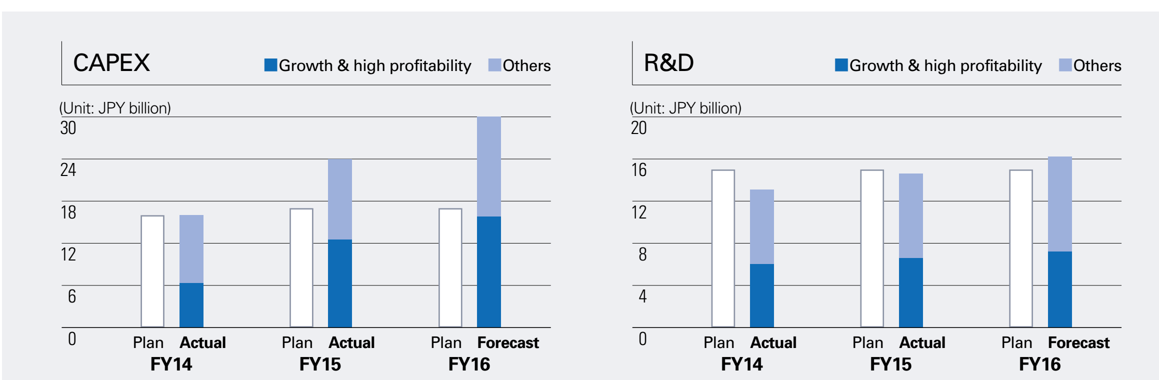
Q Can you please provide some insight into the strategic direction of investments?

A We will increase the amounts available for both capital and R&D investments particularly for growth areas, with the aim to increase profits.

Given the strong profit conditions at the moment, we will look to actively make both capital and R&D investments that support product, technological and service innovation.

Up to now, we have made investments overseas into areas such as China, Indonesia and Brazil with an eye on the globalization of our business. While the future of these markets remains unclear, our plants in Japan, which are exhibiting strong financial performance, have started to show their age. With this in mind, we increased the planned capital investment amount for the three-year period up to FY2016 from JPY 50 billion to JPY 70 billion. Through this, we were able to completely overhaul the production lines for injection molding machines at the Chiba works, and gear reducers at the Nagoya works. Incidentally, the injection molding machine

Progress of Investment Plan Outlined in "MTMP 16" (CAPEX and R&D)



Role	Major Capital Investments	Major R&D Investments
Growth and high profitability	Establish precision gear reducer plant in China (gear speed reducers) Enhancements and refreshing of domestic manufacturing plants (gear speed reducers, injection molding machines, industrial cranes, turbines)	Precision gear reducers for use in robots (gear speed reducers) Fully electric-driven, ultra-high speed unit (injection molding machines)
Stable profitability	Establishment of a training center in Chiba and the U.S. (hydraulic excavators, mobile cranes)	Models that compliant to next generation emission standards (hydraulic excavators) Manufacturing system for lightweight auto components [STAF] (industrial machinery)
One-SHI	—	Technologies to be adopted in electronics/controls, ICT, and robots

business leads financial performance within the entire Group. We also built a training center for hydraulic excavators within the premises of the Chiba works that aims to enhance service-related business in this product area, and will lead to the further expansion of the service network in the future.

As for R&D investments, we have earmarked JPY 44 billion for the three-year period up to FY2016. We are investing in new facilities that cater for the anticipated demand for more advanced products such as all-electric, ultra-high-speed gear reducers for use in injection molding machines and high-precision gear reducers for the robotics industry. In addition, we are investing in the development of new hydraulic excavators in advance of the next-generation of emission regulations.

Q What are your thoughts on the performance objectives for FY2016 and shareholder returns?

A Based on current economic conditions, we are projecting a drop in sales. However, we will maintain our dividend payout objectives for FY2016.

In FY2016, we will implement the aforementioned initiatives in a steady and timely manner, with our full focus on achieving the goal sets forth in the MTMP16. We are maintaining a consolidated sales forecast of JPY 700 billion for FY2016. However, we are projecting operating income of JPY 47 billion, ordinary income of JPY 44.5 billion, and profits attributed to shareholders of the parent company of JPY 28 billion. These declines are primarily due to the slowdown of the Chinese economy and the drop in demand from Southeast Asia.

With regard to shareholder returns, the Group's basic stance on profit sharing is to pay a dividend amount commensurate to the income earned during the period, and to keep that amount as high as possible. However, the decision on the actual amount of the dividend is made after making considerations for the level of retained earnings necessary to ensure that the Group is able to sustain a stable business model in the long term. In the current medium-term management plan, the Group has set a target of 30% for the consolidated dividend payout ratio.

In FY2015, the annual dividend (including the interim dividend) was set at JPY 16 per share, an increase of JPY 4 as compared to the previous fiscal year. For FY2016, the Group is forecasting a dividend of JPY 14 per share.

Q What is the purpose of the "Diversity Promotion Pledge"?

A In an era where change comes quickly and unexpectedly at times, one of the most important duties of management is to bring together human resources of various backgrounds, and promote an environment that allows for growth.

In addition to permeating our business principles across the entire Group, the other initiative we are actively promoting is diversity. This is because we feel that these two factors are essential to our goal of achieving sustainable growth into the future. In an era where social needs and values are ever-changing, our business principles are to bring together employees that have diverse values from around the world and utilize this knowledge to supply customers with excellent products and services.

One of the keys areas of diversity that we have recognized is the active participation of women in the workforce. With this in mind, we added the statement "Ensuring diversity in the company including active participation of women" into the "Basic Corporate Governance Policy of Sumitomo Heavy Industries, Ltd.", and made a "Diversity Pledge" to both internal and external stakeholders in April 2016. One of the goals of the pledge was to increase the ratio of female new recruits to a figure greater than 20%. In addition, we are actively looking to promote more women into the management ranks, and making efforts to eliminate long working hours through attitude changes among employees. Of course, just doing this is not enough. As such, it is necessary to continue to introduce initiatives in areas such as career development, promotion/relocation, and work-life balance.

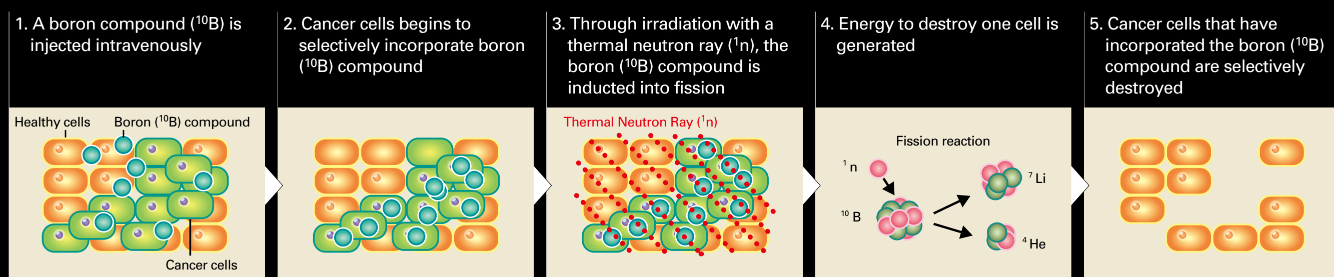
I am of the firm belief that one of the most important duties of management is to bring together human resources of various backgrounds, and promote an environment that allows for growth. In the future, my aims are to continue promoting diversity within the Group and to achieve sustainable growth and improvements to corporate value in order to allow us to meet our shareholders' expectations.

BNCT – A cancer treatment method that selectively destroys cancer cells

One of the greatest benefits of radiation therapy for treating cancer, apart from not needing to cut open a person, is that by applying radiation directly to cancer cells the form and function of internal organs can be maintained. However, the problem with conventional radiation treatment that uses X-rays and gamma (γ) rays is that high levels of radiation not only hit cancer cells but also healthy ordinary cells, negatively impacting their functioning.

With this backdrop, in 2012, we developed the world's first accelerator that can be installed in a medical facility making the practical use of BNCT, a revolutionary cancer treatment method that selectively destroys cancer cells without harming healthy ordinary cells, a reality. The medical field has high hopes for BNCT as a treatment method for difficult cancers including brain tumors, a form of cancer that has one of the worst prognoses among cancers because malignant cells and ordinary healthy cells are mixed together.

The BNCT Mechanism that Destroys Cancer Cells



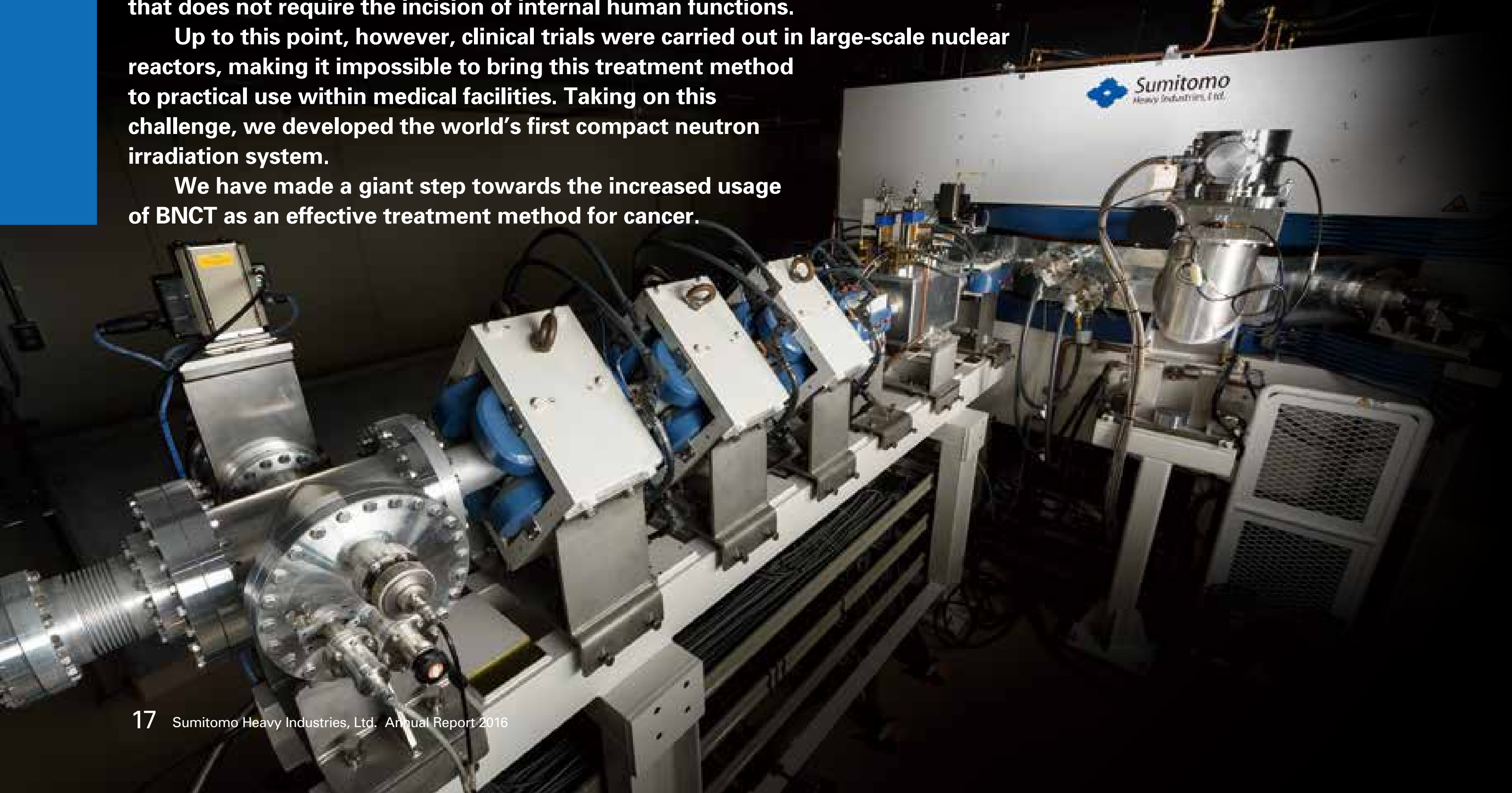
Special Feature

A New Age of Cancer Treatment made available by the BNCT Cancer Treatment System

BNCT (Boron Neutron Capture Therapy) is a revolutionary cancer treatment method that does not require the incision of internal human functions.

Up to this point, however, clinical trials were carried out in large-scale nuclear reactors, making it impossible to bring this treatment method to practical use within medical facilities. Taking on this challenge, we developed the world's first compact neutron irradiation system.

We have made a giant step towards the increased usage of BNCT as an effective treatment method for cancer.



The World's First Compact Neutron Irradiation System that Eliminated the Need for a Nuclear Reactor

The biggest breakthrough that we achieved in the development of its BNCT system was the fact that the need for a large-scale nuclear reactor was eliminated. Historically, in order to carry out clinical research on BNCT, a large-scale nuclear reactor was necessary to produce neutrons to irradiate cancer cells that have been injected with a boron compound. However, nuclear reactors are difficult to handle and the number of locations to place such a large-scale piece of equipment was limited. As such, to be able to introduce this type of cancer treatment system into a medical facility seemed to be a far-fetched idea. We saw this as a challenge, and formed an alliance with the Kyoto University Research Reactor Institute (KURRI), an institution with experience with BNCT using a nuclear reactor, and used the 30 plus years of R&D carried out on the cyclotron, to develop the world's first compact neutron irradiation system.

Proton accelerator (30MeV Cyclotron)


Proton beam transport system


Irradiation control room


Treatment room

Towards the Establishment of a Radiation Treatment Method that is Safe and Effective through the Accumulation of Clinical Trials

In order to make the world's first BNCT a reality, we recognized the need for medical device approval of the system.

With this in mind, the Group formed an alliance with KURRI and other partners in the fall of 2012 to carry out the world's first Phase I clinical trials using a cyclotron. Through this, we were able to verify the safety of the method and get a better understanding of the level of side effects. From the result of the Phase I clinical trial, we commenced Phase II clinical trials of the system in February 2016, this time with glioblastoma as the target cancer type.

We are aiming to establish a new radiation treatment method that is safe and effective through the accumulation of clinical trials using the BNCT system.

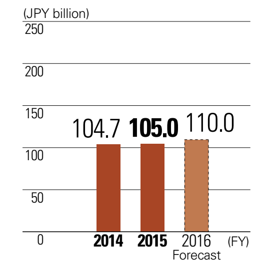
Note: The compact neutron irradiation system is currently unavailable for manufacturing and sale, as the device has not received medical device approval.

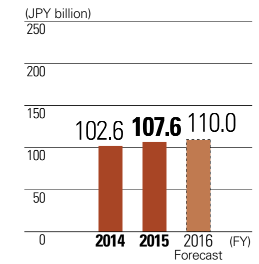
Business | Business Profile | Main Products | Orders | Sales | Operating Income

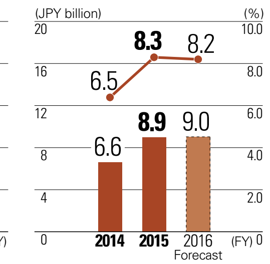
Machinery Components

This segment is responsible for gear reducers, which are essential for motor drives. Gear reducers lower the rotating speed of a motor while increasing torque. They are used widely in various fields ranging from the handling line of production plants to robot joints.

- Power transmission and control equipment
- Inverters



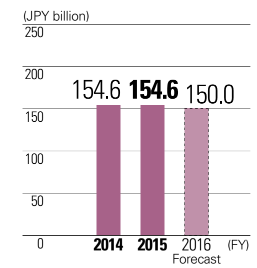


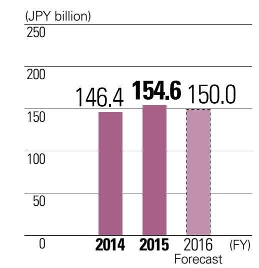


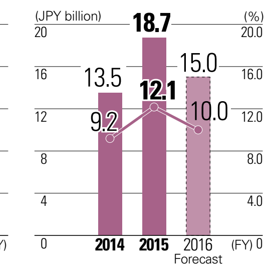
Precision Machinery

This segment is responsible for injection molding machines that are used to manufacture plastic products, as well as equipment used to manufacture LCDs and semiconductors. In the area of injection molding machines, our products are especially well known for being able to produce high-precision products. Moreover, in the semiconductor manufacturing field, our products are used in cryogenic refrigerators and cryopumps.

- Plastic injection molding machines
- Ion-implantation systems
- Laser processing systems
- Cryogenic equipment
- XY stages
- Transfer-molding press machines
- Precision forgings, Defense equipment



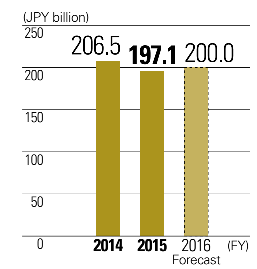


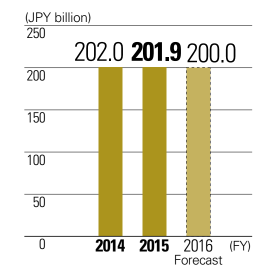


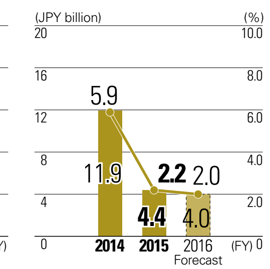
Construction Machinery

The products in this segment are well known for their high fuel-efficiency, as demonstrated by the fact that one of our hydraulic excavator models was the first piece of construction machinery that was awarded a prize for energy efficiency. Moreover, our products have also been bestowed the good design award in the past because of their superior operability. Our asphalt finishers are an essential piece of equipment for pavement finishing works.

- Hydraulic excavators
- Mobile cranes
- Road machinery



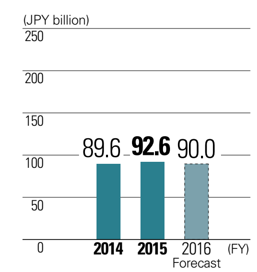


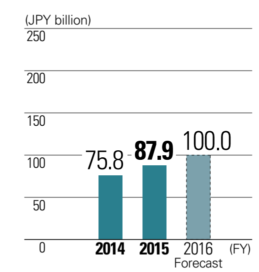


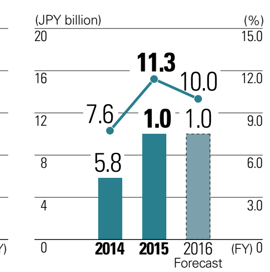
Industrial Machinery

This segment is responsible for various types of products including devices that diagnose and treat cancer, forging presses that produce automotive components, large-scale cranes and continuous unloaders utilized for ship manufacturing and at ports, steam turbines for captive power generators at production plants, and automated warehouses.

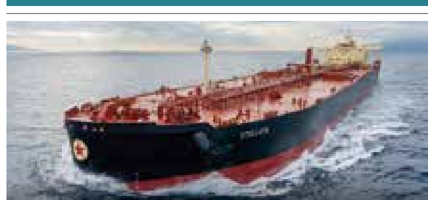
- Cyclotrons for medical use
- Cyclotrons for research use
- Coating systems
- Forging machines
- Material handling systems
- Logistics & handling systems
- Turbines
- Pumps





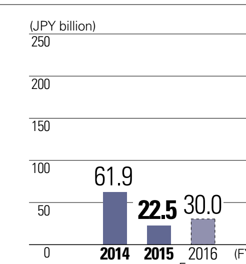


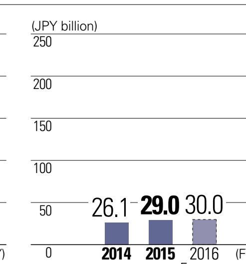
Ships

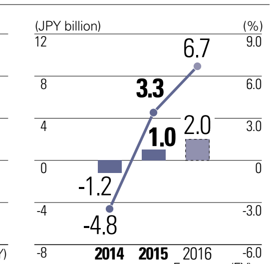


This segment specializes in mid-scale oil tankers. By narrowing down the number of vessel types we handle, it is possible to realize efficiencies in design and manufacturing, and achieve further differentiation in products.

- Ships



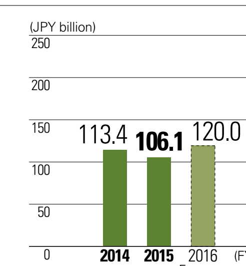


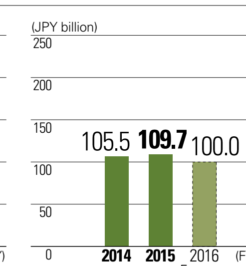


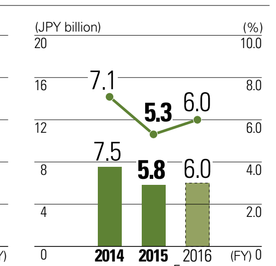
Environmental Facilities & Plants

Our circulating fluidized bed (CFB) boilers that can be used with various fuels including biomass are widely used both in Japan and overseas. This segment is also responsible for energy-saving effluent water treatment systems used in production plants as well as in water and sewage treatment systems.

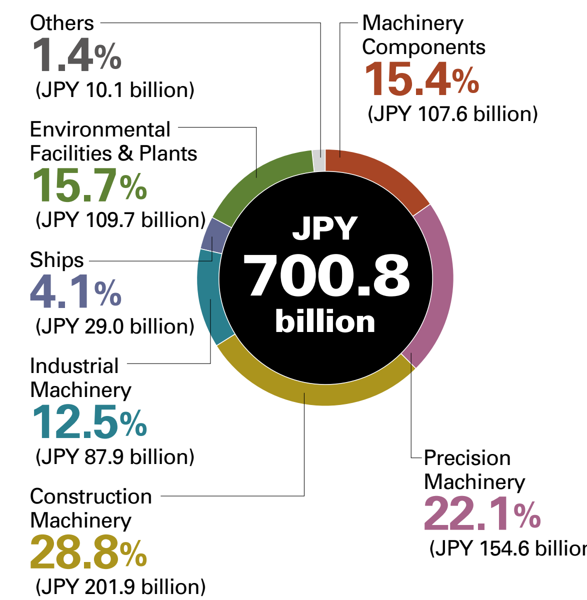
- Power generation systems
- Industrial wastewater treatment systems
- Water and sewage treatment systems
- Landfill leachate treatment systems
- Air pollution control plants
- Chemical process equipment and plants
- Pressure vessels, Mixing vessels
- Steel structures, Food processing machinery



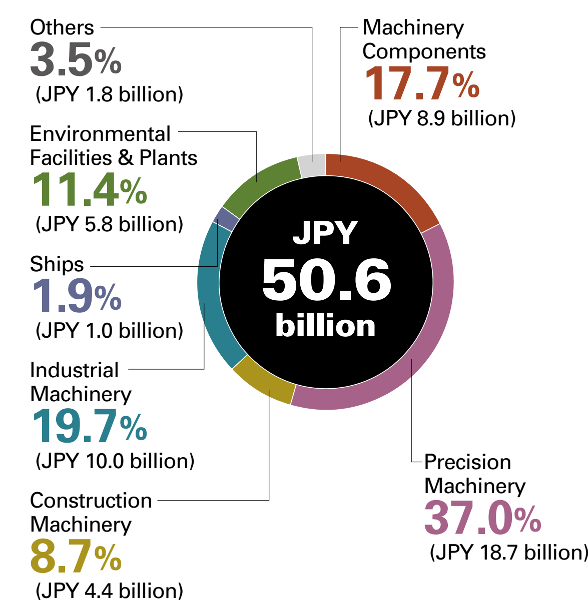




FY2015 Consolidated Sales by Segment



FY2015 Operating Income by Segment



Machinery Components

Main Products	Major Applications/Markets
•Power transmission and control equipment	Factory automation machinery, Industrial robots, Machine tools, Conveying and logistics machinery, Steel and iron making machinery, Chemical processing machinery, Material handling machinery, Mining machinery, Food processing machinery
•Inverters	Water treatment plants Elevators and escalators

Power Transmission & Controls, Inverters

Market Environment

The domestic market during FY2015 generally trended positively as the recovery of the domestic manufacturing environment as a result of governmental economic stimulus initiatives as well as the continued weakening of the Japanese yen made up for the slowdown in environment-related facilities as well as logistics and factory automation during the second half of the fiscal year. Overseas, the market downturn in the resource-related sector especially in China, Australia and South America continued, while overall market conditions in North America and Europe trended positively.

For FY2016, although uncertainty exists over currency fluctuations and economic conditions, market conditions in Japan, North America and Europe are expected to continue to perform well especially in the areas of logistics and factory automation. On the other hand, the long-standing economic malaise in China and the resources-related sector is expected to continue.

Fiscal 2015 Review and Key Topics

In Japan, after new efficiency rules for motors (top-runner efficiency rules for motors) were introduced in April 2015, we made a smooth switch to products that are in compliance with these new rules through efforts such as making premium efficiency motors a standard specification in our gear motor products and improving our customer support service capabilities. Moreover, in order to enhance the product line-up and increase the competitiveness of our gear reducers for servomotors, in July 2015 the IB-Series PK1 perpendicular axis model, and in October, the large-capacity P2 model were introduced as new products to the market.

At the same time, we have created new specification packages for various user environments including outdoors and chemical plants, in order to make it easier for customers to understand and make appropriate selections.

Overseas, we re-organized the overseas outposts of Hansen Industrial Transmissions, the Belgium-based manufacturer and distributor of large-scale gear reducers. At the same time, we re-organized the supply chain system for large-scale gear reducers manufacturing plants in Japan and Asia to improve cost competitiveness. In China, the Shanghai plant was relocated and the production capacity for small-to-medium scale gear reducers was expanded. Moreover, the assembly of gear reducers for use in precision controls for the China market commenced, enhancing our ability to respond better to the needs of the buoyant robotics and machine tools markets.

Fiscal 2016 Strategies and Initiatives

In FY2016, the focus will be to continue actively making capital investments in Japan. By replacing the aging equipment of domestic manufacturing plants, and making capital investments aimed at achieving production innovations, we aim to increase the precision of such plants, strengthen our ability to meet delivery requirements and reduce overall costs. Moreover, through the sequential introduction of new products that are currently in development to both domestic and overseas markets, we plan to strengthen our product capabilities, enter new growth areas, and ultimately achieve sustainable growth in the business.

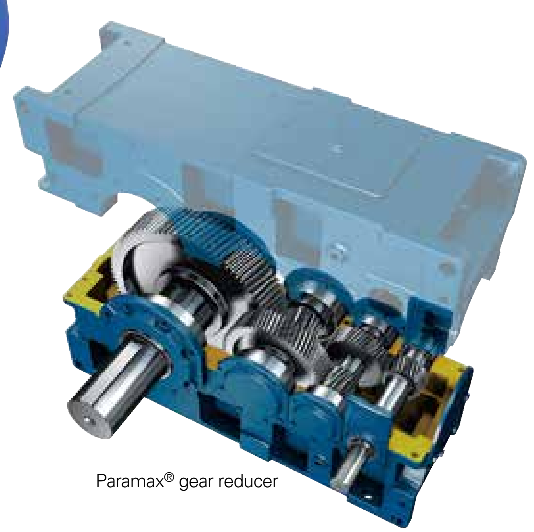
In each of the global markets we operate in, we will continue to expand sales locations and enhance the service network. At the same time, we will optimize the supply chain in order to continue efforts to improve our ability to meet delivery needs and increase cost competitiveness.

Finally, in April 2016, SEISA Gear, Ltd., a member company of the Sumitomo Heavy Industries Group, was renamed Sumitomo Heavy Industries Gearbox Co., Ltd. We plan to take this move as an opportunity to further push the development of large-scale gear reducers as a unified Group, and achieve growth in this field.

Buddybox® gear reducer

Gear reducer for precision control

CYCLO® gear reducer



Paramax® gear reducer

Precision Machinery

Main Products	Major Applications/Markets
•Plastic injection molding machines	Electronics, Electric equipment, Automobiles, Containers, Medical equipment
•Ion-implantation systems •Laser processing systems •XY stages •Transfer-molding press machines	Semiconductors, LCDs
•Cryogenic equipment	Medical equipment, Aerospace development, Semiconductors
•Precision forgings	Jet engines for airplanes, Turbines for power generation
•Defense equipment	Defense

Plastic Machinery

Market Environment

Investments made into IT-related devices such as smartphones and tablet PCs in Asia since FY2014 completed their cycle and, as a result, the market environment started to show signs of deceleration from the second half of FY2015. However, demand remained strong from the domestic, European and North American automotive sectors. As such, market conditions, in overall terms, remained robust.

This trend is expected to largely continue into FY2016. We will focus on the domestic, European and North American markets to cover the slowdown in the IT-related market in Asia. In particular, our activities to further develop the automotive sector will be enhanced.

Fiscal 2015 Review and Key Topics

The segment was able to report record orders and sales figures in FY2015, buoyed by the strong investment environment for IT-related devices in Asia during the first half of fiscal year and robust market conditions in the domestic, European and North American automotive sectors as well as in the food-container related sector. In order to respond to this changing market environment, the SEEV-A and SEEV-A-HD models that form the universal base machine for the fully-electric plastic injection molding machine were introduced to the market. In addition, the SE180EV-A-LGP model that is compatible with the trend toward thinner light guide plates installed in LCD panels for mobile terminals was also introduced to the market.

Furthermore, in order to respond to greater demand for medium- to large-scale injection molding machines from the Chinese and broader Asian markets, a new plant for Demag was opened in July of this year. By developing new technologies through the opening of new plants, and introducing new products to the market, we plan to meet the needs of our customers and further strengthen our brand value.

Opening ceremony of the Demag plant

Fiscal 2016 Strategies and Initiatives

The continued decline in capital investments for IT-related equipment is expected to remain. To counteract this trend, we plan to strengthen our activities in markets relating to the automotive and food container-related sectors where market conditions are robust. We believe it is possible to meet changing market demand in the automotive sector through the use of our in-house precision molding technologies for IT-related devices cultivated over the years. In particular, these technologies can be used in new products designed to respond to advancements in autonomous driving and the trend to further decrease the weight of automobile bodies.

Furthermore, with regard to the Internet of Things (IOT), we plan to participate in a new project to be launched by the METI Kansai Bureau of Economy, Trade and Industry. The aim of the project is to further increase productivity of injection molding machines by increasing data integration among manufacturers of injection molding machines, and through the consolidated management of user data including such data points as molding conditions.

Advanced Precision Machinery

Market Environment

With regard to the medical MRI market, 2015 saw flat conditions as compared to the previous year mainly due to the slowdown in growth of the Chinese market. Nevertheless, slight growth is projected in 2016.

There was a slight decline in semiconductor-related capital investments in 2015 as compared to the previous year, and stagnant growth is expected in 2016. Elsewhere in the electronic components market, most smartphone manufacturers have declared that they will be adopting organic EL displays for future generation models. Consequently, the main display manufacturers will commence advance investment into new production facilities and this is expected to result in a significant uplift to demand for our cryopumps.

All-electric injection molding machine for light guide plate SE180EV-LGP

The all-new SICERA® Ultra cryopump released in September 2015

Fiscal 2015 Review and Key Topics

With regard to cryopumps targeting the semiconductor PVD equipment market, we introduced a new product in September 2015 that cuts electricity usage by 40% and doubles the Ar gas storage capacity as compared to conventional models. Through this we aim to differentiate our products from competitors' models and capture larger market share.

In terms of cryogenic coolers, we are actively engaged in creating value for our customers by appealing to the installed base*. The expansion of replacement programs for aging models as well as the contribution we made to increase customer satisfaction through reductions in lifetime maintenance costs resulted in the Company being able to sustain a strong level of orders.

* Installed Base: This term refers to the number of Sumitomo Heavy Industries products that are in full operation.

Fiscal 2016 Strategies and Initiatives

During the final year of implementing the Medium-Term Management Plan, the aim will be to "Achieve High Levels of Profitability and Growth". With the main direction of the business strategy to "win in the face of change", we will look to establish an operating structure that is able to remain relevant despite changes to the market environment or segment make-up, expand the existing operating domain, and dare to achieve new areas of growth.

In China, where development has been remarkable, we moved to a new, larger facility in Shanghai and established a locally domiciled independent corporation in April 2016. In addition, we are planning to enhance our sales and service business in the country. These initiatives are in line with our aim to further grow the market and achieve business expansion.

Opening ceremony for Sumitomo Heavy Industries (SHI) Cryo Technologies Shanghai Limited (SCSL) held on April 12, 2016

Construction Machinery

Main Products	Major Applications/Markets
•Hydraulic excavators	Construction, Civil engineering, Scrap, Forestry
•Mobile cranes	Construction, Civil engineering
•Road machinery	Roadway construction

Hydraulic Excavators and Road Machinery

Sumitomo (S.H.I.) Construction Machinery Co., Ltd. (SCM)

Market Environment

The domestic market for hydraulic excavators in FY2015 was negatively impacted by the surge in demand especially focused around the rental market in FY2014 prior to the change in emission rules. This surge resulted in a recoil in demand during FY2015, and as a result, the market shrunk by 23% as compared to the previous fiscal year. In addition, the Chinese market, which is the largest market for hydraulic excavators, also saw a 43% drop in demand as compared to the previous fiscal year as no signs of recovery were seen. Moreover, other markets including North America, Europe and the ASEAN region also saw drops in demand, resulting in the overall global market shrinking by 25% to 163,500 units sold in FY2015, marking for a very difficult market environment.

Fiscal 2015 Review and Key Topics

Despite a drop in demand from the domestic rental market, we strengthened our marketing and servicing capabilities for the hybrid hydraulic excavator, a differentiated product from competitors' models, and other models that feature superior economic efficiency. As a result, we were able to capture an 11.4% market share in FY2015, a record high.

In China and other emerging markets, demand from the resources-related sector, in particular mining, continued to decline, resulting in a significant drop in demand. With this in mind, we focused on ensuring operational capacity in our China and Indonesia plants through such activities as manufacturing plates for use in our domestic plants. As a result, the Indonesia plant was able to remain in the black for the full year. Moreover, by focusing our marketing activities on our key strength areas in the North American, European and other markets, we were able to capture a larger global market share.

Unfortunately, the consolidated result was largely below estimates mainly due to the significant impact of the market downturn in China. Not all was dire as the road paving business launched Japan's first large-scale asphalt finisher that boasts a 9-meter paving width, increased export sales, and commenced the manufacturing of road machinery at the China plant.

Fiscal 2016 Strategies and Initiatives

Difficult market conditions are expected to remain in FY2016 as more time will be needed before demand recovers in China and other emerging markets as well as in the resources sector. Amid these conditions, we are aiming to increase our market share through enhanced marketing and servicing activities that are in closer proximity to the end customer's location. In addition, for production, we will aim to reduce costs through such activities as cutting raw material costs and improving production efficiency. Furthermore, in the service and components area, we are pushing for increased profitability. Moreover, in the R&D area, we will keep on developing activities that aim to generate enhanced products that utilize advanced technologies to differentiate our products from other models in the market. Finally, at our overseas plants, we plan to secure production capacity and gain market share by increasing the manufacturing level of road machinery at the China plant, and achieve reductions in component costs at the Indonesia plant.

Crane Business

Link-Belt Construction Equipment Company, L.P., LLLP

Market Environment

In FY2015, the North American crane market continued to shrink. As a result of the downturn in crude oil prices, energy-related industries also looked to scuttle facilities and suppress investment levels. Consequently, inventory levels in the crane market remained at a surplus.

Fiscal 2015 Review and Key Topics

Sales of Link-Belt Construction Equipment Company in FY2015 fell as compared to the previous fiscal year. At Link-Belt's head office, we invited our agents and customers to an exhibition that is held every three years. The participation level at the event was at a record high. At the event, three new products were introduced; the 110-ton track crane, the 140-ton telescopic crawler crane, and the 100-ton rough terrain crane.

Fiscal 2016 Strategies and Initiatives

The North American crane market in FY2016 is expected to continue to shrink as it did in the previous fiscal year. The downturn in the energy-related sector, the surplus of second-hand units, and the lack of clarity in the political and economic situation, will have a negative impact when it comes to customers deciding whether to make new orders. In this difficult environment, by focusing on securing a continuous level of orders through the provision of products that meet customer needs, Link-Belt will be prepared for the recovery of the crane market in the future.

Asphalt finisher HA60W-8

Hydraulic excavator SH200-6

Hybrid hydraulic excavator SH200HB-6

Telescopic crane

Industrial Machinery

Main Products	Major Applications/Markets
•Cyclotrons for medical use	Medical equipment
•Cyclotrons for research use	Research
•Coating systems	LCDs
•Forging press machines	Automobiles, Iron and steel, Non-ferrous metals
•Material handling systems	Iron and steel, Electric power, Shipbuilding, Port logistics
•Logistics systems	Logistics
•Turbines	Power generation
•Pumps	Oil and gas facilities (Refinery, Petrochemical)

Forging Presses and Medical Equipment

Market Environment

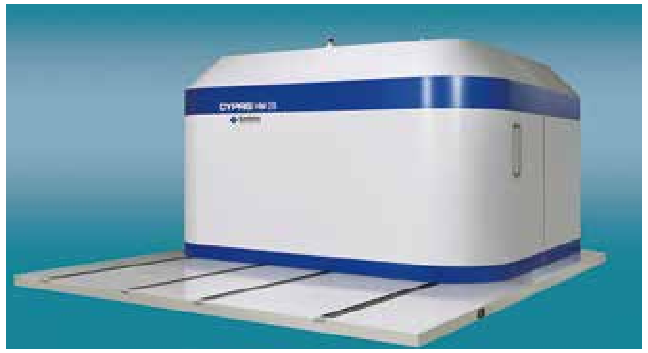
Overseas transplant investments for forging presses, our main target market, have been stagnant with the exception of investments made into Mexico. Domestic market investment has centered on achieving weight reductions as well as process innovations. The market for PET cyclotrons that are used to manufacture radioactive pharmaceuticals for cancer diagnoses has been robust, with increasing demand from Asia. Moreover, the market for proton cancer therapy systems is expanding, especially in Asia, Europe and North America.

Fiscal 2015 Review and Key Topics

In addition to conventional forging presses used to manufacture automobile parts, we were able to secure orders for presses for new materials aimed at achieving a reduction in weight and steel plate forming presses for use in shipbuilding. We also secured orders for PET cyclotrons from both domestic and overseas markets, in particular from Asia, as well as for our proton cancer therapy system. Moreover, we commenced clinical trials (Phase II clinical trials) for Boron Neutron Capture Therapy (BNCT) that utilizes our accelerators.

Fiscal 2016 Strategies and Initiatives

We will aim to expand the forging press business by enhancing our servicing capabilities. In addition, we will strengthen our business development activities and at the same time continue to develop technological innovations with the aim to expand the product line-up. As for medical and related devices, we will look to expand both domestic and overseas sales and focus on the after-market segment. Finally, with regard to BNCT, we will make every effort to commercialize this medical device as soon as possible.



PET cyclotron HM-20S

Material Handling Systems

Sumitomo Heavy Industries Material Handling Systems Co., Ltd.

Market Environment

In parts of the domestic market for material handling systems, including the shipbuilding sector, it has been difficult to cast aside concerns about economic conditions. However, a steady level of demand is expected from the ports, steelmaking, and power generation sectors for the foreseeable future. Although the domestic market for logistics systems is expected to remain flat as compared to the previous year, we expect a continued rise in development projects for machine-automated parking lots as we near the start of the 2020 Tokyo Olympics.

Fiscal 2015 Review and Key Topics

In the material handling systems field, we were able to secure orders for various large-scale cranes as the domestic shipbuilding industry looked to enhance their production capacity, and steelmaking plants looked to replace aging equipment. In addition, during the second half of the fiscal year, we merged the crane business of Mitsubishi Heavy Industries into the business in order to form Japan's largest industrial crane company. Through this new firm, we have been actively working to develop businesses in this field. Orders for our logistics systems and machine-automated parking lots were strong, resulting in overall order levels exceeding plan.

Fiscal 2016 Strategies and Initiatives

We will work to expand our service business and ensure a stable level of sales by creating a virtuous cycle between service and product sales. Moreover, we will look to enhance our profit structure by increasing operational quality, which means making improvements in quality, compliance, and health and safety. In particular for material handling equipment, we will be able to expand the markets we are trying to capture through the diversification in the product line-up that is achieved because of the integration. In turn, we will aim to ensure a stable level of sales and profits from this area.

Turbines and Pumps

Shin Nippon Machinery Co., Ltd.

Market Environment

In the power generation business, demand from the biomass-fueled power generation market continues to remain strong because of the FIT (feed-in tariff) scheme for renewable energy in Japan. Overseas, although concerns regarding delays

on decisions for new projects exist because of the volatility in currency fluctuations, we anticipate an increase in investments into power generation projects for reasons such as "fuel conversion", "efficiency improvements", and a move toward "renewable energy" under the premise that the various Southeast Asian economies will achieve sustainable growth. In the Oil and Gas sector, investment levels are shrinking because of the elimination and consolidation of refineries in Japan, as well as the impact of low crude oil prices overseas. Nevertheless, we anticipate new petroleum distillation and petrochemical projects in the Middle East and North America.

Fiscal 2015 Review and Key Topics

In the power generation business, we were able to secure orders at a similar level to the previous fiscal year because we maintained and expanded on existing relationships with our loyal customer base in the overseas sugar processing market and in the domestic captive power generating market. Overseas, we were able to secure new orders for EPC projects from the captive power generating market. However, there were many projects where decisions on moving forward were extended into FY2016 due to currency fluctuation factors including the cheaper Thai Baht. In the Oil & Gas business, we were able to secure a petroleum refinery project from a new customer through localized marketing toward North America-based customers.

Fiscal 2016 Strategies and Initiatives

In the power generation business, in addition to securing orders through the domestic FIT scheme that continues to remain active, we plan to expand orders for overseas captive power generation projects through the use of our overseas network of sales agents. In the Oil and Gas business, we will also push to increase sales through expanded connectivity with the US EPC market. Finally, by enhancing our service capabilities, we will look to create a virtuous cycle between product sales and service, and establish a long-term partnership with our customers.

Ships

Main Products	Major Applications/Markets
•Ships	Marine transportation

Ships

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Market Environment

The shipping market has seen an acceleration of worsening conditions in the dry bulk sector that has continued since last year. On the other hand, the tanker sector has continued to perform well due to rising demand for maritime transportation and offshore storage as a result of falling crude oil prices. Amid these conditions, domestic and overseas shipbuilders who traditionally focused on the building of bulk carriers are starting to shift their view and are considering entering or re-entering the tanker building sector. In both the shipbuilding and shipping industries, there was an accumulation of orders at the end of last year as customers rushed to place orders prior to the implementation of new environmental regulations which inevitably will lead to significant increases in costs. In addition, concerns regarding the future of the shipping market are rising. As a result, the pace of orders for new vessels has declined since the beginning of the year.

Fiscal 2015 Review and Key Topics

The increase in outstanding new vessel orders that were placed to avoid new regulations, as well as the cautious stance of customers for placing future vessel orders resulted in the Group receiving only two orders for new vessels in FY2015. Nevertheless, at the beginning of FY2016, we have already secured 2.5 years worth of work to be carried out. Also, we completed the construction of three vessels during FY2015, which was the same figure as FY2014. However, by adopting the principles of the Toyota Production System and increasing productivity, we were able to return to profitability on a full-year basis. Moreover, we developed and introduced a new Aframax Tanker that complies with new environmental regulations, with the aim to increase order volume in the future.

Aframax Tanker NORTH SEA

Fiscal 2016 Strategies and Initiatives

Global shipping volumes are anticipated to grow as imports into emerging markets, especially India and China, rise in the future. In addition, transport trade is expected to change as the construction of the new Panama Canal is completed. Furthermore, conditions in the tanker market are expected to remain positive for the foreseeable future. With this in mind, we are working to develop new types of vessels in advance of changes in trade and customer needs, and accelerating activities to increase order volume for our modern environmentally friendly vessels that comply with new environmental regulations. Moreover, we will aim to increase work volume for our shipyards, improve the profitability of individual shipbuilding projects, and increase profit levels on a full-year basis as compared to the previous fiscal year.

Aframax Tanker ALFA ALANDIA

Environmental Facilities & Plants

Main Products	Major Applications/Markets
•Power generation systems	Electric utilities, Paper manufacturing, Steelmaking, Cement
•Industrial wastewater treatment systems	Food processing plants, Steelmaking, Paper and pulp, Chemicals, Electricity and electronics, Machinery
•Water and sewage treatment systems •Landfill leachate treatment systems	Government agencies
•Air pollution control plants	Electric utilities, Iron and steel industry
•Chemical process equipment & plants	Petrochemical plants
•Pressure vessels, Mixing vessels	Oil refining, Petrochemical industries
•Steel structures	Iron and steel industry
•Food processing machinery	Food processing industry

Energy Plants

Market Environment

The domestic power generation market has continued to remain active because of the Feed-In-Tariff (FIT) system that has promoted the planning of power generation plants that effectively utilize forest thinnings from the domestic market and biomass fuel from the overseas market including palm kernel shells (PKS). In addition, a new model of power generation companies that anticipate the deregulation of electrical utilities as well as the separation of power generation from power transmission and distribution is becoming a reality. Overseas, demand is active mainly due to the prevalent lack of electricity in emerging countries. IPP's (Independent Power Producers) are actively moving to improve infrastructure, captive power generation facilities are investing in industrial power generation plants, and power generation plants that utilize sustainable energy are becoming more popular in the ASEAN region (because of the FIT scheme and CO_2 emission reduction efforts).

Fiscal 2015 Review and Key Topics

During FY2015, we focused on the construction and handing-over of boiler facilities from existing orders. As a result, we were able to deliver one overseas and five domestic power generation plants to customers on time. With regard to orders for circulating fluidized bed (CFB) boilers utilized in power generation plants or boiler facilities, we secured one order each from the domestic and overseas market. Moreover, we have seen a diversification of specifications required by customers in the wood-based biomass power generating sector for different fuel types and different power generation capacities. Through the wealth of experience we have in this field, we are able to respond to the needs of the market, and deliver high-quality facilities to our customers. Accordingly, we continue to contribute to the promotion of the effective use of wood-based biomass resources and the reduction of CO_2 emissions.

Fiscal 2016 Strategies and Initiatives

Similar to the previous fiscal year, we will focus mainly on the biomass fueled CFB power generating market that uses the FIT scheme in the domestic market.

Overseas, we will use our experience delivering facilities to Singapore and South Korea, and continue to focus on expanding sales to power generating facilities that utilize low-grade coal and biomass as fuel source. The primary focus for our activities is in Indonesia. However, we will also push out sales activities in Malaysia and the Philippines with the aim to secure more orders for our products.

Water and Wastewater Treatment Plants

Sumitomo Heavy Industries Environment Co., Ltd.

Market Environment

Although the market for effluent treatment facilities targeting the private sector trended positively, severe competition continued, and the market environment remained difficult. On an industry basis, the steelmaking as well as paper and pulp industries showed a weakness in demand whereas the food and chemical industries showed robust growth. Exports in this field fell, mainly due to the impact of the stronger Japanese yen.

Most of the demand from the governmental and public sectors centered on refurbishment projects. However, due to a steady level of public investment, this market trended in a stable manner. The competitive environment in this area continues to remain quite severe. However, developmental aspects such as the expansion of renewable energy usage are becoming more evident.

Fiscal 2015 Review and Key Topics

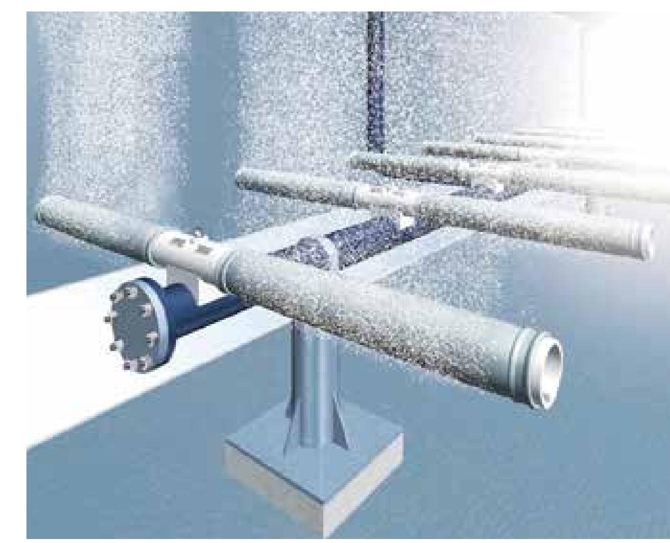
Under difficult market conditions in the private-sector business, we placed significant emphasis on sales activities for units targeting the food, chemical and steelmaking industries. Also, we focused on securing orders for refurbishment projects for aging facilities. In the governmental and public sector business, we continued to focus our activities on introducing our units into sewage treatment plants. As a result, we were able to secure a large-scale order from the Tokyo Metropolitan Government, and exceeded our plan figure for order levels.

Fiscal 2016 Strategies and Initiatives

In the private-sector business, we will narrow down the industry/customer types that we target, and by focusing our activities into these areas, we will aim to increase order levels. In the governmental and public sector business, we will continue to strengthen our sales expansion activities for our main unit products including the MICRUS®, our membrane pipe-based superfine bubble diffuser. Moreover, we will be selective in available design build project tenders and enhance our bidding activities.

Overseas, we will develop order-inducing activities aimed at Japanese firms, specifically in the Southeast Asian market.

Biomass power generation systems

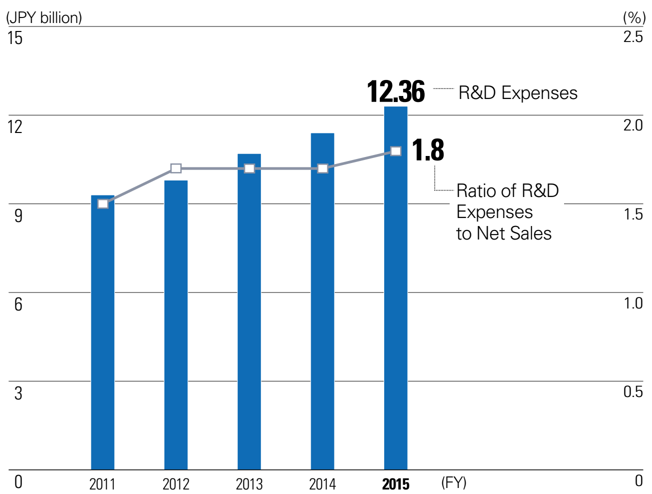


Micras® superfine bubble membrane tube diffuser

R&D Strategy

In order to create world-class products that are recognized in the global market, the entire Group as a whole promotes "activities aimed at making world-class products" and the development of "attractive products that are full of intellect (i.e. smart products)" in order to contribute towards improving the customer's bottom line.

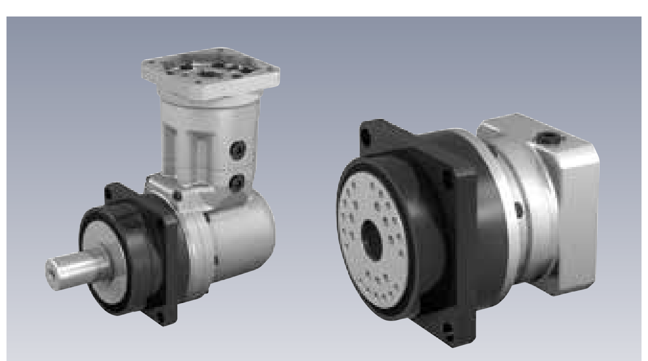
R&D Expenses



Major R&D Results by Business Segment

Machinery Components

In the field of reduction gears, we enhanced the IB-series of high precision planetary reduction gears that achieves a level of compactness that is at the top of the class for the industry.



IB-series of high precision planetary reduction gears

Precision Machinery

The SEEV-A series of the all-electric plastic injection molding machine was released to the market. The new series has achieved improvements in precision, stability, operability, and larger mold adaptability. In addition, the SE180EV-A-LGP model that is compatible with the trend toward thinner light guide plates installed in LCD panels for mobile terminals was also released to the market.

In the field of cryopumps, we introduced the SICERA® Ultra, which reduces energy consumption by 40% and increases Ar gas storage capacity by 67% as compared to previous models.

As for laser equipment, we enhanced the product line-up for laser annealing system for use with power devices, as well as fiber laser systems for use in welding and cutting.

Finally, with respect to ion-implantation devices, we introduced the SAion-300, which is a new product concept that combines the medium current range with the high current range for ion implantation.

Ion-implantation devices SAion-300

Construction Machinery

In the field of hydraulic excavators, we introduced new models to the market that are installed with engines that comply with new emissions standards of both developed countries and emerging markets.

As for road machinery, we introduced the HA90C-2 Asphalt Finisher that boasts the widest paving width among domestically manufactured machines.

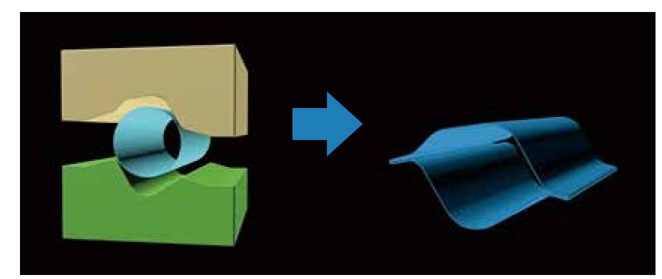
Asphalt finisher HA90C-2

Industrial Machinery

In the area of medical devices, we were the first domestic manufacturer to secure approval to manufacture and distribute the MPS200Aβ, a radioactive pharmaceutical synthesis equipment that is used in PET examinations for Alzheimer's disease. Also, in the field of proton therapy systems, the world's first treatment of cancer using line scanning started at one of our customer's hospitals. Furthermore, we have started Phase II of the clinical trials for our Boron Neutron Capture Therapy (BNCT) system.

As for forging presses, we developed STAF, a new manufacturing system that achieves significant weight reductions for automobile body frames.

Finally, with respect to steam turbines, we completed the development of a first-stage all-around high-pressure case and expanded the usage range for long-blade devices.



STAF

Ships

In consideration of a changing market environment highlighted by the growth in shale oil, we introduced a new mid-size tanker to the market that is not only more profitable for customers but also complies with new, more stringent environmental regulations.

Mid-size tanker PRIMERO

Environmental Facilities & Plants

In the area of industrial wastewater treatment plants, we introduced the Sumi Thickener Z, which precipitates fine suspended solids. We also developed a new agitator for reactor tanks which is placed in the sewage treatment plants. The new agitator reduces power consumption by 85% as compared to our previous models. Such performance has been verified and certified by an authorized agency.

As for agitation tanks, we introduced the NANOVisk, a micro particle production system for high viscosity liquids, targeting the fine chemical segment.

Finally, with regard to cooling towers, we developed a new filler material for use in heat exchangers, and also achieved lower power consumption as well as space saving in the new KG05 medium-capacity cooling tower.

Sumi Thickener Z

Technology Research Center

At the Technology Research Center, we are focused on developing base technologies that are common to the Group, with an emphasis on such areas as mechanical design, materials, CAE, system controls and ICT. In addition, we are working hard to develop production technologies that can be adopted into robotics. Finally, we are actively promoting business-academia collaborations through link-ups with various domestic and overseas universities as well as research institutions.

The Sumitomo Heavy Industries Group is oriented toward growth driven by distinctive technologies. As such, intellectual property is an issue of the utmost importance and the wellspring of the Group's competitive advantage. The principal focus of our efforts is directed at the three elements of intellectual property (IP) activity, namely, ensuring that rights to intellectual property are secured, utilizing exclusive rights, and respecting other companies' rights. In this way, we devote our groupwide energies to the active creation, protection, and exploitation of the Group's invaluable property.

Promotion Structure

To link the senior management of the SHI Group divisions directly with IP activities, the Group has appointed Chief Intellectual Property Officers (CIPOs) to the same rank as the general managers of the technology and development departments, a position immediately below and reporting directly to officers in charge of groups or divisional businesses.

The CIPOs prepare optimal intellectual property strategies for each division, make all members of those divisions thoroughly acquainted with these strategies, and create the mechanisms to put those strategies into practice. In addition, the Intellectual Property Department participates fully in a series of reform activities implemented by the CIPOs.

Major Activities and Achievements

(1) Intellectual Property Inspection Activities

We have formed an Inspection Committee composed principally of CIPOs and established mechanisms for the regular evaluation of inventive proposals and decisions regarding substantive examination requests and rights maintenance. In this way, we foster the efficient and systematic management of patent applications ultimately intended for commercialization. Furthermore, by incorporating intellectual property evaluation in the design review (DR) process, we are striving to make our product capabilities more robust.

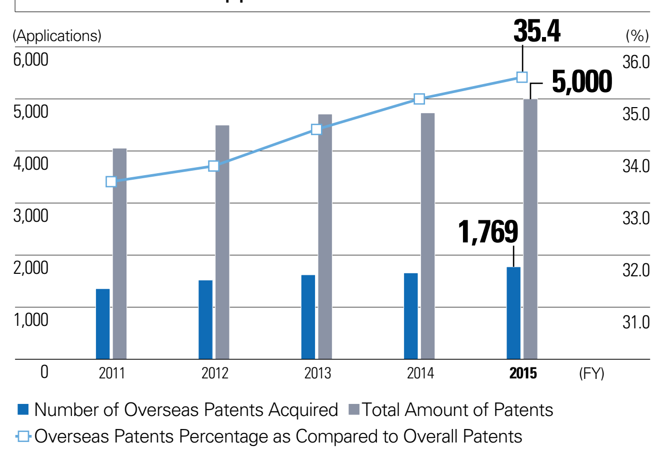
(2) Intellectual Property Evaluation Activities

The SHI Group evaluates the strength of individual patents held by the Group and strategically manages the processes for improving this strength. In addition to enhancing the quality of the Group's intellectual property portfolio, such evaluation and management processes enable the Group to continue to reinforce the competitive superiority of its products through the appropriate maintenance of its IP.

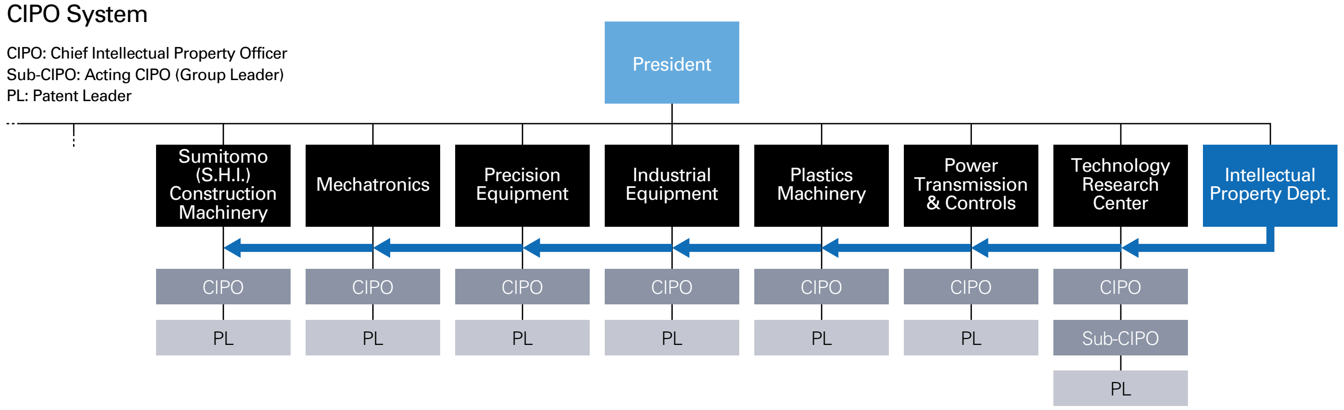
(3) Accelerating Overseas Patent Applications

In tandem with the globalization of the business activities of the SHI Group, we have been calling on all operating divisions and other relevant divisions to actively work to file patent applications overseas. As a result, 1,769, or 35.4%, of the Group's total of 5,000 patents were held overseas as of April 2016. In recent years, the Group has been increasing patent applications, particularly in China, South Korea, and Taiwan.

Overseas Patent Approval Trend



CIPO System



The Sumitomo Heavy Industries Group believes that the essence of corporate governance lies in the establishment of a system that enables efficient and transparent management. Sound corporate governance helps the Group achieve higher enterprise value and win the trust and be valued by of all of its stakeholders, including shareholders, customers, employees, and communities as a whole.

Reinforcement of Corporate Governance

Sumitomo Heavy Industries (SHI) has been working continually over a long period to strengthen its corporate governance functions. Specifically, the Company adopted an executive officer system in 1999, appointed an external director in 2002, and shortened the tenured term of directors from two years to one year in 2007. These and other measures reflect SHI's ongoing efforts to reinvigorate the Board of Directors, ensure that business is executed in a timely manner, and secure the objectivity and transparency of the Company's management.

Moreover, corporate auditors, who take on the role of overseeing the management, regularly hold meetings attended by the corporate auditors of Group companies to reinforce the audit function covering the entire SHI Group. To address globalization, the Company also conducts annual onsite audits at its overseas subsidiaries.

SHI ensures that neither its external directors nor external corporate auditors have a risk of conflict of interest with the Company's general shareholders and has reported them as independent officers to the Tokyo Stock Exchange on which the Company is listed.

Corporate Governance System

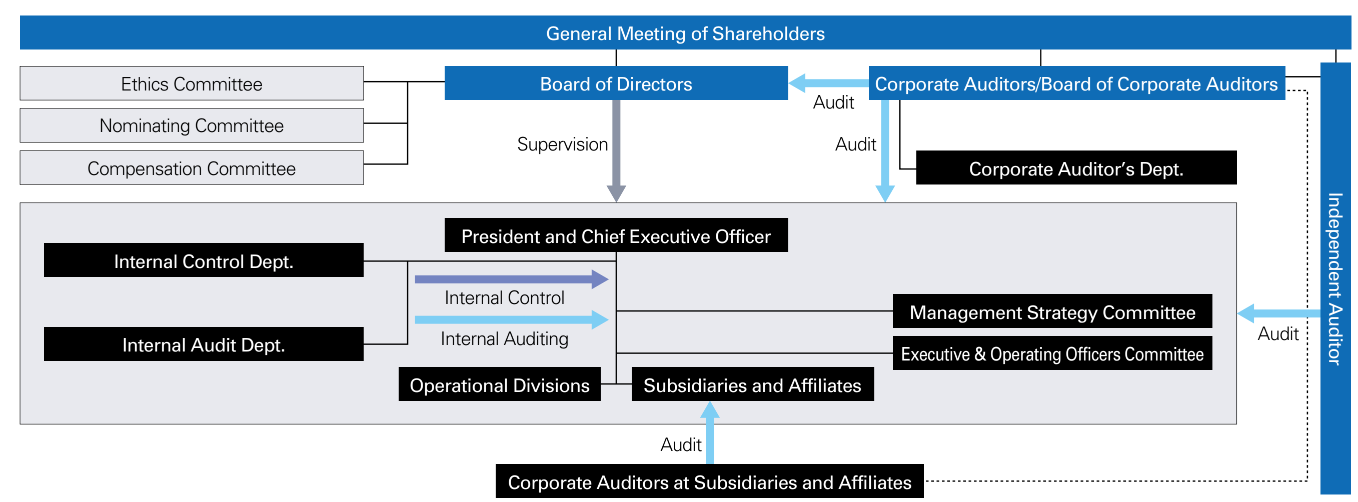
Sumitomo Heavy Industries (SHI) has adopted the corporate auditor system and, within this framework, introduced an executive officer system to separate the business execution and supervision functions of corporate management.

The Company has a Board of Directors, comprising 10 directors, and a Board of Corporate Auditors, comprising four corporate auditors. The Board of Corporate Auditors, including two external corporate auditors, and the Board of Directors, including two external directors, collaborate with executive officers in charge of internal auditing and internal control. In this manner, a system has been established to audit and supervise the execution of duties by the Company's directors. The Company believes that the adoption of this system ensures that the corporate governance function is exercised to its fullest extent.

Board of Directors

The Board of Directors deliberates not only on matters stipulated under the Japanese Corporate Law, but also on important management issues in a preemptive manner. Also, the Company's Articles of Incorporation stipulate that the Company must have no more than 12 directors.

Sumitomo Heavy Industries Corporate Governance System (As of July 8, 2016)



Executive & Operating Officers Committee

The Executive & Operating Officers Committee, which is comprised mainly of executive officers meets on a regular basis to oversee consolidated business results and to follow up on the implementation status of management policies.

Management Strategy Committee

The Company has also established the Management Strategy Committee, comprising executive officers assigned to the Company's Head Office, as an advisory body to the President and CEO. This Committee deliberates on important matters, including those to be submitted to the Board of Directors, and, consequently, reports the results of any deliberation to the Company's President and CEO.

Corporate Auditors and the Board of Corporate Auditors

The Company's corporate auditors audit the execution of duties by directors and executive officers from the perspectives of legality and appropriateness. At the same time, corporate auditors of the Company and its subsidiaries and affiliates jointly hold regular meetings to exchange audit-related information and reinforce auditing functions covering the entire SHI Group. The Company has appointed a lawyer and a certified public accountant as external corporate auditors to reinforce the overall system for checking compliance and corporate accounting. Also, the Company has established the Corporate Auditor's Department with staff directly supporting this Board of Corporate Auditors.

Nominating Committee and Compensation Committee

The Nominating Committee makes recommendations to the Board of Directors with regard to candidates for new members of the Board of Directors and representative directors. Meanwhile, director remuneration is determined by the Compensation Committee. Four of the current six members of the Compensation Committee have been externally appointed. More specifically, as an advisory committee to the Board of Directors, the Compensation Committee determines a level of director remuneration that reflects the Company's business performance while ensuring transparency and ethical appropriateness in remuneration decision processes.

External Directors and External Auditors

Title	Name	Reason for appointment	Attendance at meetings of the Board of Directors
External Director	Susumu Takahashi	Susumu Takahashi possesses a high level of insight into economic and management matters. In addition, he has broad practical experience within private corporations and government organizations. Based on this insight and experience, Mr. Takahashi, as an external director, objectively and independently directs the management of the Company by providing advice on ways in which the Company can achieve sustainable growth and increase corporate value. Given that Mr. Takahashi is independent from the Company's management team, and does not pose a conflict of interest to general shareholders, he has been nominated to be an independent officer.	Mr. Takahashi attended 15 Board of Directors meetings in FY2015.
External Director	Hideo Kojima	Hideo Kojima is a certified public accountant and a specialist in finance and accounting with many years of practical experience. Based on this insight and experience, we have determined that Mr. Kojima, as an external director, can objectively and independently direct the management of the Company by providing advice on ways in which the Company can achieve sustainable growth and increase corporate value. Given that Mr. Kojima is independent from the Company's management team, and does not pose a conflict of interest to general shareholders, he has been nominated to be an independent officer.	Mr. Kojima attended 16 Board of Directors meetings in FY2015.
External Corporate Auditor	Takeo Wakae	As a lawyer, Takeo Wakae boasts a wealth of experience and has skillful insight. Based on this experience and insight, he has independently and objectively audited the effectiveness of the Company's management through his role as external auditor. In addition, given that Mr. Wakae is independent from the Company's management team, and does not pose a conflict of interest to general shareholders, he has been nominated to be an independent officer.	Mr. Wakae attended 15 Board of Directors meetings and 13 Audit Committee meetings in FY2015.
External Corporate Auditor	Tomoyuki Kato	Tomoyuki Kato is a certified public accountant and a specialist in finance and accounting with many years of practical experience. Based on this insight and experience, we have determined that Mr. Kato can objectively and independently audit the effectiveness of the Company's management through his role as external auditor. In addition, given that Mr. Kato is independent from the Company's management team, and does not pose a conflict of interest to general shareholders, he has been nominated to be an independent officer.	Appointed as an external auditor on June 29, 2016.

Internal Auditing, Auditing by Corporate Auditors, Independent Audits

The Company has established the Internal Audit Department (with a full time staff of nine) as an internal auditing organization that reports directly to the President and CEO. The Internal Audit Department periodically conducts audits of business execution at the Company's internal organizations and at subsidiaries and affiliates in Japan and overseas, provides advice on operational improvements, and follows up on the implementation of improvements. The Department also undertakes the reinforcement of the internal control functions in coordination with self-audits conducted by the operational divisions.

Each of the auditors complies with the Audit Guidelines set forth by the Audit Committee. In addition, they follow audit policies and plans, attend important Board of Director meetings, review key financial statements, and examine the condition of assets as well as operations of both internal departments as well as related domestic and overseas entities. Through this process, they are able to audit the Board of Directors regarding its ability to execute upon business strategies.

Further, the Company has appointed KPMG AZSA LLC as its independent auditor, and has entered into an audit contract with this entity. Under this agreement, KPMG AZSA LLC carries out rigorous audits of the Company.

Corporate auditors, the Board of Corporate Auditors, the Internal Audit Department, and the Independent Auditor closely collaborate with each other and exchange information about audit results, thereby developing and implementing an efficient audit system.

External Directors and External Corporate Auditors

As mentioned previously, the Company has appointed two external directors and two external corporate auditors. Sumitomo Heavy Industries (SHI) ensures that all of its external directors have no risk of conflicts of interest with the Company's general shareholders and has reported them as independent officers to the Tokyo Stock Exchange on which the Company is listed.

Compensation of Directors and Corporate Auditors

The maximum amount of compensation paid to directors shall not exceed JPY 40 million per month pursuant to the resolution of SHI's Ordinary General Meeting of Shareholders ratified in June 2006. The Company has adopted a director compensation scheme that is linked to SHI's operating results. Individual director remuneration is determined by the Board of Directors on advice from the Compensation Committee regarding applicable standards that reflect SHI's performance.

The maximum amount of compensation paid to corporate auditors shall not exceed JPY 7.5 million per month pursuant to the June 2005 resolution of SHI's Ordinary General Meeting of Shareholders. Remuneration paid to individual corporate auditors is determined through a process of deliberation among corporate auditors.

Internal Control System

The SHI Group considers the internal control system to be an important management foundation for increasing its enterprise value and ensuring its sustainable development. The Board of Directors decides the basic policy for the development of the internal control system, which is the foundation of corporate governance. The Board appropriately verifies the effectiveness of the internal control system and undertakes constant enhancement and improvement. The Company appoints external directors to bring an outside perspective to the decisions of the Board of Directors. Corporate auditors conduct audits to ensure the appropriate execution of duties by the Company's directors with respect to the development and administration of the internal control system. Also, the Company works to strengthen its internal control over financial reporting. With the organization in charge conducting audits of the status of internal control system administration, the Company is striving to secure the reliability of its financial reporting.

Information related to Directors' Compensation in Fiscal 2015

Classification	Amount of Compensation (JPY million)	Amount by Type of Compensation (JPY million)	Number of Eligible Officers
		Annual Compensation Amount	
Directors (excluding the external director)	421	421	9
Corporate auditors (excluding external corporate auditors)	69	69	2
External officers	34	34	4

Notes: 1. There were eight directors, two corporate auditors, and four external officers as of March 31, 2016. Included in the figures presented in the table above are the number of officers and compensation amounts paid for the period between April 2015 and June 2015 to one director who retired as of the close of the Company's 119th Ordinary General Meeting of Shareholders held on June 26, 2015, one corporate auditor, and one external officer. (Accordingly, the aggregate number of eligible officers for the business term under review was nine directors (excluding the external director), two corporate auditors (excluding external corporate auditors), and four external officers.)

2. No officer received compensation of JPY 100 million or more for the period. Accordingly, details of compensation paid to individual officers have been omitted.

Compliance Activities

The Ethics Committee, chaired by the President and CEO, formulates the Company's basic compliance policy. The Internal Control Group undertakes the rigorous implementation of the policy through a Group-wide internal control system. In addition, the Company distributes the Ethics Regulations and Compliance Manual to all employees and undertakes regular ethics and compliance training. When necessary, the Company collects written agreements from directors, executive officers, and all managers concerning individual compliance items. Moreover, each year on an anonymous basis, Sumitomo Heavy Industries (SHI) conducts surveys encompassing all employees in an effort to assess and confirm levels of compliance awareness and understanding.

The Company maintains a resolute stance against organizations or individuals that pose a threat to public order and safety and engages in no relations whatsoever with such organizations or individuals. The Company has established an ethics hotline (an in-house whistleblower system) as a point of contact to report matters that violate or may violate laws, ordinances, or corporate ethics, promotes the use of the hotline, and endeavors to uncover problems at an early stage. The Company conducts audits of the execution of duties by the Company's executive officers and by staff under the direct control of the executive officers through the organization in charge and ensures that their execution of duties complies with laws, ordinances, and the Articles of Incorporation.

Risk Management

The Company engages in risk management using the Group-wide internal control system. The Company takes a specialized approach to minimize risk. Through this approach, the business units in charge prepare regulations governing individual risks—such as environmental, legal, disaster, IT, and export control risk—while providing education and guidance and conducting audits. In the event of an emergency, in accordance with the Company's Emergency Reporting Procedures, the employees involved immediately report to executive management and take appropriate measures.

Information Disclosure and IR Activities

Sumitomo Heavy Industries (SHI) diligently strives to ensure the timely disclosure of relevant information. At the same time, the Company actively promotes dialogue with shareholders and investors. In this regard, SHI recognizes dialogue as an appropriate means to ensure a deeper understanding of the Company and to further enhance its enterprise value.

The President and CEO provides briefings on the Company's interim and full fiscal year results for the benefit of institutional investors and analysts. Telephone conferences are also conducted on a quarterly basis by the officer responsible for investor relations. Moreover, top management makes visits to institutional investors and analysts in Japan and overseas.

Fiscal 2015 IR Activity Results

Activities for Analysts/ Institutional Investors	● Financial results briefings (interim/full fiscal year) ● Quarterly financial results telephone conferences ● Individual visits to overseas institutional investors (North America: 1; Europe: 1; Asia: 1) ● Participation in conferences for institutional investors sponsored by securities companies (four times) ● Individual IR interviews ● Plant tour for analysts/institutional investors (one) ● Presentations of results of principal businesses (one) ● Presentations for individual investors (two)
IR Materials Posted on the Company's Website	● Convocation notice (Japanese/English) ● Securities report/quarterly securities report ● Corporate governance report ● Summary of consolidated financial report/timely disclosure materials ● Handout for financial results briefings ● Webcast of financial results briefing (Japanese/English (translated version)) ● Interim report (To our shareholders) ● Annual report (Japanese/English)

Takeover Defense Measures

Sumitomo Heavy Industries (SHI) believes that—from the standpoint of increasing enterprise value and ensuring the common interests of the shareholders—the nature of persons who control decisions on the Company's financial and business policies should be ultimately decided by the shareholders. Certain large-scale purchases of shares, in light of their purpose or post-purchase management policy, pose the risk of clear impairment of enterprise value or the common interests of shareholders. Certain large-scale purchases—such as those conducted without the sufficient provision of information reasonably necessary for the shareholders to judge the purchase details—can be expected to have a major impact on enterprise value or the common interests of the shareholders. The Company considers persons who seek to make such purchases of the Company's shares to be inappropriate and, as far as necessary and reasonable, has established a basic policy to develop measures to prevent such large-scale share purchases in order to secure and increase the Company's enterprise value and the common interests of the shareholders. In accordance with this basic policy, and as part of measures to prevent inappropriate parties from controlling the Company's decisions on financial and business policies, SHI adopted the Countermeasures to Large-Scale Acquisitions of the Company's Shares (Takeover Defense Measures) following approval of the Ordinary General Meeting of Shareholders held in June 2008. At the Ordinary General Meeting of Shareholders held in June 2014, the continuation of the Takeover Defense Measures was approved after making necessary changes.

Adoption of the Corporate Governance Code

(Codified on November 27, 2015)

In November 2015, the Company codified the "Corporate Governance Basic Policy" and published it on the Company's website.

The Corporate Governance Basic Policy follows the "Corporate Governance Code" system that the Tokyo Stock Exchange requires listed companies to adopt. Through this Corporate Governance Basic Policy, the Company explains details of its corporate governance functions.

For further information regarding the items required to be disclosed under the "Corporate Governance Code", please refer to the following:

Web
Sumitomo Heavy Industries, Ltd. Corporate Governance Basic Policy
(Codified on November 27, 2015).
http://www.shi.co.jp/ir/policy/governance/

Adoption Status of the Corporate Governance Code

Principle 3.1 Full Disclosure

From FY2016, the Company will be publishing explanations regarding the election of Corporate Officers as well as nominations for Directors and Auditors on convocation notices and other notices.

Principle 4.1 Roles and Responsibilities of the Board (1)
Regarding Supplementary Principle 4.1.3

The Company has made the development of candidates to succeed the current President and CEO as a top priority to ensure sustainable growth for the Group. With this in mind, development of such candidates is carried out in accordance to a plan.

Every year, the Nominating Committee, which makes recommendations to the Board of Directors, is asked to confirm and verify the succession plan for the current President and CEO.

The Board of Directors will require periodic updates on the succession plan for the current President and CEO from the Nominating Committee.

Principle 4.2 Roles and Responsibilities of the Board (2)
Regarding Supplementary Principle 4.2.1

In order to ensure that the director compensation scheme continues to function as a sound incentive to achieve sustainable growth, the Company will begin deliberating on whether to implement compensation schemes linked to medium- to long-term corporate performance as well as the provision of Company stock to Company Directors.

Principle 4.11 Preconditions for Board and Kansayaku Board Effectiveness
Regarding Supplementary Principle 4.11.3

Through such measures as self-appraisals by the Board of Directors and Auditors, the Company plans to analyze and evaluate the effectiveness of the overall Board of Directors. A summary of the results of such review will be disclosed during FY2016.

Interview with the External Director

We interviewed Hideo Kojima about challenges and solutions relating to the Group's efforts to strengthen corporate governance and increase corporate value. With the role of an accountant, Mr. Kojima acted as one of the Company's External Auditors from June 2011 to June 2015. In June 2015, he was appointed External Director of the Company.

What is your role at the Sumitomo Heavy Industries Group?

During the four years from 2011 that I held the post of External Auditor, I made a conscious effort to actively use my knowledge and experience as a Certified Public Accountant, a specialist in finance, accounting and audit, to focus on the appropriateness of the Company's accounting methodologies and enhance the financial disclosures made by the Company. I also monitored the level of compliance, improvements to internal controls made by Company, and the financial condition of affiliated companies that fell under the consolidated umbrella, as the business operations of the Group globalized.

After being appointed to the post of External Director in June 2015, I have a broader remit as compared to my role as External Auditor. I believe that I have contributed toward strengthening corporate governance across the entire Group as well as individual business units, and improved the soundness of financial disclosures made by the Company.

What are the main challenges relating to corporate governance for the Company and the method in which the effectiveness of the Board of Directors is evaluated?

The main purpose of the Corporate Governance Code is to increase corporate value and, in order to achieve this, the method of governance that must be adopted is one of "being on the attack". I believe that it is important to fully understand the purpose of the code, actively adopt this at the operational level, and build on it so that ultimately it can contribute toward the medium- to long-term growth of the Company.

One of the most important challenges with regard to improving the Company's governance that is often raised is "evaluating the functional effectiveness of the Board of Directors". In order to evaluate its effectiveness, it is first necessary to clearly distinguish between the role of the Director, and the role of the Board of Directors. After that, we can improve the evaluation criteria of the Board of Directors, which includes items such as "are the content of the decisions being deliberated or reported on at the Board of Directors level appropriate", "are they being deliberated or reported on in a timely manner", "are appropriate monitoring functions being exhibited", and "are necessary opinions being expressed"?

It is therefore necessary to improve the evaluation criteria and create a system to evaluate the effectiveness of the Board of Directors. I believe the building of this system, including the identification of who does the evaluation, will contribute greatly toward strengthening the Company's level of corporate governance.

What are the priorities in terms of raising corporate value?

To increase corporate value of a Group like ours that has such wide-ranging business entities, each individual business unit must focus on increasing its profitability levels. As we look to increase the profitability by industry segment as well as identify and support high-yield products and projects, it will be necessary to "select and concentrate" on those developing businesses that have such product groups and projects. For this to occur, we will need to have analyses and reports on financial data at segment level that are highly precise.

Also to avoid the concern of becoming lax and allowing decentralized decision making on strategic R&D investments and retaining highly-skilled staff, I believe that "select and concentrate" also applies to maintaining high levels of quality and carrying out enterprise risk management.

Hideo Kojima,
External Director

Experience:
Certified Public Accountant. Appointed External Auditor of the Company in June 2011 and External Director in June 2015.

Messages from the External Directors and External Auditors

Susumu Takahashi, External Director

Experience: Chairman of The Japan Research Institute, Limited. Appointed as a private-sector member of the government's Economic and Financial Advisory Council in 2013, and as external director of the Company in 2014.

Even though the level of corporate governance is supposed to have improved, misconduct among Japanese firms continues. Once misconduct comes to the surface, an inordinate amount of time and cost is required to bring the situation under control. It is therefore important to lose no time and carry out compliance strengthening activities. However, in today's world, Japanese firms are required to beat out competition from developing countries and simultaneously improve profitability. Moreover, Japanese firms are being pushed to implement more CSR initiatives.

To improve profitability while at the same time responding to external demands, we must not be detracted by short-term thinking and carry out management activities from a medium- to long-term perspective. Through this process, the level of corporate governance will improve on its own.

Although my contribution may be small, I hope to contribute toward a style of management that is able to achieve this balance.

Takeo Wakae, External Auditor

Experience: Attorney at Law. Appointed External Auditor in June 2012.

After presenting the Corporate Governance Code last year, this fiscal year will be the year when each of the business units will attempt to implement the code. My impression is that Sumitomo Heavy Industries has taken this challenge head on and is aiming to improve internal control systems, evaluate the effectiveness of its Board of Directors, increase diversity, and improve on the level of corporate governance and compliance. However, in order to ultimately increase corporate value, this type of effort is required on a continuous basis, and I believe the role of the external auditor is to monitor whether or not a company is carrying out such efforts. In addition, corporations must also be aware of the need to be socially responsible and implement specific measures toward this goal to further increase corporate value. My aim, as an External Auditor, is to contribute toward the implementation of such measures from the standpoint of not only a shareholder but also a broader stakeholder.

Tomoyuki Kato, External Auditor

Experience: Certified Public Accountant. Appointed External Auditor in June 2016.

Last year a series of changes to corporate governance reforms shifted from planning to implementation including the revisions to the Companies Act and the adoption of the new Corporate Governance Code. With this, the environment that forms the backdrop of the Company changed dramatically.

To fulfill the responsibilities and duties of an auditor, we must stand in the place of shareholders and make objective, independent judgments that are sound. Moreover, we are required to not limit our scope of monitoring on our own accord, and to actively carry out our duties and responsibilities.

Although auditors are not allowed to participate in the decision-making process of the Board of Directors, we have the ability to collect information from the standpoint of being independent evaluators. Through attendance at Board of Director meetings and reviewing statements from such meetings, we are able to monitor the effectiveness of the management and Board of Directors, as well as the environment created to make sound decisions.

I am fully aware of my responsibilities as an External Auditor, and by working closely with the External Director, I intend to make a contribution toward increasing the effectiveness of corporate governance activities across the Company, achieve sustainable growth, and raise corporate value.

Directors, Corporate Auditors, and Executive Officers (As of June 29, 2016)

Board of Directors

Yoshinobu Nakamura
Representative Director, Chairman of the Board

Apr. 1975 Joined the Company
Feb. 2001 General Manager of Laser Business Center
Jun. 2002 Senior Vice President
Jun. 2003 General Manager of Precision Equipment Group
Jun. 2004 Executive Vice President
Oct. 2004 General Manager of Mechatronics Div.
Jun. 2005 Director
Apr. 2006 General Manager of Electro-Mechanical Systems Div.
Apr. 2007 Representative Director, President and CEO
Apr. 2013 Representative Director, Chairman of the Board (current)

Shunsuke Betsukawa
Representative Director, President and CEO

Apr. 1978 Joined the Company
Jul. 2001 General Manager of Corporate Administration Dept. of Finance & Accounting Div.
Apr. 2007 Senior Vice President, General Manager of Finance & Accounting Div.
Apr. 2009 General Manager of Corporate Planning & Development Dept.
Jun. 2009 Director
Apr. 2010 Executive Vice President
Apr. 2011 Representative Director, CFO, General Manager of Export Administration Dept.
Apr. 2012 Senior Executive Vice President
Apr. 2013 Representative Director, President and CEO (current)

Shinji Nishimura
Representative Director, Senior Executive Vice President

Apr. 1974 Joined the Company
Feb. 2001 General Manager of Ship and Steel Structure Group
Jun. 2002 Senior Vice President
Apr. 2003 Vice President, General Manager of Ship & Marine Div., Representative Director and President of Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Apr. 2005 Senior Vice President, General Manager of Corporate Planning & Development Dept.
Jun. 2005 Director
Apr. 2006 Executive Vice President
Apr. 2007 Representative Director (current), Senior Executive Vice President (current), General Manager of Power Transmission & Controls Group
Oct. 2014 General Manager of Corporate Planning Group (current)
Apr.2016 Manager of Export Administration Dept. (current)

Yoshiyuki Tomita
Director, Executive Vice President

Apr. 1981 Joined the Company
May 2009 General Manager of Technology Development Center of Corporate Technology Operations Group
Apr. 2011 Vice President, General Manager of Technology Research Center of Corporate Technology Operations Group
Jun. 2012 Director (current)
Apr. 2014 Senior Vice President, General Manager of Corporate Technology Operations Group (current)
Apr. 2016 Executive Vice President (current)

Toshiharu Tanaka
Director, Executive Vice President

Apr. 1983 Joined the Company
Apr. 2011 General Manager of Precision Equipment Div.
Jun. 2012 General Manager of Tanashi Works
Apr. 2013 Senior Vice President
Jun. 2013 Director (current)
Apr. 2014 Deputy General Manager & General Manager of Global Business Support Dept. of Power Transmission & Controls Group
Oct. 2014 General Manager of Power Transmission & Controls Group (current)
Apr. 2015 Executive Vice President (current)

Kazuto Kaneshige
Director, Senior Vice President

Apr. 1977 Joined the Company
Feb. 2009 General Manager of Industrial Machinery Center
Jun. 2010 Director of Sumitomo Heavy Industries Techno-Fort Co., Ltd.
Apr. 2012 Representative Director, President and CEO of Sumitomo Heavy Industries Techno-Fort Co., Ltd.
Apr. 2012 Senior Vice President (current)
Apr. 2013 General Manager of Industrial Equipment Div. (current)
Jun. 2014 Director (current)

Mikio Ide
Director

Apr. 1973 Joined the Company
Apr. 2001 Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Jun. 2003 Vice President
Jun. 2005 Director (current)
Apr. 2010 Senior Executive Vice President, Director and Senior Executive Vice President of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Apr. 2011 Representative Director, President and CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd. (current)
Apr.2016 Chairman of the Board, Sumitomo (S.H.I.) Construction Machinery Co., Ltd. (current)

Shinji Shimomura
Director, Senior Vice President

Apr.1982 Joined the Company
Apr.2012 Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Apr.2014 Executive Vice President of Sumitomo (S.H.I.) Construction Machinery Co., Ltd. Vice President
Apr.2015 Representative Director and President, Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd. (current) Senior Vice President (current)
Apr.2016 Representative Director, President and CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd. (current)
Jun.2016 Director (current)

Susumu Takahashi
External Director

Feb. 2004 Counselor of The Japan Research Institute, Limited
Aug. 2007 Vice Chairman of The Japan Research Institute, Limited
Jun. 2011 Chairman of The Japan Research Institute, Limited (current)
Jun. 2014 Director of the Company (current)

Hideo Kojima
External Director

Mar. 1980 Registered as Certified Public Accountant
May 1995 Representative Employee, Ota Showa Accounting Office
May 2000 Representative Director, Ota Showa Century Accounting Office
May 2004 General Manager of the International Department, Tokyo Office, ShinNihon Accounting Office
May 2006 Deputy Director of ShinNihon Accounting Office
Sep. 2010 Senior Adviser to ShinNihon Accounting Office LLC
Jun. 2011 Auditor of the Company, External Auditor of Alpine Electronics, Inc. (current)
Jun. 2015 Director of the Company (current)

Corporate Auditors

Yuji Takaishi
Standing Corporate Auditor

Kazumi Fujita
Standing Corporate Auditor

Takeo Wakae
External Corporate Auditor

Takashi Miyazawa
External Corporate Auditor

Executive Officers

Shunsuke Betsukawa	Executive Officers	
Shinji Nishimura	Senior Executive Vice President	General Manager, Corporate Planning Group, Manager of Export Administration Dept.
Katsuhiko Taniguchi	Executive Vice President	General Manager, Corporate Quality Group, Chairman, Sumitomo Heavy Industries (China), Ltd., Chairman, Sumitomo Heavy Industries (Shanghai) Management, Ltd.
Katsuhide Yokota	Executive Vice President	General Manager, Ehime Works, Representative Director and President, Sumitomo Heavy Industries Material Handling Systems Co., Ltd.
Chuck Martz	Executive Vice President	LBCE HOLDINGS, INC. President, CEO & Chairman
Toshiharu Tanaka	Executive Vice President	General Manager of Power Transmission & Controls Group
Yoshiyuki Tomita	Executive Vice President	General Manager, Corporate Technology Operations Group
Kazuto Kaneshige	Senior Vice President	General Manager, Industrial Equipment Div.
Tetsuya Okamura	Senior Vice President	CEO, Sumitomo (SHI) Demag Plastics Machinery GmbH
Akio Yoshikawa	Senior Vice President	Representative Director and President, Shin Nippon Machinery Co., Ltd.
Nobutaka Miyawaki	Senior Vice President	General Manager, Ship & Marine Div., Representative Director and President, Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Hideo Suzuki	Senior Vice President	General Manager, Corporate Finance, Accounting & Administration Group
Shinji Shimomura	Senior Vice President	Representative Director, President and CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd., Representative Director and President, Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.
Hiroo Morita	Senior Vice President	General Manager, Human Resources Group
Kazuo Hiraoka	Senior Vice President	General Manager, Plastic Machinery Div.
Tatsuya Endou	Senior Vice President	General Manager, Defense Systems Group
Taiji Tsuchiya	Senior Vice President	General Manager, Precision Equipment Group
Eiji Kojima	Senior Vice President	General Manager, Mechatronics Div.
Yukio Kumata	Vice President	Deputy General Manager, Corporate Technology Operations Group
Isao Kohno	Vice President	General Manager of Geared Motor Dept., Power Transmission & Controls Group

At the Sumitomo Heavy Industries Group, we have been promoting environmental management aware of the fact that businesses have the social responsibility to protect the global environment, preserve the local environment, and engage in economic activities that are oriented toward recycling.

Sumitomo Heavy Industries Group Environmental Philosophy

The Sumitomo Heavy Industries Group contributes toward the realization of a sustainable society by holding fast to the "Sumitomo Business Spirit".

The Sumitomo Heavy Industries Group is taking action across the Group to protect the global environment.

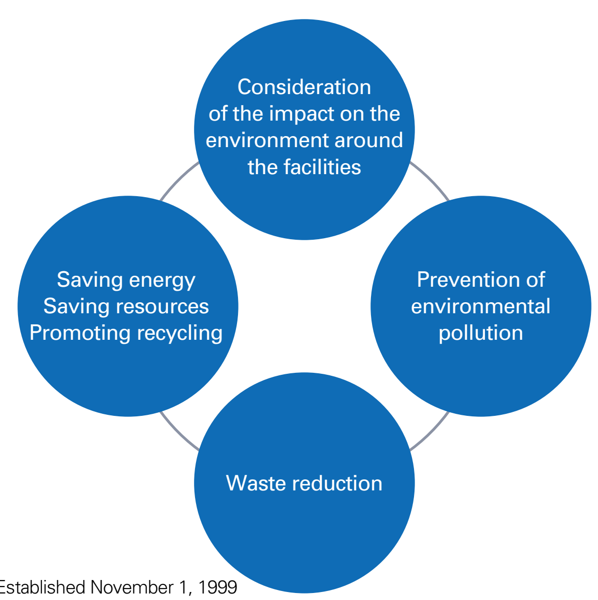
Environmental Policy

Environmental Management Implemented on the Basis of the Sumitomo Heavy Industries Group Basic Environmental Policy

In 1992, we established the Environmental Committee to promote environmental protection and compliance in local communities. In September 1997, we established the Sumitomo Heavy Industries Environmental Policy in order to drive home the message of environmental management.

Moreover, in order to clarify the basic policy for activities across the Group, we established the Sumitomo Heavy Industries Group Environmental Policy in November 1999, expanding environmental management across the Group as a whole including overseas facilities.

Sumitomo Heavy Industries Group Environmental Policy



Established November 1, 1999

Environmental Management

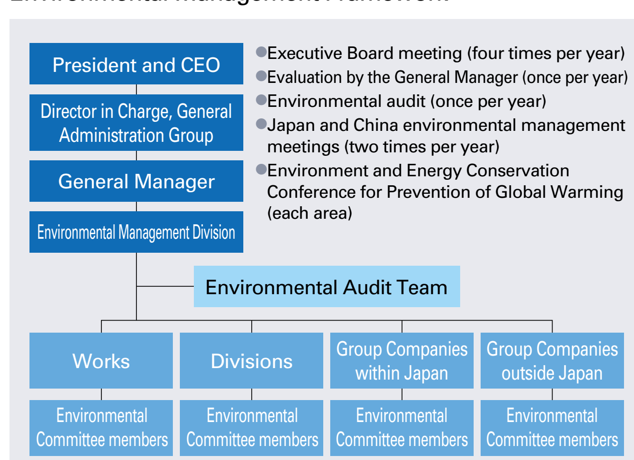
Assign Expert Environmental Committee Members and Develop a System to Manage Our Performance on Environmental Objectives

As a corporate group that is expanding its businesses globally, the Sumitomo Heavy Industries Group considers environmental activities to be a social responsibility. We are therefore aiming to improve the environmental management conducted by every organization belonging to the Group, and to raise it to a higher level.

The scope of management extends to our works, business divisions, branches, and Group companies inside and outside Japan. We have assigned expert Environmental Committee members to them and developed a system to manage their performance on environmental objectives.

We have also established the Environmental Management Division at the head office. It is engaged in on-going environmental management that extends to drafting medium-term environmental plans, formulating environmental objectives for each fiscal year, promoting the implementation of plans and objectives, and developing human resources.

Environmental Management Framework



Sumitomo Heavy Industries Group

4th Medium-Term Environmental Plan

At the Sumitomo Heavy Industries Group, we are aiming to establish an "Excellent Eco Factory" that contributes to the realization of a sustainable society by holding fast to the "Sumitomo Business Spirit" and setting our sights on achieving a low-carbon society by 2020.

Basic Policies of the 4th Medium-Term Environmental Plan

1. Promote environmental risk management

We will take steps to reduce environmental risks and aim to achieve zero environmental accidents.
We will expand our environmental risk assessments to all our business establishments, including factories outside Japan, take steps to prevent environmental accidents, and maintain our zero accident record.

2. Contribute to the achievement of a low-carbon society

We have long been taking measures to reduce CO_2 emissions in the manufacturing process. In addition to this, we are reinforcing our activities to reduce CO_2 emissions during product use.

3. Realize a resource-recycling society

We will continue to reduce the amount of waste we generate and pursue zero emissions.

4. Contribute to local communities and take measures for biodiversity

We will participate in local community activities in every region, and contribute to the protection of biodiversity through such measures as afforestation at our factories and other activities.

Environmentally friendly products

Contribute to a low-carbon society through "first-class products"

All-electric injection molding machines

This is a device for producing plastic products. The group has special expertise in high-precision, high-cycle work, and has one of the top market shares domestically. We deliver products that are outstanding not just for their performance but also for their economy. That is why, for example, we have won the Minister of Economy, Trade and Industry Award at the Outstanding Energy Conservation Equipment Awards of the Japan Machinery Federation.

All-electric injection molding machines

Hybrid hydraulic excavators

The rotation is used to generate electricity, providing support for engine output that enhances the excavator's fuel economy. The hydraulic excavator model used as the base for this system is also a prizewinner for energy conservation, and this further energy-conserving effect is contributing to the environment.

Hybrid hydraulic excavators

Eleven-Year Summary

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

Millions of yen

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Summary of Income (for the year):											
Net sales	¥551,339	¥600,256	¥660,769	¥642,918	¥516,165	¥548,015	¥624,100	¥585,871	¥615,271	¥667,099	**¥700,838**
Cost of sales	434,904	464,071	505,366	503,072	412,751	426,479	490,878	465,309	483,104	516,735	**537,502**
Selling, general and administrative expenses	68,930	71,961	77,613	82,906	75,160	75,733	86,087	89,274	97,837	104,366	**112,768**
R&D expenses	7,434	8,581	9,908	10,047	8,187	7,445	9,343	9,835	10,718	11,415	**12,299**
Operating income	47,505	64,224	77,790	56,940	28,254	45,803	47,135	31,288	34,329	45,998	**50,568**
EBITDA (Note 1)	56,577	74,873	91,578	75,260	47,979	63,744	64,955	49,570	52,946	62,279	**70,289**
Net income	47,585	65,341	75,469	50,275	26,333	44,253	44,619	30,997	33,000	45,113	**49,131**
Cash Flows (for the year):											
Cash flows from operating activities	¥ 50,023	¥ 56,789	¥ 29,096	¥ 34,676	¥ 57,513	¥ 36,521	¥ 23,309	¥ 2,660	¥ 63,661	¥ 62,170	**¥ 18,315**
Cash flows from investing activities	(7,024)	(12,461)	(41,250)	(35,924)	(13,954)	(23,513)	(22,672)	(19,660)	(27,622)	(14,112)	**(15,350)**
Free cash flows (Note 2)	42,999	44,328	(12,154)	(1,248)	43,559	13,008	638	(17,000)	36,039	48,058	**2,965**
Cash flows from financing activities	(48,812)	(41,193)	(5,238)	15,625	(26,686)	(22,020)	19,879	(11,428)	(9,498)	(36,889)	**(23,789)**
Cash and cash equivalents at the end of year	43,644	47,523	29,879	42,414	61,452	51,700	72,376	46,476	76,418	90,324	**68,625**
Financial Position (at year-end):											
Total assets	¥579,233	¥600,890	¥678,634	¥657,436	¥610,087	¥626,829	¥691,841	¥647,724	¥724,182	¥786,027	**¥782,859**
Total current assets	317,813	332,509	381,946	380,293	339,780	365,342	429,046	386,628	434,954	492,000	**493,002**
Total non-current assets	261,421	268,381	296,688	277,143	270,308	261,487	262,795	261,096	289,228	294,027	**289,857**
Interest-bearing debt	125,504	88,045	89,567	110,339	87,660	67,833	96,522	98,547	107,433	83,644	**68,232**
Net interest-bearing debt (Note 3)	81,587	39,890	59,311	65,654	25,149	15,347	23,149	50,732	29,607	(8,779)	**(2,572)**
Stockholders' equity	167,740	—	—	—	—	—	—	—	—	—	**—**
Total net assets (Note 4)	—	206,010	246,371	238,697	254,153	269,380	282,145	292,826	331,059	365,101	**382,817**
Amounts per Share of Common Stock: (unit: Yen)											
Net income (Note 5)	¥ 49.45	¥ 61.99	¥ 71.19	¥ 22.62	¥ 22.01	¥ 45.87	¥ 31.75	¥ 9.56	¥ 29.17	¥ 39.71	**¥ 54.06**
Stockholders' equity	279.02	338.95	392.80	378.78	404.73	435.10	454.43	470.69	532.28	587.37	**614.51**
Cash dividends	5.00	7.00	10.00	6.00	4.00	8.00	10.00	8.00	7.00	12.00	**16.00**
Financial Indexes: (unit: %)											
Operating income margin	8.6	10.7	11.8	8.9	5.5	8.4	7.6	5.3	5.6	6.9	**7.2**
EBITDA margin	10.3	12.5	13.9	11.7	9.3	11.6	10.4	8.5	8.6	9.3	**10.0**
R&D expenses ratio to net sales	1.3	1.4	1.5	1.6	1.6	1.4	1.5	1.7	1.7	1.7	**1.8**
Return on assets (ROA)	5.2	6.3	6.7	2.0	2.1	4.5	3.0	0.9	2.5	3.1	**4.2**
Return on equity (ROE)	19.5	20.1	19.5	5.9	5.6	10.9	7.1	2.1	5.8	7.1	**9.0**
Stockholders' equity ratio	29.0	34.1	34.9	34.8	40.0	42.6	40.3	44.6	45.1	45.8	**48.1**
Interest-bearing debt ratio	21.7	14.7	13.2	16.8	14.4	10.8	14.0	15.2	14.8	10.6	**8.7**
D/E ratio (Times)	0.7	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	**0.2**
ROIC (Note 6)	8.8	12.2	14.0	9.6	4.8	7.8	7.4	4.9	4.8	6.5	**7.6**
Investment in Plant and Equipment, and Others:											
Capital expenditures (Note 7)	¥ 10,285	¥ 17,257	¥ 28,180	¥ 31,753	¥ 24,465	¥ 14,292	¥ 19,682	¥ 29,888	¥ 20,329	¥ 20,670	**¥ 23,721**
Depreciation and amortization	9,072	10,649	13,788	18,320	19,725	17,941	17,820	18,282	18,617	16,281	**19,720**
Number of employees	11,319	12,561	14,408	14,984	15,463	17,025	18,139	18,245	17,936	18,061	**18,491**

Notes:

1. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization
2. Free cash flows = Cash flows from operating activities + Cash flows from investing activities
3. Net interest-bearing debt = Interest-bearing debt – (Cash and time deposits + Short-term investment)
4. Net assets are presented following enforcement of the new Japanese Corporate Law in 2006. Net assets comprise stockholders' equity as previously defined, plus minority interests and share subscription rights.
5. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.
6. ROIC (Return on Invested Capital) = $\frac{\text{(Operating income + Interest and dividends received) x (1– Effective tax rate*)}}{\text{(FY average of stockholders' equity + FY average of interest-bearing debt)}}$

   *Effective tax rate = 40% in FY2014 and 35% in FY2015.
7. Capital expenditures are capitalized and recorded as assets.

Management's Discussion and Analysis of Financial Condition and Operating Results

1. Overview of the Business Environment and Performance in Fiscal 2015

During the fiscal year ended March 2016 (hereinafter referred to as the "current period"), personal consumption levels in Japan did not show any signs of strengthening mainly due to a negative consumer mindset leading from factors such as the lack of growth in real wages and the drop in share prices during the second half of the fiscal year. On the corporate side, although an improvement in financial performance resulted in an upward trend in capital investment levels, the cautious stance of businesses to make such investments grew stronger due to stagnating export levels. These two dynamics slowed the recovery of the Japanese economy.

Outside of Japan, the U.S. economy continued to recover as their fiscal policies shifted to a more normalized state. The Eurozone also continued on a path of gentle recovery. On the other hand, the slowdown of the Chinese economy became more apparent, while other emerging market economies struggled to grow not only because of the knock-on effect from the stagnating Chinese economy but also because of a drop in resource prices, with crude oil prices leading the way. As a result, the overall global economy showed signs of a gentle slowdown during the current period.

Under these conditions, the Sumitomo Heavy Industries Group continued to execute on the "Medium-Term Management Plan 2016 (hereinafter referred to as "MTMP16" or the "Plan")" that was initiated during the previous fiscal year. More specifically, the Group carried out business operations based on the three key themes of "Steady growth", "Return to higher levels of profitability" and "Persistent efforts for operational quality improvements." The resultant effect on corporate performance for the current period was a drop in order levels as compared to the previous period, and an increase in sales, operating income, ordinary income and net income levels.

2. Analysis of Operating Results

Orders

The Group posted order levels equivalent to JPY 685.9 billion for the current period, a 7.4% decline as compared to the previous period. The drop was mainly due to a reduction in orders received in the Construction Machinery, Ships, and Environmental Plant and Facilities segments. These drops were offset to a certain extent by an increase in orders in the Industrial Machinery segment.

Net Sales

The Group posted sales of JPY 700.8 billion for the current period, an increase of JPY 33.7 billion as compared the previous period. Although sales generated by the Construction Machinery segment were relatively flat as compared to the previous period, all other segments posted higher than previous period sales figures. Sales from overseas markets increased by JPY 8.7 billion to finish at JPY 368.3 billion, while the ratio of overseas sales to overall consolidated sales was 52.6% for the current period.

Cost of Sales

Along with the increase in sales, the cost of sales climbed JPY 20.8 billion, to JPY 537.5 billion. The cost of sales ratio declined 0.8 percentage points as compared to the previous period to 76.7%.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses increased by JPY 8.4 billion from the previous period, to JPY 112.8 billion. The SG&A expense ratio was 16.1%, 0.5 percentage points lower than the previous period.

Operating Income

Operating income increased by JPY 4.6 billion from the previous period, to JPY 50.6 billion. All segments with the exception of the Construction Machinery and Environmental Plant and Facilities segments achieved an increase in operating income. The operating income margin improved 0.3 percentage points from the previous period, to 7.2%.

Non-Operating Profit or Loss

Non-operating loss for the current period was JPY 1.4 billion, a JPY 600 million worsening as compared to the previous period. Non-operating income fell by JPY 400 million from the previous period to JPY 6.4 billion due to a a reduction in foreign exchange gains, while non-operating loss increased by JPY 100 million from the previous period to JPY 7.9 billion.

Extraordinary Gains and Losses

The Group posted an extraordinary loss of JPY 2.0 billion, a JPY 4.4 billion improvement from the previous period. The Group did not generate any extraordinary gains during the current period or the previous period. The JPY 4.4 billion improvement in extraordinary loss was driven primarily by the JPY 2.9 billion decrease in impairment loss during the current period.

Income Taxes (Total Income Taxes, Local Inhabitant Tax, Business Tax, and Deferred Income Taxes)

Income taxes increased by JPY 1.7 billion from the previous period, to JPY 16.1 billion. The effective tax rate was 34.1%.

Net Loss Attributable to Non-Controlling Interests

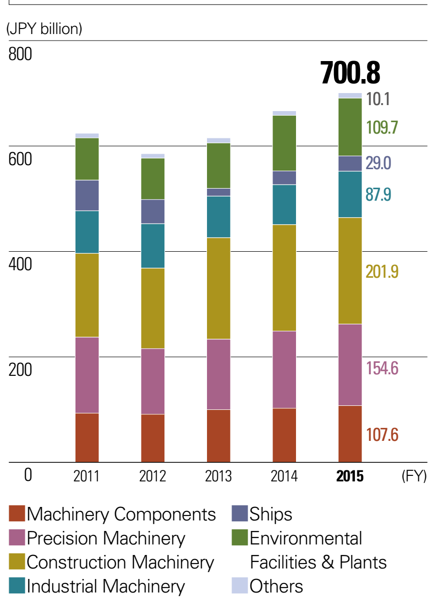
Net loss attributable to non-controlling interests was JPY 2.1 billion, a JPY 2.1 billion worsening from the previous period.

Net Income

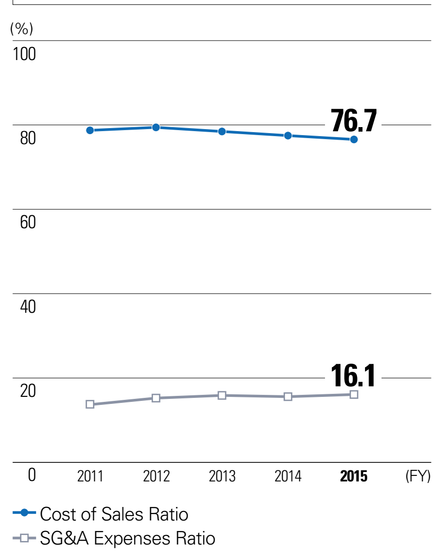
Net income increased by JPY 8.8 billion from the previous period, to JPY 33.1 billion. As a result, net income per share for the current period came to JPY 54.06, compared with JPY 39.71 in the previous period.

For an overview of operating results by business segment, please refer to the "Activities Report" section of this Annual Report, which can be found on Page 21 through 32.

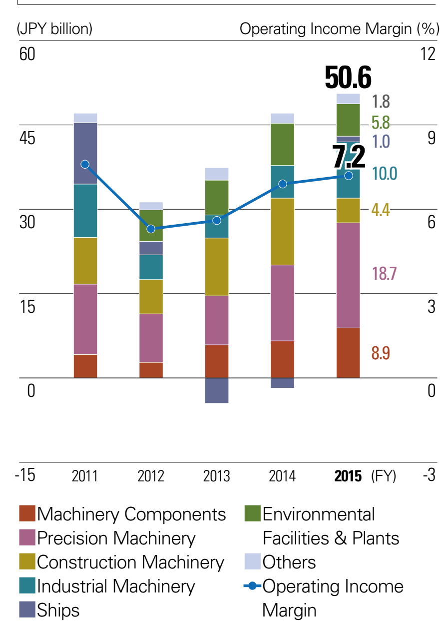
Net Sales



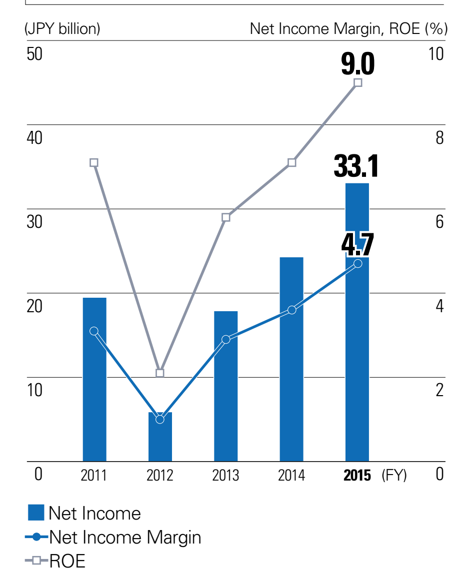
Cost of Sales Ratio, SG&A Expenses Ratio



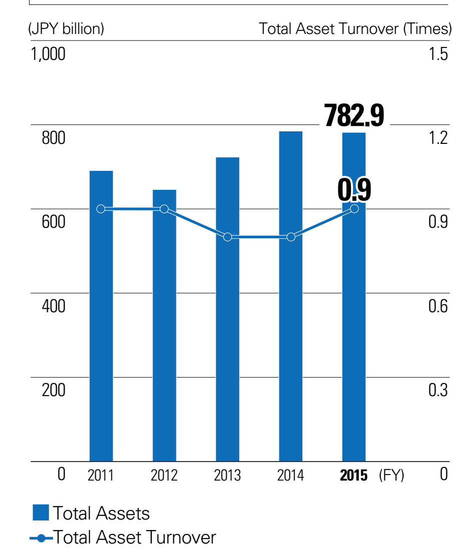
Operating Income, Operating Income Margin



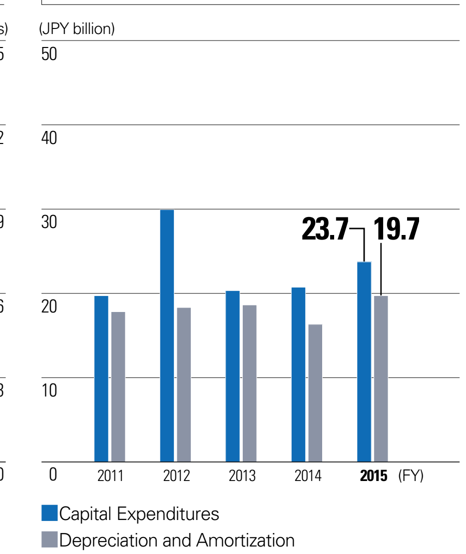
Net Income, Net Income Margin, ROE



Total Assets, Total Asset Turnover



Capital Expenditures, Depreciation and Amortization



3. Discussion and Analysis of Financial Condition as of Fiscal 2015 Year End

(1) Assets, Liabilities, and Net Assets

Total assets at the end of the current period amounted to JPY 782.9 billion, a decrease of JPY 3.2 billion as compared to the end of the previous period. This was mainly due to the JPY 8.4 billion increase in cash and cash equivalents, the JPY 2.4 billion increase in inventory assets, and the JPY 25.0 billion increase in trade notes and accounts receivable, being offset by the JPY 30.0 billion decrease in marketable securities, the JPY 3.5 billion decrease in investable securities, and the JPY 2.2 billion decrease in long-term loans.

Total liabilities at the end of the current period fell by JPY 20.9 billion from the end of the previous period to JPY 400.0 billion. This was mainly due to the JPY 15.4 billion decrease in interest-bearing liabilities (interesting-bearing liabilities as a ratio to total assets decreased by 1.9 points to 8.7%) and the JPY 9.5 billion decrease in advances received.

Net assets increased by JPY 17.7 billion as compared to the end of the previous period to JPY 382.8 billion. This was mainly due to the JPY 25.8 billion increase in retained earnings, as well as the JPY 5.1 billion decrease in the foreign currency translation adjustment account and the JPY 5.6 billion decrease in the adjusted cumulative amount for employee retirement benefits.

As a result of the above, the shareholders' equity ratio for the current period improved by 2.3 points from the end of the previous consolidated fiscal year to finish at 48.1%.

(2) Cash Flows

The Group generates working capital and plant funding from sources such as loans, corporate bond issuances, and internal funding sources.

The increase in cash flow from operating activities was JPY 18.3 billion (as compared to an increase in cash flow of JPY 62.2 billion in the previous period). The main sources of cash flow were net income before taxes and other adjustments of JPY 47.2 billion, depreciation of JPY 19.7 billion and the JPY 2.8 billion increase in trade payables. The main reasons for the cash outflow from operating activities were the JPY 31.0 billion increase in trade receivables and the JPY 16.4 billion used for the payment of corporate and other taxes.

The decrease in cash flow as a result of investing activities was JPY 15.4 billion (as compared to a decrease in cash flow of JPY 14.1 billion in the previous period). The main reason for the cash outflow was the JPY 19.2 billion used to acquire fixed assets.

The decrease in cash flow as a result of financing activities was JPY 23.8 billion (as compared to a decrease in cash flow of JPY 36.9 billion in the previous period). The main reasons for the cash outflow were the JPY 13.1 billion used to repay loans (net of income from loans) and the JPY 8.6 billion used to pay dividends.

As a result of the above, the cash and cash equivalent balance at the end of the current period stood at JPY 68.6 billion, an increase of JPY 21.7 billion as compared to the previous period.

(3) Capital Expenditures and Depreciation and Amortization

During the current period, the SHI Group undertook capital expenditures for the purpose of strengthening the cost competitiveness of its production bases.

Capital expenditures in the current period totaled JPY 23.7 billion, up JPY 3.0 billion from the previous period. Depreciation and amortization amounted to JPY 19.7 billion, representing an increase of JPY 3.4 billion from the previous fiscal year.

Capital expenditures by segment were as follows.

1. Machinery Components

With the fortification of its global supply chain as a key priority, the Group focused mainly on strengthening the cost competitiveness of its production bases, particularly in East Asia and Japan, and elsewhere. Capital expenditures in the Machinery Components segment in the current period totaled JPY 4.3 billion.

2. Precision Machinery

The Group placed emphasis on bolstering production capacity as well as productivity and undertook capital expenditures amounting to a total of JPY 5.4 billion to enhance the cost competitiveness of production bases in Japan and elsewhere.

3. Construction Machinery

With the primary aim of upgrading its supply chain and strengthening competitiveness of production bases in China and elsewhere, the Group undertook investments totaling JPY 8.8 billion.

4. Industrial Machinery

To increase production capacity and improve productivity mainly through renewal of existing equipment and facilities, the Group made investments totaling JPY 1.6 billion.

5. Ships

To increase production capacity and improve productivity in the Ships segment, the Group invested a total of JPY 1.2 billion, mainly for the renewal of existing equipment and facilities.

6. Environmental Facilities and Plants

In the Environmental Facilities and Plants segment, the Group undertook capital expenditures totaling JPY 1.4 billion aimed primarily at bolstering production capacity and improving productivity through renewal of existing facilities.

4. Policy on the Distribution of Profits

Regarding the distribution of profits, the SHI Group adheres to a basic policy of paying dividends commensurate with net income earned during the period while striving to increase dividend amounts. At the same time, the Group works to maintain retained earnings at a level sufficient to ensuring sustainable business growth over the long term. With due consideration given to this basic policy, the Group decided to target a dividend payout ratio of 30% under its new medium-term management plan.

For the fiscal year under review, and under the basic policy of maintaining the continuous and stable payment of dividends, the Company decided to increase its dividend from the previous fiscal year by JPY 4, bringing the dividend for the current period to JPY 16 per share (including an interim dividend of JPY 7 per share). On this basis, the payout ratio for the current period was 29.6%.

Business Risks

Risks that could adversely affect the business performance or financial position of the SHI Group are as follows. All statements below regarding future events represent judgments made by the management of the Group as of March 31, 2016.

1. Macroeconomic Factors

Demand for capital equipment, which accounts for more than half of the Group sales, may be influenced by economic trends in both Japan and various overseas markets where the Group sells its products. Any contraction in demand triggered by a slump in the major markets for our products in Japan, the rest of Asia, North America, Europe, and other countries and regions could have an adverse impact on the business performance or financial position of the Group.

2. Exchange-Rate Fluctuations

The Group's business includes the production and marketing of products in countries all around the world. Japanese yen translations are applied in the consolidated financial statements for transactions (involving overseas sales, expenses, assets, and liabilities) undertaken in local currencies. Due to impact of exchange-rate fluctuations, the Group may be adversely impacted by transaction values after Japanese yen translation even if there is no such change in local currency terms. For the fiscal year under review, the ratio of overseas sales to total sales was 53.0%. To minimize the impact of exchange-rate fluctuations on its business performance, the Group uses foreign exchange futures to hedge against risk. However, it is not possible to eliminate all risks using this method. For this reason, the Group could suffer an adverse impact on its business performance from exchange-rate fluctuations.

3. Overseas Businesses

The Group conducts its business on a global scale, with a focus on the Machinery Components, Precision Machinery, and Construction Machinery segments for markets in North America, Asia, and Europe. To meet expanding overseas demand, the Group is upgrading its marketing networks and production facilities. However, wherever we operate, markets are subject to political change and unpredictable legal and regulatory changes. Such changes could have an adverse impact on the performance of our overseas businesses.

4. Product Quality

The Group manufactures a wide range of products in line with very strict quality control standards. However, total defect elimination is impossible, and we cannot rule out having to undertake repair work under guarantee at our own expense in the event of product flaws. The Group has taken out insurance to cover product-defect liabilities, but cannot guarantee that these policies will cover the full sums of compensation that may become payable in liability settlements. Repairs performed under guarantee and product compensation payments can generate significant costs for the Group, and this can adversely affect the business performance and financial position of the Group.

5. Impact of Impairment Accounting

Based on the Law Concerning Revaluation of Land (Ordinance No. 34, issued March 31, 1998) and the Law to Partially Modify the Law Concerning Revaluation of Land (Ordinance No. 19, March 31, 2001), the Company revalued land used by its businesses on March 31, 2002. The difference between the market and book values of the revalued land as of March 31, 2016 was JPY 18.9 billion, a decline of 21%. If land values continue to fall, or conditions are such that the Group is not expected to recover the book values of its assets or asset groups, we may have to recognize impairment losses on fixed assets, which could adversely affect the business performance and financial position of the Group.

6. Individual Order Agreements

In the vast majority of cases, the SHI Group commences the manufacture of a product after concluding individual order agreements with customers. In the case of important construction and other projects where the contract amount is substantial, order deliberations are undertaken across multiple levels before the execution of an order agreement. However, cost overruns attributable to design, processing, and other issues that result from unforeseeable changes in economic conditions, any incidence of litigation, or the payment of penalties relating to a failure to meet predetermined product performance and delivery standards may result in a deterioration in earnings. In the event of an order cancellation at the request of a customer, the SHI Group could suffer an adverse impact on its business performance if it is unable to recoup related costs in full.

7. Environmental Protection Measures

Under the Group's Environmental Policy, we take a range of measures to reduce our environmental footprint, such as avoiding environmental risk factors and minimizing waste. We have taken every measure to prevent environmental pollution, but cannot rule out responsibility for instances of environmental pollution due to unforeseen events. If the Group were made responsible for an incidence of environmental pollution, significant costs could be incurred, negatively affecting the business performance and financial position of the Group.

8. Natural and Other Disasters

The Group has in place inspection, training, and communication mechanisms for minimizing the occurrence and fallout from such disasters as fires, earthquakes, typhoons, and wind and flood damage. However, the Group's business activities could be adversely affected if such disasters cause material damage to our operations or injury to our staff. The Group cannot guarantee that the insurance contracts purchased by the Group are sufficient to cover all damages from such events.

Consolidated Balance Sheets

March 31, 2016 and 2015

ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note1) 2016
Current assets:			
Cash and time deposits (Notes 2, 4 and 11)	¥65,804	¥57,423	$582,340
Trade receivables (Note 11):			
Notes receivable	27,003	19,444	238,969
Accounts receivable	192,926	175,472	1,707,306
Allowance for doubtful accounts	(1,674)	(1,202)	(14,815)
Short-term investment (Notes 11 and 12)	5,000	35,000	44,248
Inventories:			
Finished products	70,356	67,920	622,617
Work in process	56,777	54,762	502,452
Raw materials and supplies	29,137	31,154	257,849
Deferred tax assets (Note 5)	15,405	17,176	136,328
Other current assets (Note 13)	32,269	34,851	285,556
Total current assets	493,003	492,000	4,362,850
Property, plant and equipment:			
Land (Note 4)	108,285	108,749	958,276
Buildings and structure (Note 4)	154,038	151,984	1,363,170
Machinery and equipment	167,859	167,445	1,485,477
Leased Assets	13,347	10,818	118,117
Construction in progress	3,302	3,288	29,223
Other tangible fixed assets	33,016	31,529	292,172
	479,847	473,813	4,246,435
Accumulated depreciation	(252,078)	(245,511)	(2,230,777)
Net property, plant and equipment	227,769	228,302	2,015,658
Intangible assets	11,219	9,333	99,287
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	13,075	12,220	115,709
Investment securities (Notes 11 and 12)	12,912	17,289	114,268
Long-term loans receivable (Note 11)	6,170	8,340	54,603
Deferred tax assets (Note 5)	13,153	9,607	116,394
Other assets	9,929	11,120	87,864
Allowance for doubtful accounts	(4,371)	(2,184)	(38,677)
Total investments and other assets	50,868	56,392	450,161
Total assets (Note 9)	¥782,859	¥786,027	$6,927,956

LIABILITIES AND NET ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note1) 2016
Current liabilities:			
Short-term bank loans (Notes 4 and 11)	¥42,708	¥42,110	$377,945
Long-term debts due within one year (Notes 4 and 11)	7,300	15,201	64,606
Trade payables (Note 11):			
Notes payable	28,089	27,549	248,578
Accounts payable	114,215	112,888	1,010,751
Advance receipt on contracts	35,205	44,698	311,545
Income taxes payable	6,919	8,590	61,231
Allowance for warranty	9,092	7,985	80,462
Allowance for losses on construction contracts	1,739	1,518	15,387
Allowance for losses on business	3,970	3,542	35,134
Allowance for losses on business transfer	—	742	—
Allowance for compensation for damages	—	565	—
Other current liabilities (Notes 4, 5 and 13)	45,682	47,383	404,265
Total current liabilities	294,919	312,771	2,609,904
Long-term liabilities:			
Long-term debts (Notes 4 and 11)	18,224	26,333	161,272
Allowance for losses on product liabilities	45	42	400
Allowance for losses on business transfer	115	161	1,020
Liability for retirement benefits (Note 14)	51,623	46,162	456,837
Deferred tax liabilities on revaluation difference on land	21,027	22,293	186,084
Other long-term liabilities (Notes 4 and 5)	14,089	13,164	124,681
Total long-term liabilities	105,123	108,155	930,294
Contingent liabilities (Note 7)			
Net assets (Note 6):			
Stockholders' equity:			
Common stock:	30,872	30,872	273,200
Number of shares authorized : 1,800,000 thousand shares			
Number of shares issued:			
614,527 thousand shares in 2016			
614,527 thousand shares in 2015			
Capital surplus	25,354	23,789	224,374
Retained earnings	265,588	239,815	2,350,336
Treasury stock at cost: 1,648 thousand shares in 2016			
1,496 thousand shares in 2015	(861)	(764)	(7,620)
Total stockholders' equity	320,953	293,712	2,840,290
Accumulated other comprehensive income:			
Unrealized gains on securities, net of income taxes	2,356	5,437	20,845
Unrealized losses on hedging derivatives, net of income taxes	(121)	(2,229)	(1,074)
Revaluation difference on land	41,481	40,475	367,088
Foreign currency translation adjustments	21,558	26,641	190,783
Accumulated adjustments for retirement benefits, net of income taxes (Note 14)	(9,607)	(3,957)	(85,017)
Total accumulated other comprehensive income	55,667	66,367	492,625
Non-controlling interests	6,197	5,022	54,843
Total net assets	382,817	365,101	3,387,758
Total liabilities and net assets	¥782,859	¥786,027	$6,927,956

See accompanying notes.

Consolidated Statements of Income

Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note1)
	2016	2015	2016
Net sales (Note 9)	¥700,838	¥667,099	$6,202,108
Costs and expenses:			
Cost of sales	537,502	516,735	4,756,651
Selling, general and administrative expenses	112,768	104,366	997,949
Total	650,270	621,101	5,754,600
Operating income (Note 9)	50,568	45,998	447,508
Other income (expenses):			
Interest and dividend income	1,658	1,459	14,676
Interest expense	(1,829)	(2,148)	(16,188)
Equity in earnings of affiliated companies	2,083	1,549	18,436
Foreign exchange losses (gains), net	(509)	1,807	(4,508)
Impairment losses on fixed assets (Note 3)	(524)	(3,463)	(4,637)
Loss on business restructuring	—	(1,852)	—
Loss on compensation for damages	(1,448)	(1,071)	(12,813)
Other – net	(2,840)	(3,552)	(25,134)
Profit before income taxes and non-controlling interests	47,159	38,727	417,340
Income taxes (Note 5):			
Current	15,074	16,622	133,397
Deferred	1,016	(2,235)	8,991
Total	16,090	14,387	142,388
Profit	31,070	24,339	274,952
Profit attributable to the non-controlling interests	2,063	9	18,260
Profit attributable to owners of parent	¥33,133	¥24,348	$293,212

	Yen		U.S. dollars (Note1)
	2016	2015	2016
Amounts per share of common stock:			
Profit	¥54.06	¥39.71	$0.48
Diluted profit	—	—	—
Cash dividends applicable to the year (Note 15)	16.00	12.00	0.14

See accompanying notes.

Consolidated Statements of Comprehensive Income

Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Profit	¥31,070	¥24,339	$274,952
Other comprehensive income:			
Unrealized gains (losses) on securities, net of income taxes	(3,078)	1,682	(27,237)
Unrealized gains (losses) on hedging derivatives, net of income taxes	2,135	(1,886)	18,892
Revaluation difference on land	1,174	2,275	10,389
Foreign currency translation adjustments	(5,211)	15,096	(46,117)
Adjustments for retirement benefits, net of income taxes	(5,655)	(1,628)	(50,043)
Share of other comprehensive income of affiliates accounted for using equity method	(25)	44	(221)
Total other comprehensive income (Note 8)	(10,660)	15,582	(94,337)
Comprehensive income	¥20,410	¥39,922	$180,615
Comprehensive income attributable to:			
Owners of parent	¥22,601	¥39,483	$200,010
Non-controlling interests	(2,192)	438	(19,395)

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2016 and 2015

Millions of yen

		Stockholders' equity					Accumulated other comprehensive income							
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total	Unrealized gains on securities, net of income taxes	Unrealized losses on hedging derivatives, net of income taxes	Revaluation difference on land	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits, net of income taxes	Sub-total	Non-controlling interests	Total
Net assets at April 1, 2014	614,527	¥30,872	¥23,789	¥221,101	¥(632)	¥275,130	¥3,753	¥(379)	¥38,272	¥11,993	¥(2,336)	¥51,304	¥4,626	¥331,059
Cumulative effects of changes in accounting policies				(1,475)		(1,475)								(1,475)
Restated balance		30,872	23,789	219,626	(632)	273,655	3,753	(379)	38,272	11,993	(2,336)	51,304	4,626	329,584
Dividends				(5,519)		(5,519)								(5,519)
Profit attributable to owners of parent				24,348		24,348								24,348
Acquisition of treasury stock					(135)	(135)								(135)
Disposal of treasury stock				0	3	3								3
Increase due to transfer of revaluation difference on land				72		72								72
Increase of consolidated subsidiaries with change in scope of consolidation				1,287		1,288								1,287
Change in treasury shares of parent arising from transactions with non-controlling stockholders						—								—
Changes in items other than stockholders' equity in the period (net)							1,683	(1,850)	2,203	14,648	(1,621)	15,063	396	15,460
Total changes in the period	—	—	—	20,189	(132)	20,057	1,683	(1,850)	2,203	14,648	(1,621)	15,063	396	35,516
Net assets at March 31, 2015	614,527	¥30,872	¥23,789	¥239,815	¥(764)	¥293,712	¥5,437	¥(2,229)	¥40,475	¥26,641	¥(3,957)	¥66,367	¥5,022	¥365,101

Millions of yen

		Stockholders' equity					Accumulated other comprehensive income							
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total	Unrealized gains on securities, net of income taxes	Unrealized losses on hedging derivatives, net of income taxes	Revaluation difference on land	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits, net of income taxes	Sub-total	Non-controlling interests	Total
Net assets at April 1, 2015	614,527	¥30,872	¥23,789	¥239,815	¥(764)	¥293,712	¥5,437	¥(2,229)	¥40,476	¥26,641	¥(3,957)	¥66,367	¥5,022	¥365,101
Cumulative effects of changes in accounting policies						—								—
Restated balance		30,872	23,789	239,815	(764)	293,712	5,437	(2,229)	40,476	26,641	(3,957)	66,367	5,022	365,101
Dividends				(8,582)		(8,582)								(8,582)
Profit attributable to owners of parent				33,133		33,133								33,133
Acquisition of treasury stock					(99)	(99)								(99)
Disposal of treasury stock				0	1	2								2
Increase due to transfer of revaluation difference on land				169		169								169
Increase of consolidated subsidiaries with change in scope of consolidation				1,053		1,053								1,053
Change in treasury shares of parent arising from transactions with non-controlling stockholders			1,565			1,565								1,565
Changes in items other than stockholders' equity in the period (net)							(3,081)	2,108	1,005	(5,083)	(5,649)	(10,700)	1,175	(9,525)
Total changes in the period	—	—	1,565	25,773	(97)	27,241	(3,081)	2,108	1,005	(5,083)	(5,649)	(10,700)	1,175	17,716
Net assets at March 31, 2016	614,527	¥30,872	¥25,354	¥265,588	¥(861)	¥320,953	¥2,355	¥(121)	¥41,481	¥21,558	¥(9,607)	¥55,667	¥6,197	¥382,817

Thousands of U.S. dollars (Note 1)

		Stockholders' equity					Accumulated other comprehensive income							
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total	Unrealized gains on securities, net of income taxes	Unrealized losses on hedging derivatives, net of income taxes	Revaluation difference on land	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits, net of income taxes	Sub-total	Non-controlling interests	Total
Net assets at April 1, 2015	614,527	$273,200	$210,521	$2,122,253	$(6,757)	$2,599,217	$48,113	$(19,727)	$358,191	$235,764	$(35,022)	$587,319	$44,443	$3,230,979
Cumulative effects of changes in accounting policies						—								—
Restated balance		273,200	210,521	2,122,253	(6,757)	2,599,217	48,113	(19,727)	358,191	235,764	(35,022)	587,319	44,443	3,230,979
Dividends				(75,944)		(75,944)								(75,944)
Profit attributable to owners of parent				293,212		293,212								293,212
Acquisition of treasury stock					(876)	(876)								(876)
Disposal of treasury stock				1	13	14								14
Increase due to transfer of revaluation difference on land				1,492		1,492								1,492
Increase of consolidated subsidiaries with change in scope of consolidation				9,322		9,322								9,322
Change in treasury shares of parent arising from transactions with non-controlling stockholders			13,853			13,853								13,853
Changes in items other than stockholders' equity in the period (net)							(27,268)	18,653	8,897	(44,981)	(49,995)	(94,694)	10,400	(84,294)
Total changes in the period	—	—	13,853	228,083	(863)	241,073	(27,268)	18,653	8,897	(44,981)	(49,995)	(94,694)	10,400	156,779
Net assets at March 31, 2016	614,527	$273,200	$224,374	$2,350,336	$(7,620)	$2,840,290	$20,845	$(1,074)	$367,088	$190,783	$(85,017)	$492,625	$54,843	$3,387,758

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Profit before income taxes and non-controlling interests	¥47,159	¥38,727	$417,340
Adjustments to reconcile profit before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	19,720	16,281	174,516
Impairment losses on fixed assets	524	3,463	4,637
Loss on business restructuring	—	1,852	—
Loss on compensation for damages	1,448	1,071	12,813
Interest and dividend income	(1,658)	(1,459)	(14,676)
Interest expense	1,829	2,148	16,188
Increase in allowances	3,227	3,075	28,558
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(30,952)	6,458	(273,909)
Decrease in inventories	(6,452)	(4,526)	(57,100)
Increase in notes and accounts payable	2,818	9,750	24,940
Other – net	(3,769)	1,984	(33,351)
Sub-total	33,895	78,825	299,956
Interest and dividend received	2,791	1,791	24,699
Interest paid	(2,019)	(2,121)	(17,864)
Income taxes paid	(16,353)	(16,324)	(144,712)
Net cash provided by operating activities	¥18,315	¥62,170	$162,079

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from investing activities:			
Acquisition of property, plant and equipment	¥(19,180)	¥(17,349)	$(169,734)
Proceeds from sale of property, plant and equipment	1,661	1,420	14,702
Proceeds from sale of securities	840	841	7,437
Net decrease in short-term loans receivable	23	1,297	206
Payments of long-term loans receivable	(7)	(1,388)	(62)
Collection of long-term loans receivable	2,142	1,779	18,954
Other – net	(830)	(710)	(7,347)
Net cash used in investing activities	(15,350)	(14,112)	(135,844)
Cash flows from financing activities:			
Net (decrease) increase in short-term bank loans	2,550	(15,432)	22,562
Proceeds from long-term debts	2,300	4,771	20,357
Repayments of long-term debts	(17,995)	(18,859)	(159,250)
Cash dividends paid	(8,581)	(5,533)	(75,940)
Cash dividends paid to non-controlling stockholders	(61)	(42)	(536)
Other – net	(2,002)	(1,793)	(17,713)
Net cash used in financing activities	(23,789)	(36,889)	(210,520)
Effect of exchange rate changes on cash and cash equivalents	(1,606)	2,812	(14,210)
Net (increase) decrease in cash and cash equivalents	(22,430)	13,980	(198,495)
Cash and cash equivalents at beginning of year	90,324	76,418	799,325
Increase in cash and cash equivalents from newly consolidated subsidiaries	731	46	6,469
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(120)	—
Cash and cash equivalents at end of year (Note 2)	¥68,625	¥90,324	$607,299

See accompanying notes.

Notes to Consolidated Financial Statements

1. Significant accounting policies

Basis of presenting consolidated financial statements

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

The accounts of foreign consolidated subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified four items as applicable.

The accompanying consolidated financial statements for Sumitomo Heavy Industries, Ltd. ("SHI") and subsidiaries (collectively, "the Company") have been reformatted and translated into English (with certain expanded descriptions) from the ones prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥113 to U.S. $1. The convenience translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be when converted into U.S. dollars at this or any other rate of exchange.

Principles of consolidation

The consolidated financial statements include the accounts of SHI and its significant subsidiaries. All significant inter-company balances and transactions are eliminated in consolidation. Investments in significant affiliated companies are accounted for using the equity method of accounting.

Marketable and investment securities

Held-to-maturity debt securities are stated at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Available-for-sale securities with fair values are stated at fair value. Unrealized holding gains and losses, net of applicable income taxes, on available-for-sale securities are excluded from earnings and reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of such securities are computed using the moving-average method. Investment securities in unconsolidated subsidiaries and affiliated companies that are not subject to the equity method of accounting, are stated at cost based on the moving-average method. Unlisted available-for-sale securities are stated at cost based on the moving-average method.

Inventories

Finished products, raw materials and supplies are stated at the lower of cost (determined primarily by the weighted average method) or market. Work-in-process is stated at the lower of cost (determined primarily by specific identification method) or market.

Property, plant and equipment

(A) Tangible fixed assets (excluding leased assets)

Tangible assets are stated at cost and depreciated by the straight-line method.

The estimated useful lives of tangible assets are as follows:

- Buildings and structure 10 to 50 years
- Machinery and equipment 5 to 12 years

(B) Leased assets

Property and equipment held under finance lease arrangements, which are not subject to the ownership transfer from a lessor to a lessee, are depreciated on a straight-line basis over the lease term except for certain immaterial arrangements or ones commenced prior to March 31, 2008, which are accounted for as operating leases.

Intangible assets (excluding leased assets)

Costs of software obtained for internal use are amortized using the straight-line method over the estimated useful lives (5 years).

Allowance for doubtful accounts

The Company provides an allowance for doubtful accounts for estimated losses inherent in its receivable portfolio. The required allowance is determined based on historical losses for general accounts receivables. For accounts receivable considered at risk (bankruptcy, companies under reorganization plan), the required allowance is determined based on certain specific factors such as current market conditions, customers' financial condition, the amount of receivables in dispute, current receivables aging, and current payment patterns on an individual basis.

Allowance for warranty

Allowance for warranty is provided for the estimated future warranty costs associated with repair work after delivery of products. These estimates are derived from historical data and trends of product reliability, and costs of repairing and replacing defective products.

Allowance for losses on construction contracts

Allowance for losses on construction contracts is provided when the current estimates of total contract revenue and contract cost indicate losses, and such losses are reasonably estimated.

Allowance for losses on business

Allowance for losses on business is provided for the estimated future expenses that are expected to be incurred associated with maintenance of the transaction agreement between an affiliated company and its sales agents.

Allowance for losses on business transfer

Allowance for losses on business transfer is provided for the estimated future expenses due to the transfer of resort development business.

Allowance for losses on product liabilities

Allowance for losses on product liabilities is provided at an estimated amount of product liabilities to be incurred in relation to crane business of foreign subsidiaries.

Retirement benefits

In calculating the retirement benefit obligation, a benefit formula basis is used to attribute the expected benefit attributable to the respective fiscal years.

Prior service costs are amortized using the straight-line method over a period within the average remaining service life of active employees.

The actuarial difference is amortized using the straight-line method over a period within the average remaining service life of active employees commencing from the following year of the incurrence.

Derivatives and hedge accounting

The Company recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheet at their respective fair values, and changes in the fair values are recognized as gains or losses. For derivatives designated in hedging relationship, the related gains or losses are deferred until the hedged items affect earnings.

For forward foreign exchange contracts that meet certain hedging criteria, they are accounted for as follows:

When a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

1. The difference, between the Yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the carrying value of the receivable or payable is recognized in the consolidated statement of income in the period which includes the inception date, and
2. The discount or premium on the contract (that is, the difference between the Yen amount of the contract using the contracted forward rate and the amount using the spot rate at the inception date of the contract) is recognized over the term of the contract.

When forward foreign exchange contracts are executed to hedge a future transaction in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses will be recognized.

For interest rate swap contracts that meet certain hedging criteria, the net amount to be paid or received is added to or deducted from the interest on the liabilities for which the swap contracts were executed.

Revenue recognition on construction contracts

The percentage-of-completion method is applied to construction contracts when outcome of individual contracts is reliably estimated. The completed-contract method is applied to the other construction contracts.

Amortization of goodwill

Goodwill is amortized using the straight-line method over 5 years. In case of the insignificant amount, it is amortized in full at the time of the incurrence.

Revaluation difference on land

The Company revaluated land held for business use as of March 31, 2002 in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land effective March 31, 1998.

The current market value of the land as of March 31, 2016 has declined by ¥18,854 million ($166,846 thousand) as compared to the carrying value.

Research and development costs

Research and development costs are expensed when incurred. Research and development costs included in manufacturing cost and selling, general and administrative expenses were ¥12,358 million ($109,359 thousand) and ¥11,475 million for the years ended March 31, 2016 and 2015, respectively.

Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date in the Diet session.

SHI files a Japanese consolidated tax return with certain domestic consolidated subsidiaries.

Foreign currency translation and transactions

All asset and liability accounts of foreign subsidiaries and affiliated companies are translated into Yen at the applicable balance sheet date exchange rates of each foreign subsidiary, except for common stock, capital surplus and retained earnings, which are translated at historical rates. Revenues, costs, and expenses are translated into Yen at average exchange rates for the year.

Transactions in foreign currencies are translated at the exchange rate in effect at the time of the transaction. Any assets and liabilities denominated in foreign currencies are translated into Yen using the year-end exchange rate. Gains and losses resulting from transactions in foreign currencies are included in the consolidated statements of income.

Amounts per share

The computation of profit per share of common stock is based on a weighted-average number of shares of common stock outstanding during each fiscal year.

The diluted profit per share is not presented as the Company does not have any outstanding convertible bonds or bonds with share subscription rights.

Cash dividends per share have been presented on an accrual basis and include the year-end cash dividend resolved at the shareholders' meeting held after the end of the fiscal year, but applicable to the year-end.

Reclassifications

Certain amounts in the consolidated financial statements for the year ended March 31, 2015 have been reclassified to conform to the 2016 presentation.

Change in accounting policies

The Company adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013 (hereinafter, "Statement No.21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013 (hereinafter, "Statement No.22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013 (hereinafter, "Statement No.7")) (together, the "Business Combination Accounting Standards") from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of profit and the term "non-controlling interests" is used instead of "minority interests". Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current fiscal year prospectively.

As a result, operating income and profit before income taxes and non-controlling interests for the current fiscal year decreased by ¥206 ($1,822 thousand) million and ¥1,771 million ($15,675 thousand), respectively, and capital surplus as of the end of the current fiscal year increased by ¥1,565 million ($13,853 thousand).

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities".

Capital surplus as of the end of the current fiscal year in the consolidated statement of changes in net assets increased by ¥1,565 million ($13,853 thousand). Net assets per share and earnings per share for the current fiscal year decreased by ¥0.34 and ¥2.89, respectively.

Impending application of newly issued accounting standards, etc.

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26")

(1) Overview

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets", which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2017

(3) Effects of application of the Guidance

The Company is currently in the process of determining the effects of this new standard on the consolidated financial statements.

2. Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with maturities within three months of the date of acquisition. Those are readily convertible to known amounts of cash and have negligible risk of changes in value.

Cash and cash equivalents as of March 31, 2016 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and time deposits	¥65,804	¥57,423	$582,340
Time deposits with maturities over three months	(2,058)	(2,064)	(18,218)
Restricted deposits	(121)	(35)	(1,071)
Securities (cash equivalents)	5,000	35,000	44,248
Cash and cash equivalents	¥68,625	¥90,324	$607,299

3. Impairment losses on fixed assets

(A) The Company recognized the following impairment losses in the year ended March 31, 2016.

Use	Type of assets	Location	Millions of yen 2016	Thousands of U.S. dollars 2016
Business assets	Buildings, etc.	Nishitokyo, Tokyo Metropolis, etc.	¥287	$2,540
Idle	Land, etc.	Saijo, Ehime Pref., etc.	237	2,097
Total			¥524	$4,637

Reason for recognition of impairment losses

Due to decline of profitability, an impairment analysis was required. As a result of the cash flow analysis, it was determined that the carrying values of the related fixed assets were not recoverable, resulting in the impairment for the year ended March 31, 2016.

Grouping of assets

Each division is considered an asset group since the asset group is the lowest level at which cash flows can be identified that are largely independent of the cash flows of other asset groups. A temporarily idle asset is also considered an asset group.

Measurement of recoverable amount

The recoverable amount is generally determined based on a net selling price of each asset, which is calculated by deducting the related selling expenses from the selling price.

(B) The Company recognized the following impairment losses in the year ended March 31, 2015.

Use	Type of assets	Location	Millions of yen 2015
Business assets	Buildings, etc.	Brazil, etc.	¥3,158
Idle	Buildings, etc.	Yokosuka, Kanagawa Pref., etc.	305
Total			¥3,463

Reason for recognition of impairment losses

Due to decline of profitability, an impairment analysis was required. As a result of the cash flow analysis, it was determined that the carrying values of the related fixed assets were not recoverable, resulting in the impairment for the year ended March 31, 2015.

Grouping of assets

Each division is considered an asset group since the asset group is the lowest level at which cash flows can be identified that are largely independent of the cash flows of other asset groups. A temporarily idle asset is also considered an asset group.

Measurement of recoverable amount

The recoverable amount of business assets is measured mainly based on the value in use of the assets which is calculated by discounting the future cash flows at the rate of 13%. Meanwhile, the recoverable amount of idle assets is measured based on the net selling value less costs to sell.

4. Bank loans, lease obligations and long-term debts

Bank loans as of March 31, 2016 and 2015 consist of short-term loans, bearing average interest at 2.52% and 3.19% per annum, respectively.

The amounts of lease obligation under finance leases include the imputed interest expense portion.

Long-term debts and lease obligations as of March 31, 2016 and 2015 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
0.26% domestic bonds due in October 2019	¥10,000	¥10,000	$88,496
Loans principally from banks and insurance companies due serially through October 2018 with interest ranging from 0.55% to 6.28% in FY2015			
Secured	49	77	437
Unsecured	15,475	31,457	136,945
Lease obligations	8,882	7,214	78,596
	¥34,406	¥48,748	$304,474
Amount due within one year	9,706	17,213	85,892
Amount due after one year	24,700	31,535	218,582

Long-term debts and lease obligations are due as follows:

Years ending March 31	Millions of yen 2016	Thousands of U.S. dollars 2016
2017	¥ 9,706	$ 85,892
2018	4,562	40,374
2019	8,800	77,879
2020	10,677	94,484
2021	388	3,430
2022 and thereafter	273	2,415
Total	¥34,406	$304,474

As of March 31, 2016 and 2015, assets pledged as collateral for long-term loans from banks and contingent liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and time deposits	¥ 148	¥ 35	$ 1,313
Buildings and structure	861	1,002	7,617
Land	150	167	1,330
Total	¥1,159	¥1,204	$10,260

The Company has agreements for revolving lines of credit with twelve banks to efficiently raise working capital.

As of March 31, 2016 and 2015, unused revolving lines of credit are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Limit of revolving lines of credit	¥36,000	¥36,000	$318,584
Used	—	—	—
Unused	¥36,000	¥36,000	$318,584

5. Income taxes

The Company is subject to corporate, inhabitants' and enterprise taxes, which, in the aggregate show a statutory tax rate in Japan of approximately 33% and 35% for the years ended March 31, 2016 and 2015, respectively.

The tax rate reconciliation for the years ended March 31, 2016 and 2015 is not disclosed as the difference between the statutory tax rate and the effective tax rate is less than 5% of the statutory tax rate.

Main components of deferred tax assets and liabilities as of March 31, 2016 and 2015 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Accrued bonuses	¥ 2,938	¥ 2,992	$ 25,999
Allowance for doubtful accounts	811	1,706	7,180
Allowance for warranty	2,522	2,399	22,323
Liability for retirement benefits	17,249	16,414	152,642
Unrealized profit on inventories	1,629	2,073	14,415
Devaluation of marketable securities and investments into affiliated companies	1,705	1,625	15,088
Depreciation	1,018	1,066	9,012
Net operating loss carryforward	2,995	2,710	26,502
Loss on valuation of inventories	4,545	4,776	40,225
Impairment losses on fixed assets	2,408	2,823	21,314
Unrealized gains or losses on hedging derivatives	64	706	565
Others	9,165	7,393	81,102
Total deferred tax assets	47,049	46,683	416,367
Less-valuation allowance	(9,170)	(8,646)	(81,155)
Deferred tax assets-net	¥ 37,879	¥ 38,037	$335,212
Deferred tax liabilities:			
Tax depreciation reserve	(38)	(43)	(333)
Difference on revaluation of assets and liabilities of subsidiaries	(2,872)	(3,002)	(25,417)
Accelerated depreciation	(3,877)	(3,594)	(34,313)
Undistributed earnings in consolidated overseas subsidiaries	(3,194)	(3,703)	(28,269)
Net unrealized holding gains on securities	(674)	(1,925)	(5,961)
Others	(484)	(666)	(4,280)
Deferred tax liabilities	¥(11,139)	¥(12,933)	$ (98,573)
Net deferred tax assets	¥ 26,740	¥ 25,104	$236,639

(Revision of statutory tax rate)

On March 29, 2016, amendments to the Japanese tax regulations were enacted in the Diet session. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 were changed from 32.3% to 30.9% and 30.6%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥225 million ($1,992 thousand) as of March 31, 2016, and deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥176 million ($1,559 thousand).

6. Net assets

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in-capital, which is included in capital surplus.

Under the Japanese Corporate Law ("the Law"), in case where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, generally legal earnings reserve and additional paid-in-capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting.

Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount allowed to be distributed as dividend is determined based on the entity's non-consolidated financial statements in accordance with the Japanese laws and regulations.

At the general shareholders' meeting held on June 29, 2016, the shareholders resolved cash dividend amounting to ¥5,516 million ($48,813 thousand). Such appropriations have not been accrued in the accompanying consolidated financial statements as of March 31, 2016 and will be recorded in the period in which they are resolved.

7. Contingent liabilities

SHI and certain consolidated domestic subsidiaries are contingently liable as endorsers of trade notes receivable discounted with banks in the amounts of ¥0 million ($0 thousand) and ¥2,772 million as of March 31, 2016 and 2015, respectively. In addition, SHI and certain consolidated subsidiaries are contingently liable as guarantors for bank loans or other borrowings obtained by unconsolidated subsidiaries, affiliated companies and employees in the amounts of ¥17,754 million ($157,111 thousand) and ¥26,841 million as of March 31, 2016 and 2015, respectively.

8. Statement of comprehensive income

Amounts reclassified to profit in the current fiscal period that were recognized in other comprehensive income in the current or previous period and related tax effects for each component of other comprehensive income in the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized gains (losses) on securities, net of income taxes			
Increase (decrease) during the year	¥ (3,737)	¥ 2,292	$(33,067)
Reclassification adjustments	(593)	(80)	(5,250)
Sub-total, before tax	(4,330)	2,212	(38,317)
Tax (expense) or benefit	1,252	(530)	11,080
Sub-total, net of tax	(3,078)	1,682	(27,237)
Unrealized gains (losses) on hedging derivatives, net of income taxes			
Increase (decrease) during the year	1,630	(2,968)	14,425
Reclassification adjustments	1,181	515	10,449
Sub-total, before tax	2,811	(2,453)	24,874
Tax (expense) or benefit	(676)	567	(5,982)
Sub-total, net of tax	2,135	(1,886)	18,892
Revaluation difference on land			
Tax (expense) or benefit	1,174	2,275	10,389
Foreign currency translation adjustments			
Increase (decrease) during the year	(5,640)	15,096	(49,912)
Reclassification adjustments	429	—	3,795
Sub-total	(5,211)	15,096	(46,117)
Adjustments for retirement benefits			
Increase (decrease) during the year	(7,816)	(2,846)	(69,171)
Reclassification adjustments	(438)	(197)	(3,875)
Sub-total, before tax	(8,254)	(3,043)	(73,046)
Tax (expense) or benefit	2,599	1,415	23,003
Sub-total, net of tax	(5,655)	(1,628)	(50,043)
Share of other comprehensive income of affiliates accounted for using equity method			
Increase (decrease) during the year	30	47	264
Reclassification adjustments	(55)	(3)	(484)
Sub-total, net of tax	(25)	44	(220)
Total other comprehensive income	¥(10,660)	¥15,583	$(94,336)

9. Segment information

(A) Segment information

The Company's major operations comprise (1) the machinery components segment, (2) the precision machinery segment, (3) the construction machinery segment, (4) the industrial machinery segment, (5) the ships segment, (6) the environmental facilities and plants segment. The method of the accounting of the reportable operating segments is generally the same as explained in the Note 1. "Significant accounting policies". Inter-segment sales are based on current market price.

A summary of net sales, income or losses, assets and other items by operating segments for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen									
	Reportable segment									
2016	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants	Total	Other	Adjustment	Consolidated
Net sales:										
Outside customers	¥107,614	¥154,556	¥201,916	¥87,939	¥28,974	¥109,706	¥690,705	¥10,133	¥ —	¥700,838
Inter-segment	2,315	1,309	21	1,711	107	822	6,285	3,363	(9,648)	—
Total	109,929	155,865	201,937	89,650	29,081	110,528	696,990	13,496	(9,648)	700,838
Segment income	¥ 8,930	¥ 18,718	¥ 4,409	¥ 9,977	¥ 967	¥ 5,787	¥ 48,788	¥ 1,843	¥ (63)	¥ 50,568
Segment assets	¥109,504	¥154,718	¥222,070	¥82,019	¥52,984	¥ 67,665	¥688,960	¥61,202	¥32,697	¥782,859
Other items:										
Depreciation	¥ 4,570	¥ 3,673	¥ 8,205	¥ 1,366	¥ 531	¥ 777	¥ 19,122	¥ 598	¥ —	¥ 19,720
Impairment losses on fixed assets	—	74	297	—	—	—	371	—	153	524
Investments in equity method affiliates	—	1,705	6,980	3,341	—	—	12,026	—	—	12,026
Increase in property, plant and equipment, and intangible assets	4,267	5,387	8,814	1,616	1,248	1,412	22,744	977	—	23,721

Note 1. "Other" includes the other operating segments such as real estate, software, and other operations, which are not included in the reportable segments.
2. "Adjustment" is referred to below:
(1) Adjustment of segment income (¥(63) million) represents elimination of inter-segment transactions.
(2) Adjustment of segment assets (¥32,697 million) primarily represents the Company's cash and time deposits and marketable securities.
(3) Adjustment of impairment losses on fixed assets (¥153 million) is related to the Company's corporate assets such as housing lots, etc.
3. Segment income has been reconciled with operating income in the accompanying consolidated statements of income.

	Millions of yen									
	Reportable segment									
2015	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants	Total	Other	Adjustment	Consolidated
Net sales:										
Outside customers	¥102,624	¥146,424	¥202,002	¥75,817	¥26,085	¥105,539	¥658,491	¥ 8,608	¥ —	¥667,099
Inter-segment	2,059	1,497	17	1,019	103	614	5,309	3,073	(8,382)	—
Total	104,683	147,921	202,019	76,836	26,188	106,153	663,800	11,681	(8,382)	667,099
Segment income (loss)	¥ 6,635	¥ 13,528	¥ 11,949	¥ 5,758	¥ (1,249)	¥ 7,537	¥ 44,158	¥ 1,874	¥ (34)	¥ 45,998
Segment assets	¥110,995	¥147,656	¥230,130	¥61,668	¥51,407	¥ 72,648	¥674,504	¥52,339	¥59,184	¥786,027
Other items:										
Depreciation	¥ 4,320	¥ 3,219	¥ 6,656	¥ 859	¥ 289	¥ 672	¥ 16,015	¥ 266	¥ —	¥ 16,281
Impairment losses on fixed assets	2,909	68	64	55	—	—	3,096	201	166	3,463
Investments in equity method affiliates	—	1,583	6,195	3,304	—	—	11,082	—	—	11,082
Increase in property, plant and equipment, and intangible assets	2,899	4,464	9,319	1,115	552	1,609	19,958	712	—	20,670

Note 1. "Other" includes the other operating segments such as real estate, software, and other operations, which are not included in the reportable segments.
2. "Adjustment" is referred to below:
(1) Adjustment of segment income (loss) (¥(34) million) represents elimination of inter-segment transactions.
(2) Adjustment of segment assets (¥59,184 million) primarily represents the Company's cash and time deposits and marketable securities.
(3) Adjustment of impairment losses on fixed assets (¥166 million) is related to the Company's corporate assets such as housing lots, etc.
3. Segment income (loss) has been reconciled with operating income in the accompanying consolidated statements of income.

2016	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants	Total	Other	Adjustment	Consolidated
	Thousands of U.S. dollars									
	Reportable segment									
Net sales:										
Outside customers	$952,338	$1,367,751	$1,786,871	$778,221	$256,406	$970,851	$6,112,438	$ 89,670	$ —	$6,202,108
Inter-segment	20,485	11,583	182	15,144	946	7,277	55,617	29,764	(85,381)	—
Total	972,823	1,379,334	1,787,053	793,365	257,352	978,128	6,168,055	119,434	(85,381)	6,202,108
Segment income	$ 79,021	$ 165,643	$ 39,020	$ 88,293	$ 8,559	$ 51,214	$ 431,750	$ 16,312	$ (554)	$ 447,508
Segment assets	$969,063	$1,369,189	$1,965,216	$725,828	$468,887	$598,804	$6,096,987	$541,611	$289,358	$6,927,956
Other items:										
Depreciation	$ 40,442	$ 32,504	$ 72,610	$ 12,086	$ 4,695	$ 6,880	$ 169,217	$ 5,299	$ —	$ 174,516
Impairment losses on fixed assets	—	655	2,626	—	—	—	3,281	—	1,356	4,637
Investments in equity method affiliates	—	15,084	61,775	29,565	—	—	106,424	—	—	106,424
Increase in property, plant and equipment, and intangible assets	37,758	47,674	78,003	14,301	11,048	12,494	201,278	8,640	—	209,918

Note 1. "Other" includes the other operating segments such as real estate, software, and other operations, which are not included in the reportable segments.
2. "Adjustment" is referred to below:
(1) Adjustment of segment income ($(554) thousand) represents elimination of inter-segment transactions.
(2) Adjustment of segment assets ($289,358 thousand) primarily represents of the Company's cash and time deposits and marketable securities.
(3) Adjustment of impairment losses on fixed assets ($1,356 thousand) is related to the Company's corporate assets such as housing lots, etc.
3. Segment income has been reconciled with operating income in the accompanying consolidated statements of income.

(B) Related information

Information by geographical area

1. Net sales

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Japan	¥332,519	¥307,476	$2,942,646
U.S.A	117,572	112,270	1,040,462
Other areas	250,747	247,353	2,219,000
Total	¥700,838	¥667,099	$6,202,108

* Net sales are classified into the country or the region based on customers' locations.

2. Property, plant and equipment

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Japan	¥167,312	¥163,226	$1,480,635
Other areas	60,457	65,076	535,023
Total	¥227,769	¥228,302	$2,015,658

10. Leases

(A) As lessee

Future lease payments under non-cancelable operating leases as of March 31, 2016 and 2015 are as follows:

2016	Acquisition cost	Accumulated depreciation	Carrying value
	Millions of yen		
Machinery and equipment	¥887	¥871	¥15
Other tangible fixed asstes	—	—	—
Total	¥887	¥871	¥15

2015	Acquisition cost	Accumulated depreciation	Carrying value
	Millions of yen		
Machinery and equipment	¥887	¥800	¥87
Other tangible fixed asstes	—	—	—
Total	¥887	¥800	¥87

2016	Acquisition cost	Accumulated depreciation	Carrying value
	Thousands of U.S. dollars		
Machinery and equipment	$7,846	$7,710	$136
Other tangible fixed asstes	—	—	—
Total	$7,846	$7,710	$136

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Due within one year	¥15	¥70	$136
Due after one year	—	17	—
Total	¥15	¥87	$136

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Due within one year	¥1,225	¥1,330	$10,843
Due after one year	1,916	1,316	16,952
Total	¥3,141	¥2,646	$27,795

(B) As lessor

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Due within one year	¥ 31	¥ 31	$ 275
Due after one year	145	176	1,280
Total	¥176	¥207	$1,555

11. Financial instruments

(A) Qualitative information on financial instruments

1. Utilization policy of financial instruments

The Company obtains the required funds for its operation and investment primarily from bank loans and bond issuances. The Company limits its investment portfolio for temporary excess funds to short-term financial assets that carry little risk. The derivative instruments are utilized only to mitigate the risks described below and no speculative transactions are permitted under the Company's policy.

2. Financial instruments and related risks

Trade receivables and long-term loans receivable are exposed to the credit risk in relation to customers and trading partners. Trade receivables denominated in foreign currencies are exposed to the foreign exchange rate fluctuation risk. The Company mitigates such risks through entering into forward exchange contracts, and maintains the ratio of the exposure within a certain range. The hedge ratio and unhedged balances are regularly reported to the Board of Directors.

Short-term investment is the negotiable certificates of deposit with maturities within three months, which are easily convertible into cash with a slight risk of price fluctuations.

Investment securities are held primarily for maintaining business relationship and exposed to the market price fluctuation risk.

Most trade payables are due within one year. As some of them involving the import of raw materials are denominated in foreign currencies and exposed to foreign exchange rate fluctuation risks, the Company hedges such risks using forward exchange contracts.

Loans and corporate bonds are primarily used for obtaining the funds required for operation and capital investment. For part of long-term loans, the Company enters into an interest rate swap contract for each individual loan as hedging instruments. As the interest rate swap contracts the Company enters into are qualified for the "special treatment" in the Japanese GAAP, the measurement of the hedge effectiveness is not required. Loans denominated in foreign currencies are exposed to the foreign exchange rate fluctuation risk.

The Company enters into forward exchange contracts as derivative transactions to hedge risk of fluctuation in a foreign currency exchange rate with respect to trade receivables/payables denominated in foreign currencies. The Company also enters into interest rate swaps or currency swaps as derivative transactions to hedge risk of fluctuation in an interest rate on loans or the foreign currency exchange rate. For the Company's hedge accounting such as hedging instruments, hedged items, hedging policy and hedge effectiveness, please refer to "Derivatives and hedge accounting" in the aforementioned "1. Significant accounting policies" section.

3. Risk management for financial instruments:

(1) Credit risk

The Company reviews credit status of customers before accepting orders to mitigate their credit risk exposure. In accordance with a credit management policy, each business unit monitors collection and balance of receivables for each customer to minimize uncollectible amounts.

For derivatives and deposits, the Company enters into contracts only with highly rated financial institutions.

(2) Market risk

In relation to amounts of net of trade receivables and trade payables denominated in foreign currencies, SHI executes the hedge transaction to mitigate the exchange rate fluctuation risk in accordance with a market risk management policy. The status of the hedging activities is reported to the Board of Directors every month. Major consolidated subsidiaries also manage the foreign exchange rate fluctuation risk in the same manner.

Loan-related interest payable is also monitored and reported to the Board of Directors regularly. To mitigate the interest-rate fluctuation risk, interest-rate swaps are used.

In relation to investment securities, the current fair market value and the financial condition of the issuers are monitored regularly. The Company continuously reevaluates the investment portfolio in consideration of relationship with counterparties.

The Company's derivative transactions are executed solely for the purpose of hedging risks concerning exchange rate and interest rate fluctuations as explained above. The Company reconciles outstanding balances with the contract counterparties on a monthly basis.

(3) Liquidity risk

The Company has implemented a cash management system among major consolidated subsidiaries whereby SHI centralizes management of available funds within the consolidated group companies. The Company timely formulates and updates the fund management plan based on reports from business units and major subsidiaries, and monitors the liquidity risk.

(B) Fair values of financial instruments

The following table presents the carrying amounts and fair values of the Company's financial instruments recorded on the consolidated balance sheets as of March 31, 2016 and 2015. Certain financial instruments are excluded from the following table as the fair value information is not available.

	Millions of yen		
2016	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 65,804	¥ 65,804	¥ —
Trade receivables	219,930	219,063	(867)
Short-term investment and investment securities	15,433	15,433	—
Long-term loans receivable	6,170	5,537	(633)
Assets total	307,337	305,837	(1,500)
Trade payables	142,304	142,304	—
Short-term bank loans	42,708	42,708	—
Corporate bonds	10,000	10,052	52
Long-term bank loans	15,524	15,743	219
Liabilities Total	210,536	210,807	271
Derivatives	1,572	1,481	(91)

	Millions of yen		
2015	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 57,423	¥ 57,423	¥ —
Trade receivables	194,915	194,011	(904)
Short-term investment and investment securities	49,923	49,923	—
Long-term loans receivable	8,340	8,560	220
Assets total	310,601	309,917	(684)
Trade payables	140,436	140,436	—
Short-term bank loans	42,110	42,110	—
Corporate bonds	10,000	10,051	51
Long-term bank loans	31,534	31,938	404
Liabilities Total	224,080	224,535	455
Derivatives	(2,100)	(2,249)	(149)

2016	Thousands of U.S. dollars Carrying amount	Fair value	Difference
Cash and time deposits	$ 582,340	$ 582,340	$ —
Trade receivables	1,946,275	1,938,603	(7,672)
Short-term investment and investment securities	136,576	136,576	—
Long-term loans receivable	54,603	48,999	(5,604)
Assets total	2,719,794	2,706,518	(13,276)
Trade payables	1,259,329	1,259,329	—
Short-term bank loans	377,945	377,945	—
Corporate bonds	88,496	88,954	458
Long-term bank loans	137,382	139,322	1,940
Liabilities Total	1,863,152	1,865,550	2,398
Derivatives	13,914	13,110	(804)

1. Cash and time deposits
The carrying amounts approximate the fair values because of the short-term maturity of these instruments.

2. Trade receivables
The discounted cash flow method is used to estimate the fair values, based on discount rates calculated as totals of appropriate baseline rates and credit risk spreads.

3. Short-term investment and investment securities
Short-term investment represents the certificate deposit with the short-term maturity, which is recorded at its carrying amount as it approximates the fair value. Investment securities represent the equity securities, and the market prices are used to estimate fair values.

4. Long-term loans receivable
The discounted cash flow method is used to estimate the fair values, based on discount rates calculated as totals of appropriate baseline rates and credit risk spreads.

5. Trade payables and short-term bank loans
The carrying amounts approximate the fair values because of short-term settlement of these instruments.

6. Corporate bonds
The discounted cash flow method is used to estimate the fair values, based on discount rates calculated as totals of appropriate baseline rates and credit risk spreads.

7. Long-term bank loans
The discounted cash flow method is used to estimate the fair values, based on marginal borrowing rates as discount rates.

8. Derivatives
The fair values of forward exchange contracts are based on quoted forward exchange rates. The fair values of options, interest rate swaps and currency swaps are based on the quotes from financial institutions.

The unconsolidated stocks, the affiliate stocks, the unlisted stocks and the investment bonds in the following table are not included in the above table because there is no fair value available.

	Millions of yen 2016	2015	Thousands of U.S. dollars 2016
Unconsolidated stocks and Affiliate stocks	¥13,075	¥12,220	$115,709
Unlisted stocks	2,474	2,360	21,893
Investment bonds	5	5	47

The aggregate maturities of financial assets subsequent to March 31, 2016 and 2015 are as follows:

2016	Millions of yen Within one year	Over one year within five years	Over five years
Cash and time deposits	¥ 65,804	¥ —	¥—
Trade receivables	215,452	4,412	65
Long-term loans receivable	8	6,153	10
Total	¥281,264	¥10,565	¥75

2015	Millions of yen Within one year	Over one year within five years	Over five years
Cash and time deposits	¥ 57,423	¥ —	¥ —
Trade receivables	190,959	3,855	101
Long-term loans receivable	8	8,323	9
Total	¥248,390	¥12,178	¥110

2016	Thousands of U.S. dollars Within one year	Over one year within five years	Over five years
Cash and time deposits	$ 582,340	$ —	$ —
Trade receivables	1,906,652	39,043	580
Long-term loans receivable	67	54,449	86
Total	$2,489,059	$93,492	$666

The aggregate maturities of long-term bank loans and corporate bonds subsequent to March 31, 2016 and 2015 are as follows:

	Millions of yen					
2016	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term bank loans	¥7,300	¥1,644	¥6,580	¥ —	¥—	¥—
Corporate bonds	—	—	—	10,000	—	—

	Millions of yen					
2015	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term bank loans	¥15,201	¥7,777	¥2,241	¥6,315	¥ —	¥—
Corporate bonds	—	—	—	—	10,000	—

	Thousands of U.S. dollars					
2016	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term bank loans	$64,606	$14,548	$58,228	¥ —	$—	$—
Corporate bonds	—	—	—	88,496	—	—

12. Short-term investment and investment securities

(A) Carrying amounts of short-term investment and investment securities not stated at fair values as of March 31, 2016 and 2015 are disclosed in the Note 11. "Financial instruments".

(B) Acquisition costs and carrying amounts of available-for-sale securities as of March 31, 2016 and 2015 are as follows:

		Millions of yen		Thousands of U.S. dollars
Available-for-sale securities		2016	2015	2016
Equity securities	Acquisition cost	¥ 7,391	¥ 7,597	$65,408
	Carrying amount	10,433	14,923	92,328
	Difference	¥ 3,042	¥ 7,326	$26,920
Other securities	Acquisition cost	¥ 5,000	¥35,000	$44,248
	Carrying amount	5,000	35,000	44,248
	Difference	¥ —	¥ —	$ —

(C) Total sales amount of available-for-sale securities and the related net gain in the fiscal years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Sale of securities	¥840	¥841	$7,437
Net gain	593	90	5,250

(D) Impairment of securities

Impairment losses for securities were ¥0 million ($0 thousand) and ¥10 million for the years ended March 31, 2016 and 2015, respectively.

13. Derivatives information

(A) Forward foreign exchange contracts for which no hedge accounting is applied

The aggregate contracted amounts and the fair values of forward foreign exchange contracts for which no hedge accounting is applied as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Contracted amounts:			
To buy foreign currencies	¥ 1,343	¥ 532	$ 11,882
To sell foreign currencies	31,556	35,570	279,254
Fair value:			
To buy foreign currencies	(75)	1	(668)
To sell foreign currencies	1,612	317	14,269
Foreign exchange gain (loss), net	¥ 1,537	¥ 318	$ 13,601

(B) Currency swap contracts for which no hedge accounting is applied

The aggregate contracted amounts to be paid / received and the fair values of currency swap contracts for which no hedge accounting is applied as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Currency swap contracts:			
Contracted amounts	¥213	¥1,918	$1,888
Fair value	220	480	1,946

(C) Forward foreign exchange contracts for which hedge accounting is applied

The aggregate contracted amounts and the fair values of forward foreign exchange contracts for which hedge accounting is applied as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred hedge accounting:			
Contracted amounts:			
To buy foreign currencies	¥ 6,827	¥ 6,382	$ 60,416
To sell foreign currencies	36,378	42,220	321,925
Fair value:			
To buy foreign currencies	(280)	445	(2,477)
To sell foreign currencies	95	(3,343)	844
Alternative method (Note):			
Contracted amounts:			
To buy foreign currencies	435	1,341	3,853
To sell foreign currencies	365	1,013	3,230
Fair value:			
To buy foreign currencies	(11)	80	(96)
To sell foreign currencies	7	(122)	58
Net unrealized exchange gain (loss)	¥ (189)	¥ (2,940)	$ (1,671)

Note: When certain conditions are met, foreign currency denominated receivables and payables are translated into Japanese yen based on the fixed exchange rates provided by the respective forward contracts.

(D) Interest rate swap contracts for which hedge accounting is applied

The aggregate amounts of interest rate swap contracts for which hedge accounting is applied as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Interest rate swap contracts (special treatment) (Note):			
Contracted amounts:			
Interest swap fixed rate to floating rate	¥5,649	¥12,677	$49,994
Fair value:			
Interest swap fixed rate to floating rate	(87)	(107)	(766)

Note: When certain conditions are met, the net amount under an interest rate swap contract is added to or deducted from interest on liabilities for which the interest rate swap contract is executed.

14. Retirement benefits

1. Summary of defined benefit plans

The Company provide both a lump-sum severance payment plan and a defined contribution plan for employees. Some foreign consolidated subsidiaries sponsor a defined benefit plan for their employees.

Additionally, SHI provides a “Retirement Benefit Trust”.

Liability for retirement benefits and retirement benefit costs are determined based on a simplified method for some lump-sum severance payment plans operated by respective consolidated subsidiaries.

2. Defined benefit plans, except plan applied simplified method

(1) Movements in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥90,024	¥77,504	$796,670
Cumulative effects of changes in accounting policies	—	1,861	—
Restated balance	90,024	79,365	796,670
Service cost	3,405	3,266	30,132
Interest cost	1,497	1,582	13,245
Actuarial loss (gain)	821	7,034	7,269
Benefits paid	(4,941)	(4,537)	(43,729)
Prior service costs	464	(127)	4,111
Other	(1,002)	3,441	(8,868)
Balance at end of year	¥90,268	¥90,024	$798,830

(2) Movements in plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥46,953	¥40,317	$415,513
Expected return on plan assets	1,535	1,230	13,585
Actuarial gain (loss)	(6,595)	3,050	(58,364)
Contributions paid by the employer	2,387	1,422	21,121
Benefits paid	(2,011)	(1,465)	(17,797)
Other	(87)	2,399	(762)
Balance at end of year	¥42,182	¥46,953	$373,296

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded retirement benefit obligations	¥68,635	¥68,571	$607,386
Plan assets	(42,182)	(46,953)	(373,296)
	26,453	21,618	234,090
Unfunded retirement benefit obligations	21,633	21,452	191,446
Total net liability (asset) for retirement benefits at end of year	48,086	43,070	425,536
Liability for retirement benefits	48,086	43,070	425,536
Total net liability (asset) for retirement benefits at end of year	¥48,086	¥43,070	$425,536

(4) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥3,405	¥3,266	$30,132
Interest cost	1,497	1,582	13,244
Expected return on plan assets	(1,535)	(1,230)	(13,585)
Amortization of actuarial difference	(729)	2,108	(6,455)
Amortization of prior service cost	254	(14)	2,251
Other	1	44	15
Total retirement benefit costs	¥2,893	¥5,756	$25,602

(5) Adjustments for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Prior service cost	¥ (210)	¥ 113	$ (1,859)
Actuarial difference	(8,146)	(1,877)	(72,087)
Other	102	(1,279)	900
Total	¥(8,254)	¥(3,043)	$(73,046)

(6) Accumulated adjustments for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized prior service cost	¥ (625)	¥ 280	$ (5,533)
Unrecognized actuarial difference	(14,484)	(7,134)	(128,171)
Total balance at end of year	¥(15,109)	¥(6,854)	$(133,704)

(7) Plan assets

(a) Plan assets comprise:

	2016	2015
Equity securities	79%	78%
Cash and time deposits	1%	1%
Other	20%	21%
Total	100%	100%

Notes: Total plan assets include retirement benefit trust provided for SHI's lump-sum severance payment plan, which comprises 50% and 56% of the plan assets and amounts to ¥20,895 million ($184,908 thousand) and ¥26,433 million as of March 31, 2016 and 2015, respectively.

(b) Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(8) Actuarial assumptions

The principal actuarial assumptions at March 31, 2016 and 2015 are as follows:

	2016	2015
Assumed discount rate	0.0%~5.0%	0.2%~5.0%
Long-term expected rate of return	0.0%~8.0%	0.0%~8.0%

3. Defined benefit plan applying the simplified method

(1) Movement in liability for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥3,092	¥2,850	$27,363
Service cost	875	693	7,740
Benefits paid	(445)	(391)	(3,936)
Contributions paid to plan	(69)	(68)	(607)
Other	84	8	740
Balance at end of year	¥3,537	¥3,092	$31,300

(2) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded retirement benefit obligations	¥ 833	¥ 838	$ 7,373
Plan assets	(834)	(824)	(7,384)
	(1)	14	(11)
Unfunded retirement benefit obligations	3,538	3,078	31,311
Total net liability (asset) for retirement benefits at end of year	3,537	3,092	31,300
Liability for retirement benefits	3,537	3,092	31,300
Total net liability (asset) for retirement benefits at end of year	¥3,537	¥3,092	$31,300

(3) Total retirement benefit costs based on the simplified method amounted to ¥875 million ($7,740 thousand) and ¥693 million for the years ended March 31, 2016 and 2015, respectively.

4. Defined contribution plan

Contributions paid to defined contribution plan in SHI and consolidated subsidiaries amounted to ¥667 million ($5,902 thousand) and ¥634 million for the years ended March 31, 2016 and 2015, respectively.

15. Subsequent events

Appropriations of retained earnings

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2016, were approved at the SHI's general shareholders' meeting held on June 29, 2016:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Year-end cash dividends ¥9.00 ($0.08) per share	¥5,516	$48,813

The approved dividend will be paid to the shareholders as of March 31, 2016.

16. Business combinations

Sumitomo Heavy Industries Material Handling Systems Co., Ltd. (hereinafter referred to as "SHI Material Handling Systems"), a consolidated Subsidiary of SHI., concluded on May 8, 2015 Absorption-Type Company Split Agreement with Mitsubishi Heavy Industries Machinery Technology Corporation (hereinafter referred to as "MHI Machinery Technology"), a consolidated subsidiary of Mitsubishi Heavy Industries, Ltd. for absorbing their industrial crane business, the effective date of which is October 1, 2015.

(1) Overview of business combination

① Name and business description of acquired company

Company name: Mitsubishi Heavy Industries Machinery Technology Corporation

Business description: Industrial crane business

② Main reason for business combination

SHI Material Handling Systems will enhance its line-up of industrial cranes and related services, while at the same time expand its technical skills and know-how in the field. Together with a more efficient allocation of managerial resources, these measures will allow it to strengthen its ability to meet the demands of the Japanese market. In addition, by investing growth resources in overseas markets as well as new products and businesses in the future, it aims to maintain competitiveness in the crane business.

③ Share acquisition date:

October 1, 2015

④ Legal form of the business combination:

Absorption-Type Company Split which is completed whereby MHI Machinery Technology acted as the divesting company, and SHI Material Handling Systems acted as the absorbing company.

⑤ Name of the company after acquisition:

Sumitomo Heavy Industries Material Handling Systems Co., Ltd.

⑥ Main grounds for determining the acquiring company:

SHI Material Handling Systems is determined to be the acquiring company because it offers shares in exchange for business combination as well as considering relative voting right ratio occupied by aggregate shareholders.

(2) Period for which earnings results of the acquired company are included in the consolidated financial statements

From October 1, 2015 to March 31, 2016.

(3) Acquisition cost for the acquired business and its details:

	Millions of yen 2016	Thousands of U.S. dollars 2016
Common stocks of SHI Material Handling Systems offered as of the acquisition date	¥5,000	$44,248
Acquisition Cost	¥5,000	$44,248

(4) Number of offered shares: 2,000
(5) Detail and amount of main acquisition related cost:
Advisory cost, etc. ¥225 Million ($1,987 thousand)
(6) Amount of goodwill, reason for its recognition, amortization method, and amortization period
① Amount of goodwill: ¥668 Million ($5,911 thousand)
② Reason for its recognition:
Goodwill was recognized because of the difference of the net value of assets and liabilities of the acquired company and its acquisition cost.
③ Amortization method and amortization period: Straight line method over 5 years
(7) Assets acquired and liabilities assumed as of the acquisition date

	Millions of yen 2016	Thousands of U.S. dollars 2016
Current assets	¥4,806	$42,532
Fixed assets	1,756	15,536
Total assets	¥6,562	$58,068
Current liabilities	¥1,856	$16,424
Long-term liabilities	374	3,307
Total liabilities	¥2,230	$19,731

17. Others

In connection with an order received from the city of Kyoto for the Construction Work Incinerated Ash Melting Facility, SHI received a cancellation notice from the city of Kyoto on August 5, 2013, which states that SHI was unable to deliver the said facility by the prefixed delivery deadline. In addition, the city of Kyoto filed a damages lawsuit on March 20, 2014, with the Kyoto District Court, claiming compensation for the damages against SHI by reason of the cancellation.

SHI attempted to commence the second trial run for the plant that was almost complete, but the city of Kyoto did not allow it. SHI was thus prevented from carrying out one of the final steps of the contract. As such, SHI still retains the right to claim payment for the outstanding balance of the contract. SHI filed the counterclaim against the city of Kyoto on August 29, 2014, with the Kyoto District Court, claiming payment for the outstanding balance of the contract.

The Kyoto District Court delivered judgment on May 27, 2016, dismissing all of the city of Kyoto's claims and SHI's counterclaim. With regard to the Court's judgment, the city of Kyoto appealed to a higher court on June 10, 2016.

SHI believes that the purported cancellation at a stage before the near completion of the intended work is invalid and therefore that the city of Kyoto's claims of compensation for the damages based on such cancellation are groundless. SHI intends to fully insist on the legitimacy of its position regarding this lawsuit.

Independent Auditor's Report

Independent Auditor's Report

To the Board of Directors of Sumitomo Heavy Industries, Ltd.:

We have audited the accompanying consolidated financial statements of Sumitomo Heavy Industries, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sumitomo Heavy Industries, Ltd. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 29, 2016
Tokyo, Japan

Machinery Components Segment

Power Transmission and Control Equipment	Sumitomo Heavy Industries Gearmotors Co., Ltd.	0562-88-3040
	Sumitomo Heavy Industries, PTC Sales Co., Ltd.	03-6737-2580
	Sumiju Tomida Machinery Co., Ltd.	0562-48-4167
	Sumiju Technos, Ltd.	0562-48-5115
	Sumitomo Heavy Industries Gearbox Co., Ltd.	072-431-3021
	Sumitomo Heavy Industries (Tangshan), Ltd.	86-0315-339-0080
	Sumitomo (SHI) Cyclo Drive China, Ltd.	86-22-2499-3501
	Sumitomo (SHI) Cyclo Drive Logistics, Ltd.	86-21-5774-8866
	Sumitomo Heavy Industries (Vietnam) Co., Ltd.	84-4-955-0010
	Sumitomo (SHI) Cyclo Drive Germany GmbH	49-8136-66-0
	Sumitomo (SHI) Cyclo Drive Asia Pacific Pte. Ltd.	65-6-591-7800
	Sumitomo (SHI) Cyclo Drive Korea, Ltd.	82-2-730-0151
	Sumitomo Machinery Corporation of America	1-757-485-3355
	Sumitomo Industrias Pesadas do Brasil Ltda.	55-11-4403-9292
	SM Cyclo of Canada, Ltd.	1-905-469-1050
	Hansen Industrial Transmissions NV	32-3-450-12-11

Precision Machinery Segment

Plastic Machinery	Sumitomo Heavy Industries Modern, Ltd.	045-547-7711
	Sumiju Platec Co., Ltd.	043-420-1558
	Sumiju Logitech Co., Ltd.	043-420-1680
	Izumi Seiki Co., Ltd.	0897-32-6232
	Ningbo Sumiju Machinery, Ltd.	86-574-2689-0019
	Sumitomo (SHI) Demag Plastics Machinery GmbH	49-911-5061-717
	Sumitomo (SHI) Demag Plastics Machinery North America, Inc.	1-440-876-8960
	SHI Plastics Machinery (Hong Kong) Ltd.	852-2750-6630
	S.H.I. Plastics Machinery (S) Pte. Ltd.	65-6-779-7544
Cryogenic Equipment	Sumitomo (SHI) Cryogenics of America, Inc.	1-610-791-6700
	Sumitomo (SHI) Cryogenics of Europe GmbH	49-6151-860610
	Sumitomo (SHI) Cryogenics of Europe, Ltd.	44-1256-853333
	SHI Manufacturing & Services (Philippines), Inc.	63-43-405-6263
Precision Equipment and Components	Sumitomo Heavy Industries Himatex Co., Ltd.	0897-32-6485
	Sumiju Precision Forging Co., Ltd.	046-869-1659
LCD and Semiconductor Equipment	Sumitomo Heavy Industries Mechatronics, Ltd.	03-6737-2531
	Sumitomo Heavy Industries Ion Technology Co., Ltd.	03-6737-2690
Machine Tools	Sumitomo Heavy Industries Finetech, Ltd.	086-525-6281
Defense Equipment	Sumiju Business, Ltd.	042-468-4311
	Sumiju Tokki Service Co., Ltd.	042-468-4451

Construction Machinery Segment

Hydraulic Excavators Road Machinery	Sumitomo (S.H.I.) Construction Machinery Co., Ltd.	03-6737-2600
	Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.	03-6737-2610
	Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.	61-3391000
	LBX Company, LLC	1-859-245-3900
	Sumiju SCE (Xiamen) Construction Machinery Co., Ltd.	86-592-5207968
	Sumitomo Heavy Industries (China) Financial Leasing, Ltd.	86-21-5204-9192
	PT. SUMITOMO S.H.I. CONSTRUCTION MACHINERY INDONESIA	62-21-8910-8688
	PT. SUMITOMO S.H.I. CONSTRUCTION MACHINERY SOUTHEAST ASIA	62-21-5795-2254
Mobile Cranes	Link-Belt Construction Equipment Company, L.P., LLLP	1-859-263-5200

Industrial Machinery Segment

Material Handling Systems	Sumitomo Heavy Industries Material Handling Systems Co., Ltd.	03-6891-2160
	Sumimec Engineering Inc.	0897-34-1421
Turbines and Pumps	Shin Nippon Machinery Co., Ltd.	03-6737-2630
Forklift Trucks	Sumitomo NACCO Forklift Co., Ltd.	0562-48-5251
Quantum Equipment and Cyclotron Accelerators	Sumiju Examination & Inspection, Ltd.	0898-65-4868
	SHI Accelerator Service Ltd.	03-5434-8468
	Japan Electron Beam Irradiation Service Co., Ltd.	03-5434-8467
	Sumiju Magnet (Kunshan) Co., Ltd.	86-512-5768-9200

Ships Segment

Ships	Sumitomo Heavy Industries Marine & Engineering Co., Ltd.	03-6737-2620

Environmental Facilities & Plants Segment

Energy-Related and Environmental Protection Systems	Sumiju Plant Engineering Co., Ltd.	03-6737-2890
	Sumiju Environmental Technologies, Ltd.	03-6737-2820
Water Treatment Systems	Sumitomo Heavy Industries Environment Co., Ltd.	03-6737-2700
	Sumiju Environmental Engineering, Inc.	03-5719-5020
Pressure Vessels, Chemical Processing Equipment and Plants	Sumitomo Heavy Industries Process Equipment Co., Ltd.	0898-64-6936
	Nihon Spindle Mfg. Co., Ltd.	06-6499-5551
Food Processing Machinery	Izumi Food Machinery Co., Ltd.	06-6718-6150

Others

Others	Sumitomo Heavy Industries Business Associates, Ltd.	03-6737-2445
	Lightwell Co., Ltd.	03-5828-9230
	Izumi Support Corporation	03-6737-2666
	PT. Sumitomo Heavy Industries Indonesia	62-0-21-57951095
	Sumitomo Heavy Industries (China), Ltd.	86-21-6219-8232
	Sumitomo Heavy Industries (Shanghai) Management, Ltd.	86-21-3462-7660
	Sumitomo Heavy Industries (USA), Inc.	1-610-791-6782

Corporate Data (As of March 31, 2016)

Head Office	Sumitomo Heavy Industries, Ltd. 1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan
Tel	+81-3-6737-2331
URL	http://www.shi.co.jp
Founded	1888
Incorporated	November 1, 1934
Paid-in Capital	JPY 30,871,651,300
Number of Employees	18,491 (Consolidated) 2,630 (Non-consolidated)

Domestic Offices

Chubu Office	10-24, Higashi-sakura 1-chome, Higashi-ku, Nagoya-shi, Aichi 461-0005, Japan Tel: 81-52-971-3063
Kansai Office	3-33, Nakanoshima 2-chome, Kita-ku, Osaka-shi, Osaka 530-0005, Japan Tel: 81-6-7635-3610
Kyushu Office	6-20, Nakasu 5-chome, Hakata-ku, Fukuoka-shi, Fukuoka 810-0801, Japan Tel: 81-92-283-1670
Tanashi Works	1-1, Yato-cho 2-chome, Nishitokyo-shi, Tokyo 188-8585, Japan Tel: 81-42-468-4104
Chiba Works	731-1, Naganumahara-machi, Inage-ku, Chiba-shi, Chiba 263-0001, Japan Tel: 81-43-420-1351
Yokosuka Works	19, Natsushima-cho, Yokosuka-shi, Kanagawa 237-8555, Japan Tel: 81-46-869-1842
Nagoya Works	1, Asahi-machi 6-chome, Obu-shi, Aichi 474-8501, Japan Tel: 81-562-48-5111
Okayama Works	8230, Tamashima-Otoshima, Kurashiki-shi, Okayama 713-8501, Japan Tel: 81-86-525-6101
Ehime Works –Niihama Factory	5-2, Sobiraki-cho, Niihama-shi, Ehime 792-8588, Japan Tel: 81-897-32-6211
Ehime Works –Saijo Factory	1501, Imazaike, Saijo-shi, Ehime 799-1393, Japan Tel: 81-898-64-4811
Technology Research Center	19, Natsushima-cho, Yokosuka-shi, Kanagawa 237-8555, Japan Tel: 81-46-869-2300

Stock Information

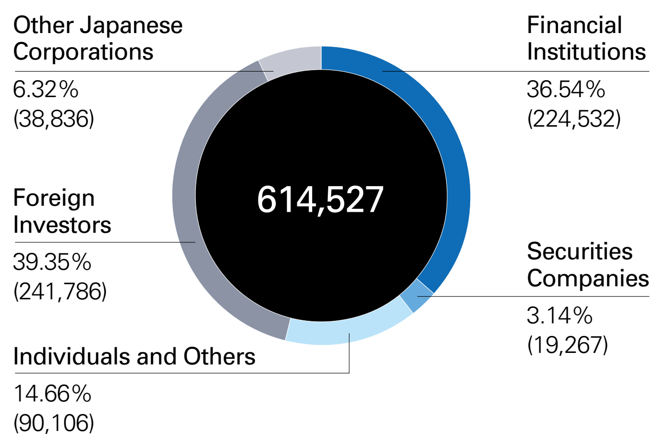
Transfer Agent	Sumitomo Mitsui Trust Bank, Limited
Stock Exchange Listing	Tokyo
Shares Outstanding	614,527,405
Number of Shareholders	42,227

Major Shareholders

Name of shareholder	Percentage of total shares issued and outstanding
The Master Trust Bank of Japan, Ltd. (Trust account)	5.4
Japan Trustee Services Bank, Ltd. (Trust account)	5.0
Japan Trustee Services Bank, Ltd. (Trust account 9)	4.0
Sumitomo Life Insurance Company	3.5
BNYML-NON TREATY ACCOUNT	3.1
Sumitomo Mitsui Banking Corporation	2.5
Sumitomo Heavy Industries, Ltd. Kyoeikai	2.1
HSBC BANK PLC A/C CLIENTS 1	1.9
STATE STREET BANK AND TRUST COMPANY 505001	1.8
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	1.5

Breakdown of Shareholders (as of March 31, 2016)

(Unit: 1,000)



The "Other Japanese Corporations" category also includes treasury stock, government institutions, and local governments.
The number of shares held is rounded down to the nearest 1,000.

Additional copies of this annual report and other information may be obtained at the following URL or by contacting:

Corporate Communications Department,
Sumitomo Heavy Industries, Ltd.
1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan
Tel: +81-3-6737-2331
URL: http://www.shi.co.jp

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