



Integrated Report 2019

April 2018–March 2019





BUILDING ON A SOLID FOUNDATION



Editorial Policy

The Sumitomo Heavy Industries Group (SHI Group) published an Integrated Report for FY2017 in lieu of the Annual Report that it had published since the 1970s. Integrated Report 2019 contains reports on financial information as well as the SHI Group's unique strengths and the sources of its medium- to long-term growth with the aim of deepening understanding among a wide range of stakeholders, including shareholders and investors.

Please refer to our website for detailed information and figures related to financial data (including Securities Reports) and non-financial data (such as CSR data).

(Scope of Report)

This report covers Sumitomo Heavy Industries, Ltd., 141 consolidated subsidiaries (42 in Japan, 99 overseas) and 4 equity-method affiliates (1 in Japan, 3 overseas). Context changes are duly noted in the text.

(Timeline)

This report covers FY2018 (April 1, 2018 to March 31, 2019). Coverage of overseas subsidiaries is from January 1, 2018 to December 31, 2018 with the exception of two companies. Some content makes references to dates outside of this time period.

Reference Guidelines

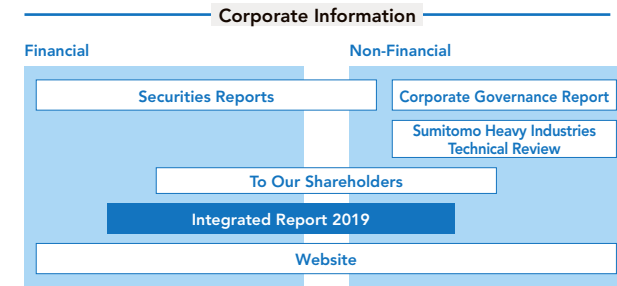
- "International Integrated Reporting Framework," International Integrated Reporting Council (IIRC)
- "WICI Intangibles Reporting Framework Version 1.0," World Intellectual Capital Initiative
- "G4 Sustainability Reporting Guidelines," Global Reporting Initiative (GRI)
- "Guidance for Collaborative Value Creation," METI of Japan



Cautionary Note Concerning Forward-Looking Statements

Integrated Report 2019 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. All information contained herein is subject to changes in actual business performance.

Positioning of Integrated Report 2019



Our Website

Please refer to our website for detailed information and figures related to financial data (including Securities Reports and timely disclosure information) and non-financial data (such as environmental and CSR data).

• Investor Relations

<http://www.shi.co.jp/english/ir>



• CSR

<http://www.shi.co.jp/english/csr>



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To Our Stakeholders



The Sumitomo Business Spirit and the Sumitomo Heavy Industries Group's Business Principles

The Sumitomo Business Spirit

Business Principles

Article 1

Sumitomo shall achieve prosperity based on solid foundation by placing prime importance on integrity and sound management in the conduct of its business.

Article 2

Sumitomo's business interest must always be in harmony with public interest; Sumitomo shall adapt to good times and bad times but will not pursue immoral business.

[Commentary]

1. Sumitomo shall achieve prosperity based on a solid foundation by placing prime importance on trust and reliability.
2. We need to watch changes and aggressively pursue business expansion using our management resources but should not behave hastily for an easy profit in any case.

Corporate Philosophy

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.

Since its founding as an engineering shop at the Besshi Copper Mine in 1888, the SHI Group has progressed alongside advances in society and industry. Our "manufacturing spirit" accumulated from long-standing traditions is present in various business fields, from nanotechnology to massive buildings and structures.

Our two points of "placing prime importance on integrity and sound management" and "not pursuing immoral business" in the Sumitomo Business Spirit have stood the test of time regardless of business conditions, expressing our approach to business even in challenging conditions. The SHI Group, positioning the Sumitomo Business Spirit as the basis of its management, will proceed steadily with business restructuring and create a more robust corporate character in line with this spirit.

Employees of the SHI Group engage in their daily work with Our Values and the Corporate Mission Statement based on the Sumitomo Business Spirit.

In Integrated Report 2019, we discuss our thoughts and business strategies for realizing the Corporate Mission Statement, as well as initiatives to fulfill our corporate social responsibilities.

We hope that this report will serve to deepen everyone's understanding of the SHI Group.

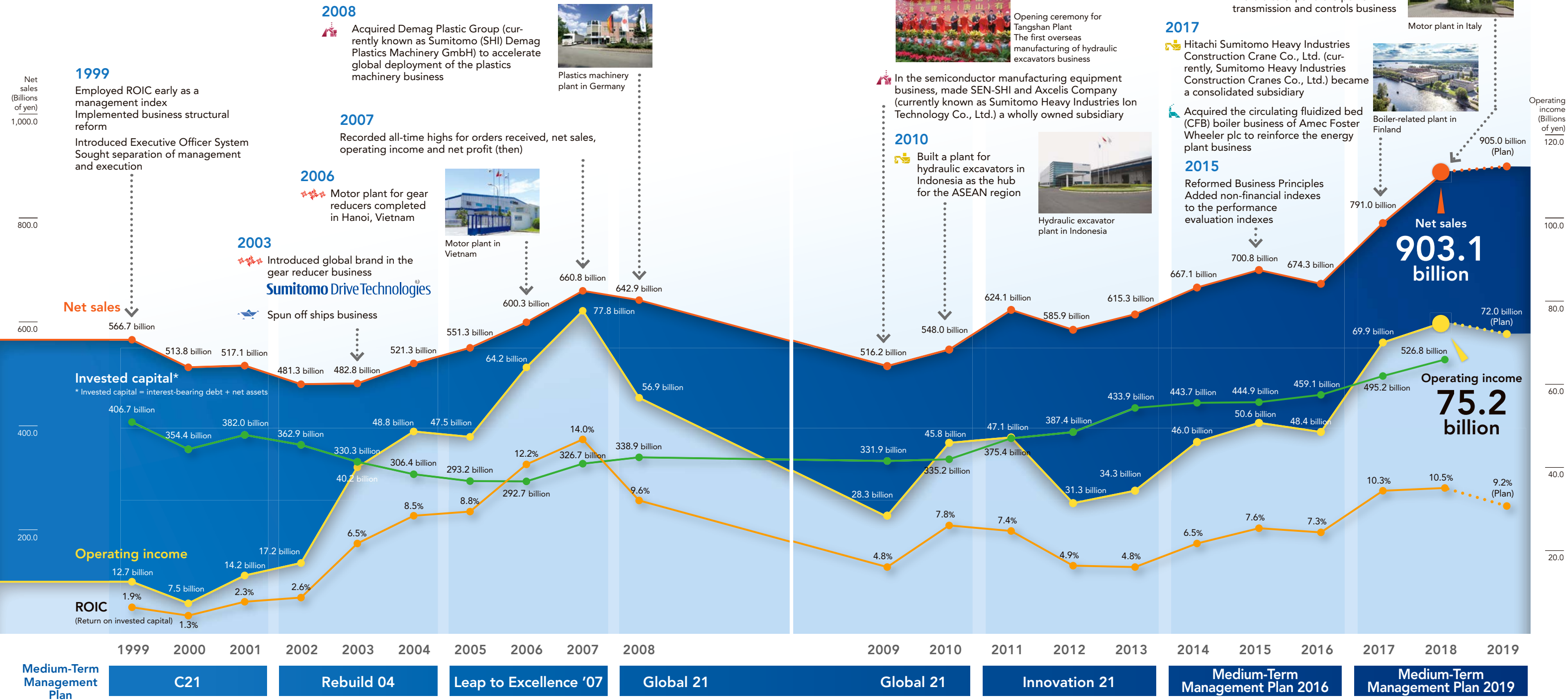
Shunsuke Betsukawa
Representative Director,
Chairman of the Board

Shinji Shimomura
Representative Director,
President and CEO

SHI Group Tracings of Growth

11 Years of Business Results and Key Initiatives

- Machinery Components
- Precision Machinery
- Construction Machinery
- Industrial Machinery
- Ships
- Environmental Facilities & Plants



2018
Achieved new record highs in orders, net sales and profit attributable to owners of parent

Acquired Lafert Group, a manufacturer of industrial motors in Italy, in a bid to expand the power transmission and controls business

Motor plant in Italy

2017
Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (currently, Sumitomo Heavy Industries Construction Cranes Co., Ltd.) became a consolidated subsidiary



Boiler-related plant in Finland

Acquired the circulating fluidized bed (CFB) boiler business of Amec Foster Wheeler plc to reinforce the energy plant business

2015
Reformed Business Principles Added non-financial indexes to the performance evaluation indexes

2009
Opened Sumitomo Heavy Industries (Tangshan), Ltd. and Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.



Opening ceremony for Tangshan Plant The first overseas manufacturing of hydraulic excavators business

In the semiconductor manufacturing equipment business, made SEN-SHI and Axcelis Company (currently known as Sumitomo Heavy Industries Ion Technology Co., Ltd.) a wholly owned subsidiary

2010
Built a plant for hydraulic excavators in Indonesia as the hub for the ASEAN region



Hydraulic excavator plant in Indonesia

1999
Employed ROIC early as a management index
Implemented business structural reform
Introduced Executive Officer System
Sought separation of management and execution

2008
Acquired Demag Plastic Group (currently known as Sumitomo (SHI) Demag Plastics Machinery GmbH) to accelerate global deployment of the plastics machinery business



Plastics machinery plant in Germany

2007
Recorded all-time highs for orders received, net sales, operating income and net profit (then)

2006
Motor plant for gear reducers completed in Hanoi, Vietnam



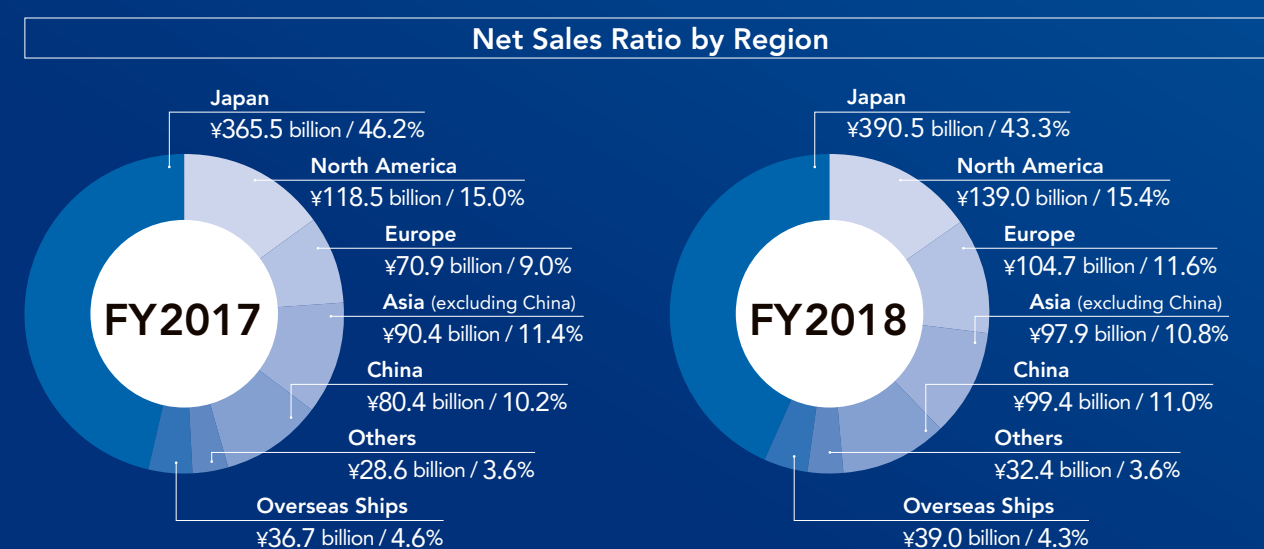
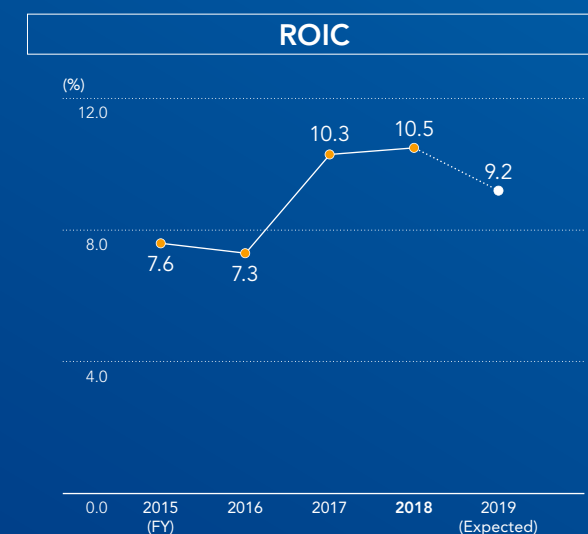
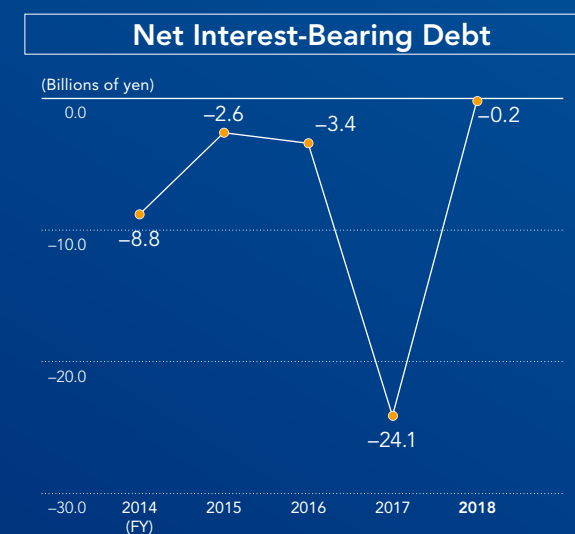
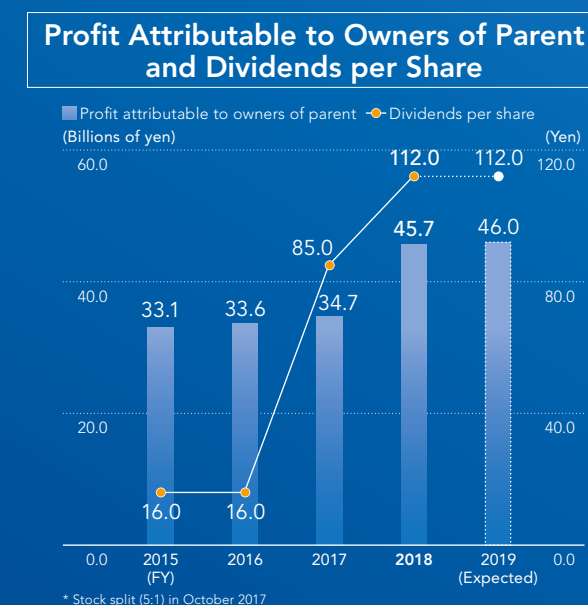
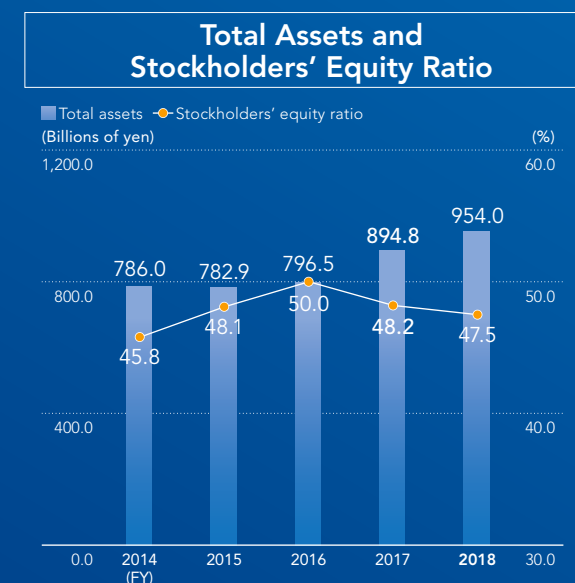
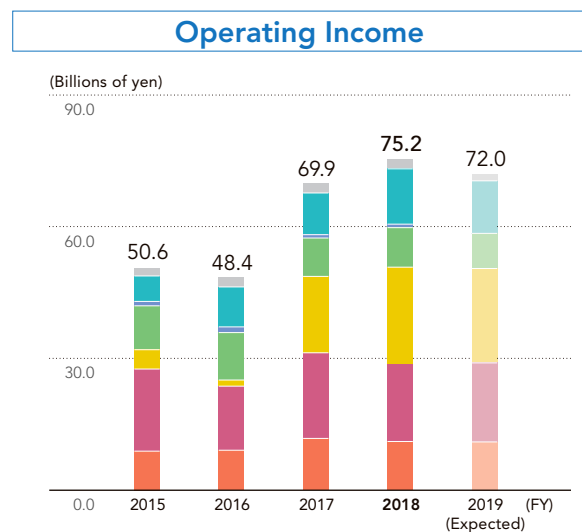
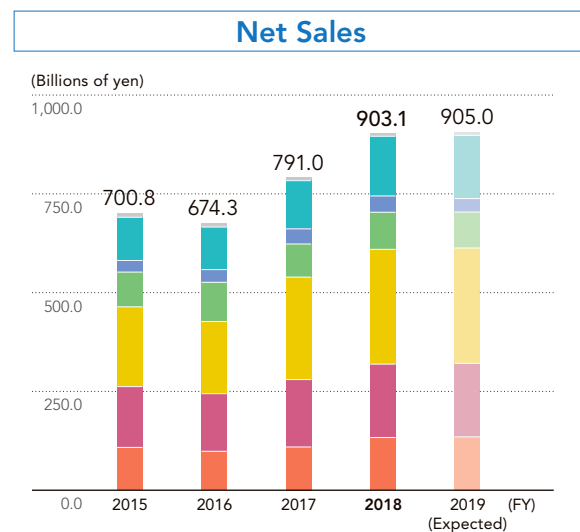
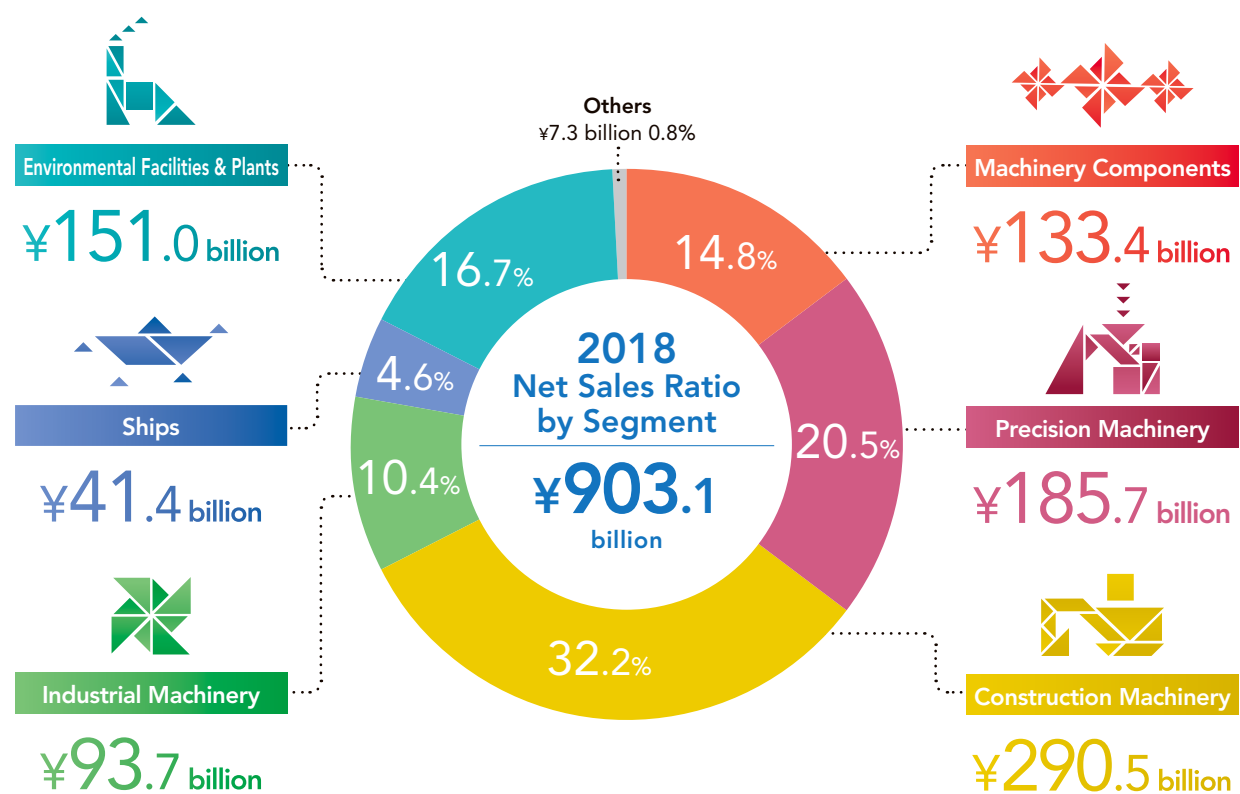
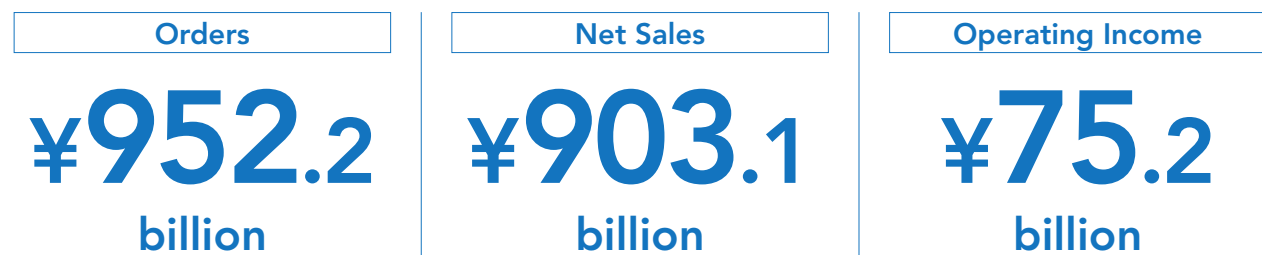
2003
Introduced global brand in the gear reducer business
Sumitomo Drive Technologies

Spun off ships business

Trend of the World

- 1999: Birth of the euro
- 2000: Collapse of IT bubble
- 2005: Revalue the renminbi
- 2007: Collapse of US real estate bubble
- 2008: Collapse of Lehman Brothers
- 2010: European debt crisis
- 2011: Great East Japan Earthquake
- 2016: Introduction of negative interest rate by the Bank of Japan

At a Glance



Message from the President



We aim to reinforce business structures and build a truly strong SHI Group.

Shinji Shimomura
Representative Director, President and CEO

Appointment as President

I am Shinji Shimomura, and it is my pleasure to greet you as the newly appointed president.

I joined Sumitomo Heavy Industries, Ltd. as a production engineer and then built up experience on the front lines as a production manager. I was then involved in setting up operations at our hydraulic excavator production plant in China, thereafter serving as president of Sumitomo (S.H.I.) Construction Machinery Co., Ltd., a subsidiary in charge of manufacturing and selling hydraulic excavators, from 2016 until 2018.

In fiscal 2018, the year that we posted record-high orders, net sales and net profit, the outlook for the world economy became more uncertain, making it harder to forecast economic conditions. Having been appointed president during these times, I aim to build a truly strong SHI Group with the track record of our predecessors as our foundation.

Review of Fiscal 2018

In fiscal 2018, capital investment was robust in Japan, reflecting an improvement in corporate earnings. Overseas, in the U.S., production continued to recover in the manufacturing industry on the back of stronger domestic and foreign demand. In China, industrial output was firm overall. Globally, demand for machinery was growing. However, uncertainties still lingered, stemming from heightened US-China trade friction, ongoing geopolitical risk, currency issues in some emerging countries, and the rise of financial instability.

In this business environment, the SHI Group advanced Medium-Term Management Plan 2019 to make active investments for growth through M&A and capital expenditures, and promote priority measures such as active pursuit of CSR.

In fiscal 2018, the Group received orders totaling ¥952.2 billion and booked net sales of ¥903.1 billion, both record highs. Orders were solid in the Machinery Components, Precision Machinery and Construction Machinery segments (mass production divisions), as well as the Industrial Machinery and Environmental Facilities & Plants segments. Backed by firm orders, net sales increased year on year in all segments, while earnings were boosted by Lafert Group, which manufacturers industrial motors, becoming a consolidated subsidiary in May 2018.

The Group reported ¥75.2 billion in operating income, ¥72.6 billion in ordinary income, and ¥45.7 billion in profit attributable to owners of parent. After-tax ROIC* was 10.5%.

Fiscal 2018 Financial Summary

	FY2017	FY2018	(Billions of yen) Change
Orders	864.0	952.2	88.2
Net Sales	791.0	903.1	112.0
Operating Income	69.9	75.2	5.3
Operating Income Ratio	8.8%	8.3%	-0.5pt
Profit Attributable to Owners of Parent	34.7	45.7	11.0
Return on Profit Attributable to Owners of Parent	4.4%	5.1%	0.7pt
ROIC*	10.3%	10.5%	0.2pt

* ROIC (Return on invested capital) = $\frac{(\text{Operating income} + \text{Interest and dividends received}) \times (1 - \text{Effective tax rate})}{(\text{FY average of stockholders' equity} + \text{FY average of interest-bearing debt})}$

The Group distributed an annual dividend of ¥112 per share for fiscal 2018, an increase compared with fiscal 2017 in reflection of its robust performance. The dividend payout ratio was 30.1%.

Total assets were ¥954.1 billion, an increase of ¥59.2 billion from the end of fiscal 2017. Of this amount, ¥33.2 billion was due to the addition of the acquired Lafert Group through consolidation. Due to strong orders, fixed assets also increased as a result of increases in assets and investments.

Message from the President

Reflecting the increase in total assets, the stockholders' equity ratio declined 0.7 percentage points to 47.5% compared with the end of fiscal 2017.

On a consolidated basis, cash flows from operating activities decreased ¥15.9 billion to ¥55.2 billion. This resulted from an increase in working capital alongside sales growth. Net cash used in investing activities grew due in part to our investment in Lafert Group, while free cash flows amounted to ¥0.2 billion.

On behalf of the Company and the SHI Group companies, I offer my deepest apologies for the great inconvenience and concern caused to our stakeholders arising from the discovery of improper inspections of our products and services. The Company has earnestly and sincerely acknowledged this incident, and investigated the background and causes for the improper inspections through a Special Investigation Committee established with an outside director as its head. Following the advice of this committee, the SHI Group has drawn up measures to prevent a recurrence. We are now in position to focus all of our efforts on restoring everyone's trust in us through measures to prevent a recurrence applied across the SHI Group, including the reaffirmation and re-acknowledgement of the Sumitomo Business Spirit and the SHI Group's Business Principles.

In Medium-Term Management Plan 2019, we have set financial targets of achieving net sales of over ¥800.0 billion and an operating income ratio of at least 7.5% in fiscal 2019. Continually using ROIC after tax as the management indicator of the Group, we also aim to ensure an ROIC of over 7.5%.

To achieve the aforementioned targets, under the basic principles of Medium-Term Management Plan 2019 to (1) achieve steady growth, (2) become a high profit company, (3) create excellent products and services through a tireless commitment to improving operational quality, (4) actively participate in business integrations, M&A, and formation of business alliances with third-party entities, and (5) actively pursue CSR, we will contribute to society by gaining the respect and confidence of stakeholders through the provision of excellent products and services globally.

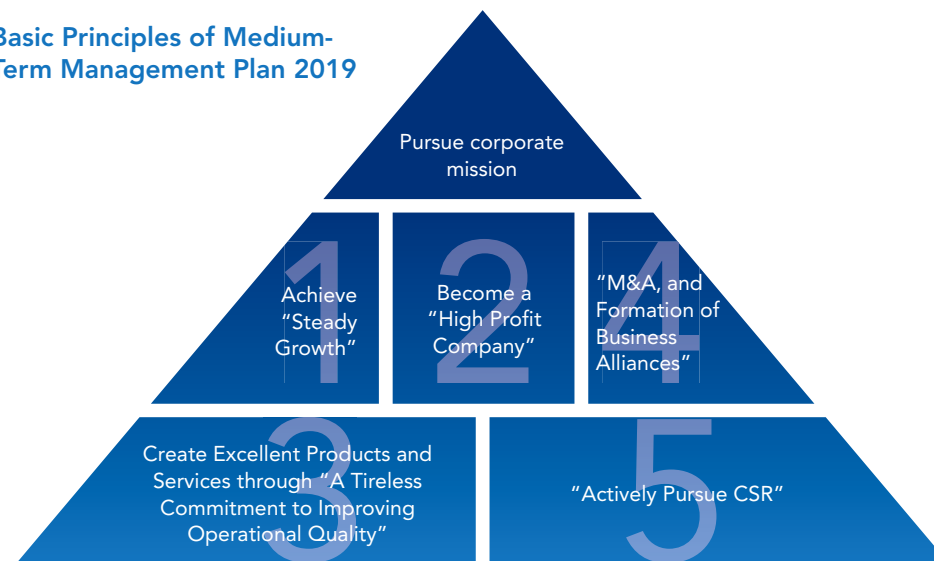
In carrying out our plans, we will continue to maintain financial discipline and make active investments to ensure growth by utilizing our enhanced financial strengths.

For the target of our shareholder returns, we have set a payout ratio of 30% for the three-year time span of the medium-term management plan.

Financial Targets and Progress in Medium-Term Management Plan 2019

In May 2017, the SHI Group formulated Medium-Term Management Plan 2019, which will end in fiscal 2019.

Basic Principles of Medium-Term Management Plan 2019



Framework for the Basic Principles of Medium-Term Management Plan 2019

Basic Concept of Medium-Term Management Plan 2019

- ① Look to achieve steady growth after carrying out a stringent examination of the external environment
- ② Become a high profit company
- ③ Create excellent products and services through a tireless commitment to improving operational quality
- ④ Actively participate in business integrations, M&A, and formation of business alliances with third-party entities
- ⑤ Actively pursue CSR

Projections for Fiscal 2019

For fiscal 2019, SHI forecasts orders of ¥930 billion (down ¥22.2 billion compared with fiscal 2018) and record-setting net sales of ¥905 billion (up ¥1.9 billion year on year). We estimate operating income will total ¥72 billion, for an operating margin of 8.0%.

Based on our estimate for ¥46 billion in profit attributable to owners of parent (up ¥0.3 billion), we plan to pay an annual dividend of ¥112 per share, the same as in fiscal 2018, for a dividend payout ratio of 29.8%, on a par with the previous fiscal year.

SHI initially planned to spend ¥80 billion on capital investments and ¥52 billion on R&D over the three years of the management plan, but has decided to increase these amounts to ¥130.5 billion and ¥57.9 billion, respectively, in light of recent robust order receipts.

Earnings Estimates by Segment for Fiscal 2019

	Fiscal 2017 Results						Fiscal 2018 Results						Fiscal 2019 Estimates					
	Orders	Net Sales	Operating Income	Operating Income Ratio	Capital Investment (capitalized basis)	R&D	Orders	Net Sales	Operating Income	Operating Income Ratio	Capital Investment (capitalized basis)	R&D	Orders	Net Sales	Operating Income	Operating Income Ratio	Capital Investment (capitalized basis)	R&D
	(Billions of yen)																	
Machinery Components	115.1	109.4	11.8	10.8%	5.6	1.5	134.0	133.4	11.1	8.3%	7.5	1.5	135.0	135.0	11.0	8.1%	12.5	
Precision Machinery	190.5	169.4	19.5	11.5%	6.4	5.3	191.5	185.7	17.7	9.5%	8.6	5.6	180.0	186.0	18.0	9.7%	10.5	
Construction Machinery	265.2	260.5	17.4	6.7%	9.4	4.8	305.3	290.5	22.0	7.6%	7.6	5.0	285.0	292.0	21.5	7.4%	11.5	
Industrial Machinery	87.7	83.8	8.8	10.5%	4.1	2.2	90.8	93.7	9.0	9.6%	2.4	3.2	94.0	91.0	8.0	8.8%	4.5	
Ships	34.9	38.3	0.7	1.9%	1.8	0.2	32.0	41.4	0.8	2.0%	3.7	0.1	37.0	34.0	0.0	0.0%	2.5	
Environmental Facilities & Plants	162.7	121.9	9.5	7.8%	1.9	0.9	191.3	151.0	12.6	8.3%	2.7	1.4	192.0	160.0	12.0	7.5%	4.0	
Others	7.7	7.8	2.1	26.7%	1.2	0.0	7.3	7.3	2.2	29.7%	1.2	0.0	7.0	7.0	1.5	21.4%	6.5	
Total	864.0	791.0	69.9	8.8%	30.4	14.8	952.2	903.1	75.2	8.3%	33.7	16.8	930.0	905.0	72.0	8.0%	52.0	22.6
ROIC	10.3%						10.5%						9.2%					
Payout ratio	30.1%						30.1%						29.8%					

Message from the President

For fiscal 2019 which is the last year of Medium-Term Management Plan 2019, we will take the following measures to achieve the plan.

① Achieve “Steady Growth”

As measures toward business expansion, we will maintain and enhance our competitiveness by making investments in a focused and timely manner corresponding to the roles of each business and attain steady growth for the Group as a whole.

We will also increase the strength of our products by brushing up on materials, controls and other common technologies, in addition to peculiar technologies cultivated for each product model. To this end, we will make necessary capital expenditures, R&D investments and procurement of human resources ahead of the plan, as described earlier.

② Become a “High Profit Company”

We will continue our portfolio management, clarify target profits and focused challenges based on the state of competition and external environment of each business, reallocate management resources and push forward our business structural reform. In the business divisions leading the SHI Group, such as Machinery Components and Precision Machinery, we will drive high growth and profitability by setting higher goals and goals to be achieved by all business divisions, product models and regions. Through achievement of these goals, we will transform ourselves into a corporate group with a culture of high profitability and solidify our businesses.

③ Create Excellent Products and Services through “A Tireless Commitment to Improving Operational Quality”

(a) Promoting quality improvements in products and services and reforming business processes

The SHI Group is marshalling all of its capabilities to thoroughly manage quality and improve the quality of its products and services while continuing to put “quality first” management into practice.

As measures for promoting collaboration across business divisions, we are strengthening after-market operations as a Group-wide theme. We are sharing information about customer needs more broadly within the Group and reforming sales processes to proactively use this information. SHI is also making the necessary updates to its infrastructure while advancing ICT and IoT projects led by the Corporate Technology Management Group and the Corporate Information & Communication Technology Department.

(b) Ensuring strict compliance

Ensuring strict compliance remains one of the highest priorities of the SHI Group. We are revising the Compliance Manual and redistributing it as training materials for all officers and employees of the Company and each of the companies within the Group.

Moreover, compliance training in each business division includes case studies about compliance violations that help increase awareness of compliance issues throughout the entire Group.

(c) Taking safety initiatives

Having drawn up the Health and Safety Improvement Plan in fiscal 2010, the SHI Group is currently engaged in occupational health and safety initiatives as part of the third execution plan from fiscal 2017 to fiscal 2019. To achieve our goals under this execution plan, we are making every effort to create pleasant workplaces where all employees can work in safe and secure environments that promote both their physical and mental health.

④ Actively Participate in Business Integrations, “M&A, and Formation of Business Alliances” with Third-Party Entities

We will proceed with business integrations and inter-organization alliances, as necessary, so that we can achieve the effect of inter-business synergies within the Group, while actively seeking opportunities for each business to participate in M&A and to form business alliances with third-party entities.

⑤ “Actively Pursue CSR”

In fiscal 2019, the SHI Group will take the following measures in the four priority areas of “Products and Services,” “Environment,” “Society,” and “Employees” set forth in the CSR Mid-Term Plan.

For “Products and Services,” we have continued to discuss issues in each business division related to the design and development of products and services that will help solve social issues since fiscal 2017. We are clarifying issues based on the results of these discussions.

For “Environment,” we endeavor to minimize the environmental burden across the entire product life cycle, and will strive to improve environmental performance by conducting environmental assessments of products with the aim of reducing CO₂ emissions during the use stage. We will also concentrate our efforts on proactively communicating with stakeholders about the results of our environmental activities in response to trends in ESG investment.

For “Society,” we strive to build sustainable relationships with suppliers, and ask our business partners to strictly comply with laws, regulations and social norms so that we can regain the trust of society. In fiscal 2019, we will continue to hold larger-scale briefing sessions for our suppliers about CSR procurement guidelines.

For “Employees,” we will create workplaces where a broad variety of human resources can be fully utilized, with a focus on our diversity promotion activities. Regarding diversity, we are promoting women in the workplace, mainly by assisting with their career formation based on the three pillars of “awareness,” “systems,” and “environment.” We are also taking a broad range of other steps to nurture a better culture in our organizations.

These activities are linked to achieving the United Nation’s Sustainable Development Goals (SDGs) by 2030, a common set of goals shared by international society. As a member of society, we will fulfil our responsibilities to meeting the demands of international society.

We will strive to communicate these combined efforts internally and externally for further penetration of our CSR efforts.

Based on our Business Principles, through these measures, we will leverage our advantages to create a stronger SHI Group.



Shinji Shimomura
Representative Director,
President and CEO

Relationship of Capitals and Strength of the SHI Group


Manufacturing capital 

Responsiveness to various customers' needs
(A broad product lineup and technical capabilities that can meet high-level requirements)

Domestic manufacturing sites:	Domestic subsidiary manufacturing sites:	Overseas manufacturing sites (Group total):
7 sites	6 sites	25 sites

Capital investment
Three (3) year total in Medium-Term Management Plan 2019:

¥130.5 billion
(Three (3) year total in previous medium-term management plan: ¥67.0 billion)

Intellectual capital 

Top level in the industry thanks to successive technical innovation in individual business domain and pursuit of advanced technologies

▶ Page 18

Number of patents acquired:	6,246
Number of overseas patents out of the above:	2,812



Organizational capital 

Spirit to embrace changes cultivated in the growth process from the start as the Sumitomo Besshi Tool Making Workshop in 1888 to today's total of 175 subsidiaries including 8 affiliated companies

Branded as one of the 19 core companies of the Sumitomo Group

Intellectual capital 

Development of base technologies for service business enhancement in addition to underlying technologies (ICT, AI and robotics, etc.)

R&D expenses
Three (3) year total in Medium-Term Management Plan 2019:

¥57.9 billion
(Three (3) year total in previous medium-term management plan: ¥40.6 billion)


Human capital 

Development of human resources to enable conversion to high-earnings business model

▶ Page 56


New hires (domestic)
Three (3) year total in Medium-Term Management Plan 2019:

1,400 jobs

Financial capital 

Solid financial basis that enabled conversion of business composition over the past 20 years

Stockholders' Equity Ratio	47.5%
Net Interest-Bearing Debt Ratio	-0.03%
ROIC after Tax (Return on invested capital)	10.5%

Social capital 

Relationship of trust with customers maintained and reinforced by the management in accordance with the Sumitomo Business Spirit

Number of suppliers:
About 8,900 companies

Pursuit of growth (investment) and scrutiny of safety and business conversion

Strength 1 Excellent Products and Services

What SHI Considers as Excellent Products and Services

The SHI Group considers products and services that customers “really want to buy” or “really want us to sell” as Excellent Products and Services. In order to create Excellent Products and Services that deliver confidence to customers, we are rigorously pursuing solutions for each customer’s problems and what we can do to create customer value.

1
Excellent Products and Services

2
Management Power to Realize High Market Share and Profitability

3
A Culture of Transformation



Smart Product Project

The Group is running the Smart Product Project as part of its Excellent Product Creation Project.

Definition of a smart product

IoT/ICT products that improve customer’s profitability through operation monitoring, failure prediction, and other functions

Highly intelligent, attractive products that inspire customers

Smart Product Project

Persons in charge of product planning and development of the following eight models participate in the Smart Product Project and, with an eye towards next generations, work on new product development, main body development, application development, and other themes in the collaborative framework involving the Corporate Technology Management Group and each business division.

<p>Small and medium size gear reducer (Gearmotor)</p>	<p>Injection molding machine</p>	<p>Hydraulic excavators</p>	<p>Magnetoencephalograph</p>
<p>Large size gear reducer (Gearbox)</p>	<p>Inflation apparatus</p>	<p>Proton therapy system</p>	<p>Steam turbine</p>

Challenge System

To sustain growth, the SHI Group is keen to develop new products and technologies while fostering an employee mindset that accepts new challenges. We launched the Challenge System in FY2018 to nurture this mindset, with the objective of providing a “venue for making dreams a reality” to employees who come up with technologies, ideas and product concepts for the SHI Group. Instead of the Company assigning tasks, employees come up with their own concepts they would like to see become a reality. Key evaluation metrics are “excellent ideas,” “efforts to address issues,” and “achievement of objectives.” For now, the Challenge System is available to employees at the Technology Research Center, and we are considering its rollout to Group companies later.

R&D Framework

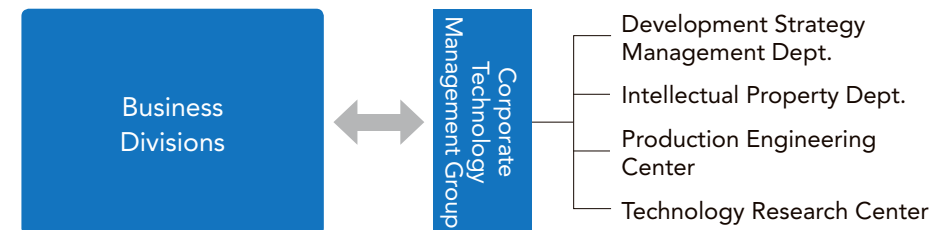
The Group will differentiate itself through products and services in order to convert to a high-earnings business model, and it will pool its collective capacities to create Excellent Products and Services. For new product development, we are promoting activities with close coordination between business divisions and the Technology Research Center, and we are implementing an integrated development process that involves conducting basic technology and elemental technology development in advance at the center and commercialization development in our business divisions.

Yoshiyuki Tomita
General Manager of Corporate Technology Management Group
In charge of Corporate Quality Group



Collaborative Framework for Corporate Technology Management Group and Business Divisions

The Corporate Technology Management Group works in close collaboration with the business divisions through organizational units differentiated by function.



Technology Research Center (Yokosuka, Kanagawa Prefecture)

R&D Field

The Technology Research Center is focused on the development of proprietary technologies for our six business segments, comprising Machinery Components, Precision Machinery, Construction Machinery, Industrial Machinery, Ships, and Environmental Facilities & Plants, as well as on the development of basic technologies that are essential to these business segments, including machine elements, materials, CAE, control, ICT, AI, and robotics, based on a medium- to long-term roadmap.

The Production Engineering Center promotes the development of management technology and technologies for production innovation and the further training of human resources in order to achieve a robust form of

manufacturing that is responsive to diverse customer needs while securing a competitive advantage.

With respect to elemental technologies, in particular, we are closely monitoring megatrends in markets and basic technologies to identify R&D topics based on a longer-term outlook that goes beyond the next two generations of products.

At the same time, SHI is strongly advancing R&D in products and services that solve social issues, such as the SDGs, and helping build a sustainable society. We are addressing important issues shared by all Group companies by endeavoring to improve energy efficiency, address an aging society and labor shortages, and promote circular businesses.

Amid intense competition on global markets, most of the Group’s businesses need to more rapidly provide Excellent Products and Services that satisfy customers. For this reason, the Company is building out a global network of R&D functions through open innovation.

With the understanding that in-house technologies are inadequate to achieve R&D outcomes in this day and age, we aim to expand R&D alliances with overseas subsidiaries while conducting joint research with universities in Europe and the U.S., for example.

Intellectual Property Strategy

Intellectual property for the SHI Group is a source of competitive advantage.

With a focus on Creating (securing rights to intellectual property), Attacking (utilizing exclusive rights) and Defending (respecting the rights of other companies), the SHI Group actively works on a unified basis to create, protect and utilize the Group's intellectual property.

To establish a direct connection between senior management in business divisions and intellectual property activities, we have appointed chief intellectual property officers (CIPO) in each division. The Intellectual Property Department also participates in the intellectual property activities of divisions in all respects and conducts activities to enhance interdivisional synergies to raise intellectual property value throughout the Group from a medium- to long-term standpoint and to further vitalize related activities at the division level.

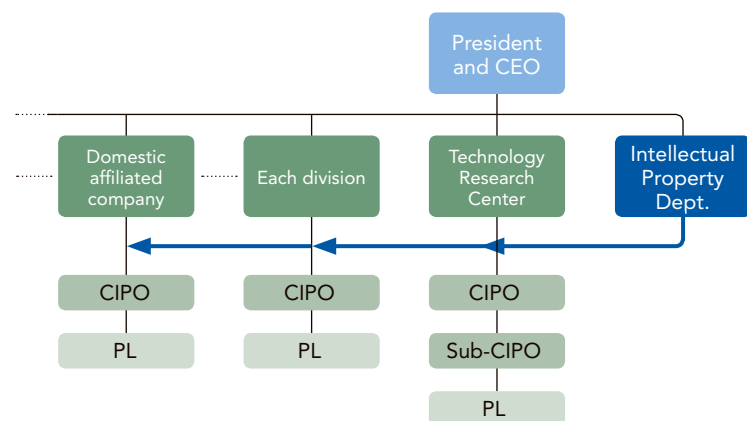
In order to establish superiority in development of overseas business, we are actively working to raise the overseas acquisition ratio of patent rights.

Major Intellectual Property Activities

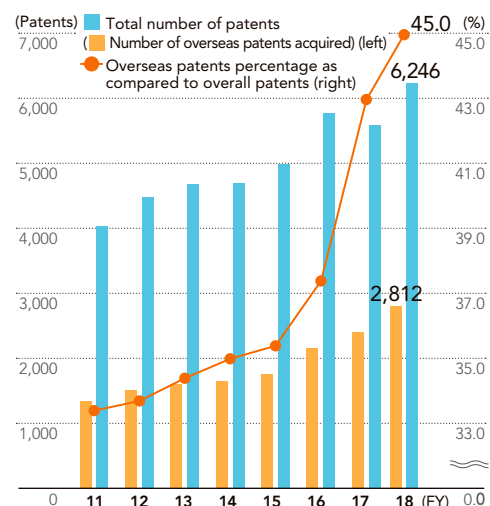
<p>Creating Acquisition of intellectual property rights</p> <p>Regarding Excellent Products and Services, we plan intellectual property portfolios from a medium- to long-term perspective at the stage before R&D and brainstorm ideas with each division and research center to establish intellectual property portfolios. Intellectual property portfolios are periodically reviewed to maintain a competitive advantage.</p>	<p>Attacking Intellectual property utilization</p> <p>Acquired intellectual property rights are utilized not only for publicity and PR of Excellent Products and Services, but also for checking against companies that do not respect the rights, helping our business activities. In recent years, we have also focused on licensing and transferring and are trying to make more effective use of intellectual property rights.</p>	<p>Defending Respect of other company's rights</p> <p>From the spirit of compliance, we respect other company's rights and never infringe on them. We conduct a thorough investigation of rights of other companies before starting R&D, and continue doing an ongoing investigation from that point onward. In addition, the rights of other companies are checked during each phase of DR (design review), ensuring intellectual property activities are integrated into the quality assurance system.</p>
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CIPO System

CIPO: Chief Intellectual Property Officer
Sub-CIPO: Deputy CIPO (Group Leader)
PL: Patent Leader



Acquisition of Patent Rights



Quality Management System

We will continue to consistently provide high-quality products and services that are appreciated by customers.

Our Approach to Quality Assurance

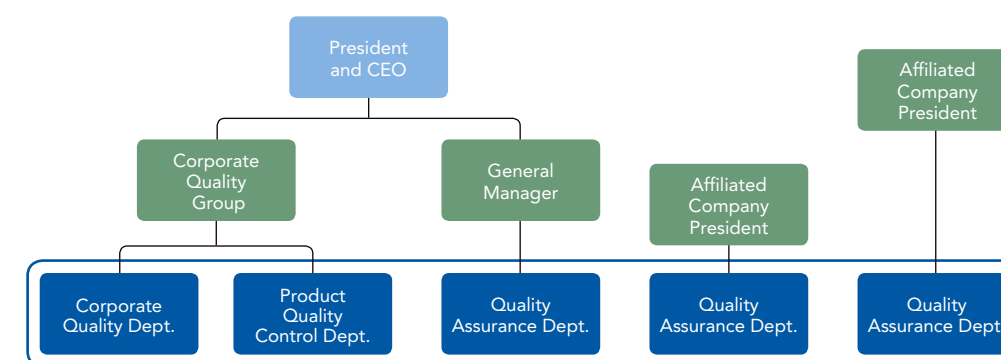
The SHI Group believes that the quality of products depends not on chance but on its way of doing work, that is, on the appropriateness of processes employed. To that end, the President and CEO conducts diagnosis of the process of each business division and the Management Quality Headquarters of the Head Office conducts QMS (quality management system) audits.

In addition, we have introduced Six Sigma as the Group's common idea and are providing practical education on it. Master Black Belts and Black Belts placed in each division and affiliated companies are voluntarily working on strengthening process capabilities. The cumulative number of Green Belt certification holders has reached 2,000, bringing the Group's quality activities to a higher level.

Quality Assurance System

Each business division and affiliated company of the SHI Group has their own quality assurance systems that are suitable for their various businesses ranging from large building structures like ships to key components incorporated into industrial machinery and various devices. The Quality Assurance Department reports directly to the business manager or president for affiliated companies, to ensure independence. In addition, the Group's

quality assurance managers get together to share ideas, policies, and measures for improving quality and learn from each other through group discussion at the Quality Assurance Department managers meeting. In FY2017, we worked on the theme "Recurrence prevention by in-depth process examination," and the theme of activities of FY2018 is "From strengthening of recurrence prevention activities to proactive activities."



SHI Group Quality Policy

Quality Principals

Through the continuous and unwavering pursuit of world-class quality that is recognized globally, we will supply customers with products and services that they recognize as adding value to their business.

Quality Policy

- Customer First:** Define quality targets based on the expectations of the customer
- Continuous Progress:** Continuously advance the quality system and incorporate quality with a process mindset
- Everyone Participates:** Every person involved in quality sets an objective and tackles quality issues head on as a team



Strength 2

Management Power to Realize High Market Share and Profitability

Management with ROIC* as One of the Key Indexes

From the viewpoint of stockholders, the SHI Group introduced ROIC in FY1999 as one of its key management indices, and has made every effort to improve corporate value with the goal of ROIC exceeding WACC (Weighted Average Cost of Capital).

After introducing this indicator, SHI set its sights on transforming the business structure in order to achieve the ROIC target, and set out to change its portfolio by concentrating resources on strategic growth businesses, and modify its financial position with a focus on reducing invested capital.

With ROIC as our metric, we have made significant changes in the business structure, management, product development, marketing, manufacturing and human resource development. These initiatives have translated into steady growth and our more robust financial position today.

Hideo Suzuki
CFO



* ROIC (Return on Invested Capital) = $\frac{(\text{Operating income} + \text{Interest and dividends received}) \times (1 - \text{Effective tax rate})}{(\text{FY average of stockholders' equity} + \text{FY average of interest-bearing debt})}$

Final Fiscal Year of the Current Medium-Term Management Plan

FY2019 is the final fiscal year of Medium-Term Management Plan 2019, which started in FY2017.

SHI has invested heavily in M&A in the Machinery Components, Precision Machinery and Environmental Facilities & Plants segments, which are positioned as businesses targeting growth and strong earnings under the medium-term management plan. Over the

three years of this plan, the Company has budgeted ¥130.5 billion for capital investments and ¥57.9 billion for R&D spending.

As a result, management expects to handily surpass its initial targets for net sales of ¥905.0 billion and ROIC of 9.2% in FY2019.

Heavy Investments to Achieve the Medium-Term Management Plan

SHI has invested aggressively to “achieve steady growth,” “become a high profit company,” and for “M&A and the formation of business alliances,” three of the basic policies in the current medium-term management plan. The SHI Group has expanded its global presence through large-scale M&A overseas in both FY2017 and FY2018.

Furthermore, SHI continues to allocate funds for capital investments with a focus on fields likely to see growth and earnings, such as power transmission and controls and injection molding machines, as well as for R&D to develop new products in growth businesses and fields related to healthcare, automobiles and semi-conductors that have the potential to become next-generation pillars of business. Compared with the previous medium-term management plan, the current medium-term management plan has a much larger budget for these investments, and the budget has been increased for both capital investments and R&D compared with when plans were initially drawn up in March 2017.

Management has also upwardly revised its numerical financial targets, such as for net sales and operating income, from its original forecasts. In FY2019, the Company intends to solidly achieve these targets while investing in future growth.

Morihiro Kondo
General Manager of
Corporate Planning Group



Scrutiny of Markets Where Our Strengths Become Advantages and Rigorous Allocation of Management Resources

The SHI Group’s basic approach to investment is based on the objective of improving growth and profitability by allocating management resources in accordance with the roles of each Group business while evaluating the growth potential and profitability of each business line. When we were creating the current medium-term management plan, we categorized the Company’s businesses and decided to primarily invest in businesses targeting growth and high levels of profits, as well as businesses keen to improve profitability.

The SHI Group has built a business portfolio with many products and business lines. These businesses generate synergies from their mutual technical

know-how and shared manufacturing and marketing bases. The Technology Research Center is involved in R&D programs across the Company and is a source of the entire Group’s competitiveness.

Looking at these business lines from a different angle, they can be broadly divided into mass production businesses that are sensitive to economic cycles, and orders-based production businesses with long delivery timeframes that are considered to stabilize operations under the cyclic fluctuations of economic trends. By leveraging the organic links between businesses in our portfolio, we as a Group aim to achieve stronger growth and higher profits.

Business Roles in Medium-Term Management Plan 2019

Role	Growth & High Profitability	Improve Profitability	Stabilize Profit Margins
Positioning	Aim to achieve growth while maintaining high levels of profitability (10% or greater)	Aim to achieve growth while improving profitability	Ensure a stable level of profit
Next-Generation Business	Cryogenic Equipment Core pillar of profitability and growth for the Group	Next-Generation Growth Devices (e.g. medical, semiconductor, automotive)	Medical-Related Equipment Metal Processing Equipment (e.g. presses, flow forming, etc.)
Device-Related Business	Power Transmission and Controls Injection Molding Machines	Semiconductor Production Equipment Chemical Processing Equipment (e.g. agitators, food-related machinery)	Hydraulic Excavators Stabilize business without being concerned about scale Shipbuilding
Infrastructure-Related Business	Industrial Cranes / Mobile Cranes / Turbines / Boilers / Water Treatment Facilities Maximize profitability and create a second pillar of growth (e.g. energy, environment, transportation, etc.)		

Strength 3 A Culture of Transformation

The SHI Group's History of Transformation

The Plastics Machinery business mainly manufactures and sells plastic injection molding machines, in addition to laminators, film and sheet production systems, and semiconductor resin sealing press machines. Our mainstay plastic injection molding machines excel in terms of small-size precision and high-cycle work. Leveraging these advantages, our injection molding machines have pushed the boundaries of innovation in high-performance component applications, such as for smartphones, and light but strong component applications, such as for automobiles. Moreover, by supplying sanitary containers for consumer and medical applications, we contribute to the realization of safe, secure, abundant and convenient lifestyles. With a history of over 50 years, the Plastics Machinery business has a top-class share of over 20% in the domestic market. Globally, we have shipped more than 130,000 units in total worldwide. Here, we introduce the history of transformation in this business.



Kazuo Hiraoka
General Manager of
Plastics Machinery Division

Starting with the Introduction of Technologies, Evolving to Small-Size Precision

This business traces its origins to the manufacture of wire coating machines in Niihama City, Ehime Prefecture, when the Company was still called Sumitomo Machinery. The Company introduced general-purpose plastics machinery in 1961 and constructed Chiba Works in 1965. SHI initially introduced technology from Netstal-Maschinen AG in Switzerland, and then focused on sales of the Nepiomat injection blow molding machine that was launched in 1967. Back then, the Nepiomat was more compact than similar machines sold by other companies. Since the cost of resins used to make shaped materials was higher back then than today, the focus of development was on increasing the accuracy and small-size precision of shape formation in order to minimize

waste. At the time, the Company's lineup of products based on mold clamping force aligned well with the future development of electric molding machines, which eventually translated into business expansion.



Nepiomat 330

First All-Electric Molding Machine Focused on Improving Small-Size Precision and High-Cycle Work, Creating a Positive Cycle with the Disk Molding Machine Business

In the late 1980s, SHI began to develop all-electric molding machines instead of the hydraulic molding machines that were standard at the time. In the 1990s, the Company boasted a highly competitive lineup of hydraulic molding machines with excellent small-size precision,

productivity and durability. Nonetheless, a Companywide effort involving research centers and other business units was made to research and develop electric molding machines in pursuit of a direct drive system that was different from other companies' products. In 1997, SHI



launched the SS series (name later changed to SE-S) of all-electric injection molding machines featuring the industry's first direct drive mechanism.

Around this time, demand rapidly grew for CDs and other optical disks, presenting a major growth opportunity for SHI. Alongside advancements in physical storage media, such as CDs, CR-Rs and Blu-ray discs, SHI developed products along with both markets and customers. Collaboration with customers that had cutting-edge technologies related to the entire disk production process played a major role in spurring growth in the Company's disk molding machine business, and the profits earned in this business were used to invest in further growth in a virtuous cycle. Pursuing the concepts

of small-size precision and high-cycle work, our ceaseless efforts to develop optical disk molding technologies, which were cutting edge back then, evolved into a key strength in our injection molding machines today.



SS50

Accelerating Global Business Development, Building a Base in Europe

The late 1990s through the 2000s was a period when Japanese companies were quickly making inroads into overseas markets. In addition to sales in Japan, sales to the overseas manufacturing bases of Japanese customers also increased. As overseas sales increased, SHI opened new service bases in each region to continue supporting Japanese companies, and sales to local companies also grew as a result. At each base, we were able to develop business with Japanese companies, creating a reliable source of sales and earnings, which allowed us to build out our own service network instead of relying on local sales agencies.

However, sales to the Europe region struggled to grow despite being a major market for molding machinery. Europe used different specifications and control systems than Japan, and the necessity to adapt to diverse cultures and languages formed a high barrier to

entry. For this reason, SHI acquired Demag Plastics Group (now Sumitomo (SHI) Demag Plastics Machinery GmbH [SDG]) in FY2008, establishing a foothold in Europe through Germany, marking its full-fledged entry into the European market.



SDG's Schwaig factory

Reinforcing the Earnings Base while Adapting to Change

SHI now has three main business fields in the electric and electronic components, automotive-related and daily necessities markets. Each of these markets account for 20–30% of sales in their businesses. Below, we summarize the risks and opportunities in each market.

Markets	Risks	Opportunities for SHI
Electric and electronic components	• Ups and downs on smartphone and IT-related markets in recent years	• Transition to next-generation communications protocol (5G)
Automotive-related	• Barriers to entering European market	• Collaboration with SDG • High ratio of electrical equipment in Europe
Daily necessities	• Environmental problems caused by plastic waste	• Molding technology for materials that address environmental issues

The Plastics Machinery Division, which may seem to have grown steadily throughout its history, actually encountered a number of challenges along the way. Each

time, the entire SHI Group, not just the Plastics Machinery Division, marshalled its technologies and know-how to overcome these challenges. In FY2018, the business was able to achieve a scale of ¥100 billion, one of our long-standing goals. Looking ahead, we will strengthen the earnings base and focus our efforts on developing and introducing products that fulfill market needs from an acute awareness of conditions in these three markets. With our partner SDG headquartered in Germany, where global standards and rules are created, we will continue to latch onto opportunities arising from changes happening around the world. As a business that supports the growth and profits of the SHI Group, and also as a business that contributes to society through plastics, we will ceaselessly evolve the Plastics Machinery business.

SHI Group Value Creation

Strength of the SHI Group

The SHI Group contributes to customer value creation by offering Excellent Products and Services based on our high-level technological capabilities. This value creation was made possible by our culture of transformation, which has been refined over many years. We will also utilize our management capability to realize high market share and profitability to continuously improve our corporate value.

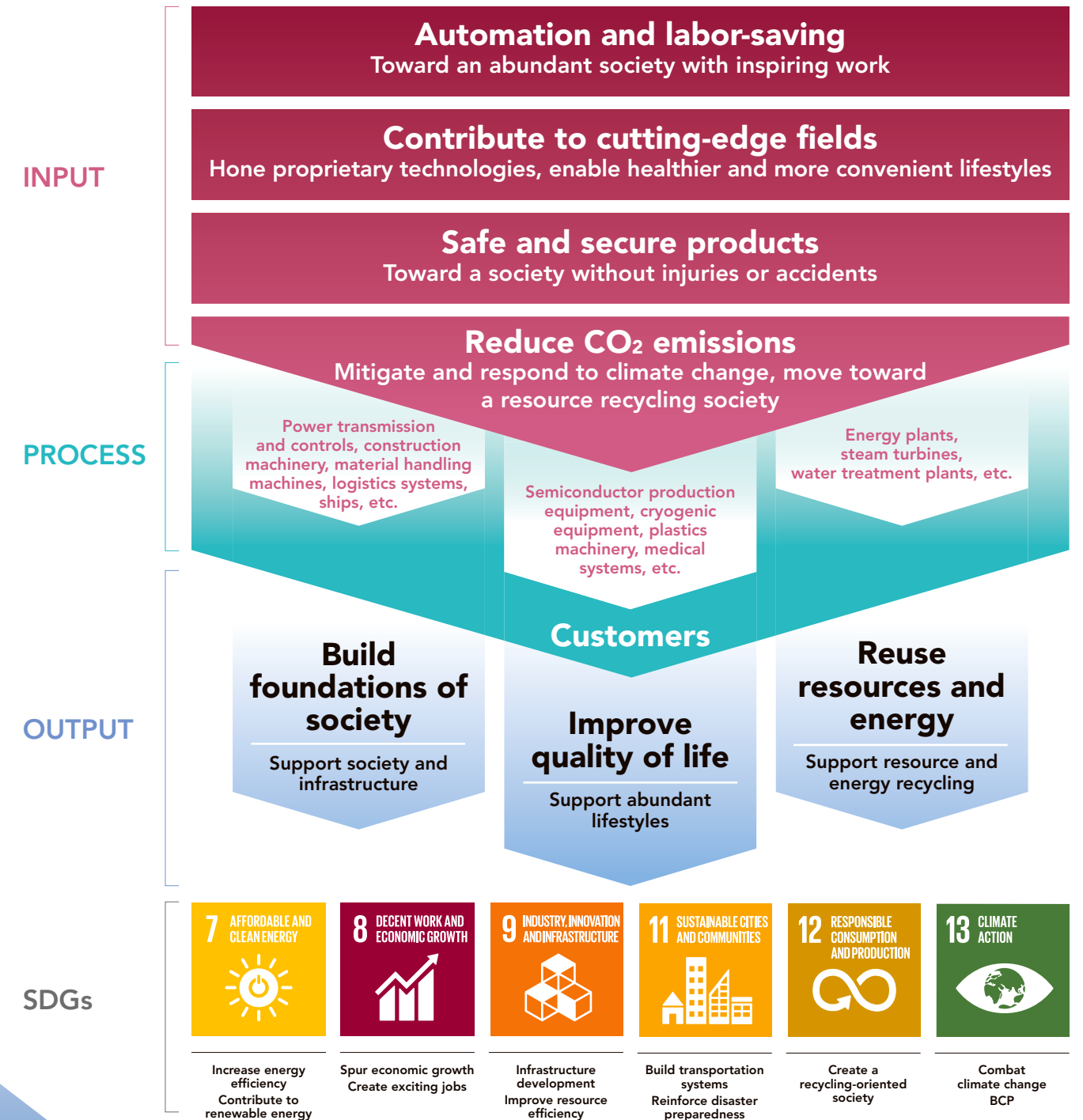


Base Supporting the SHI Group

Corporate Governance, CSR, Human Resources

Value that SHI Offers

< Features of SHI's products and services >



SUSTAINABLE DEVELOPMENT GOALS

Machinery Components

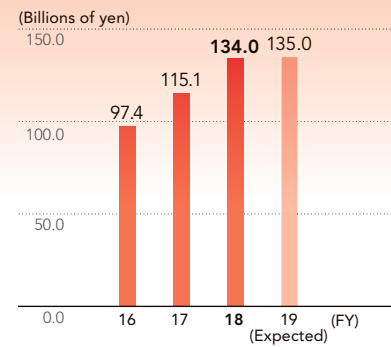
Main Products and Markets
 □ Power transmission and controls, motors
 Factory automation machinery, Industrial robots, Machine tools, Conveying and logistics machinery, Steel iron production machinery, Chemical processing machinery, Material handling machinery, Mining machinery, Food processing machinery, Water treatment plants, Elevators and escalators



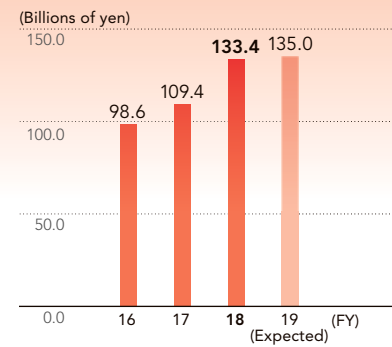
CYCLO®DRIVE



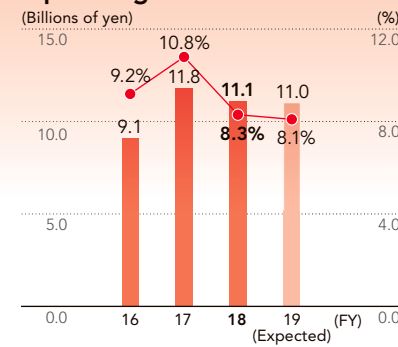
Orders



Net Sales



Operating Income/ Operating Income Ratio



Power Transmission and Controls

Segment Overview

This segment's main products are power transmissions and motors. Power transmissions convert the rotating speed of motors and other drives in order to increase their torque. Supporting society and lifestyles, our products are widely used to move objects around the world, such as industrial robots working in plants, conveyor systems that carry packages in logistics centers, and cranes that unload cargo from ships at ports. With manufacturing and sales bases in Japan and around the world, SHI has a global business presence under the Sumitomo Drive Technologies brand. We lead in market share of domestic sales and have global sales among the top for power transmissions and controls.

One of our leading products is CYCLO®DRIVE, which boasts excellent durability and high efficiency through the use of gears with a proprietary tooth profile that are nearly unbreakable. As 2019 marks the 80th year since production began in Japan, we are grateful to our customers for their support, and will strive to expand and develop the business further.



Sumitomo Drive Technologies

Fiscal 2018 Review and Key Topics

In FY2018, demand was brisk for power transmissions and motors around the world, despite an uncertain outlook due to concerns arising from trade friction.

In Japan, sales expanded moderately, supported by new construction on logistics facilities alongside the redevelopment of urban areas and growth in the online shopping market. Overseas, economic conditions slowed in some regions in the last half of the fiscal year. In China in particular, demand for industrial robots, which had been a strong growth driver, stalled due to inventory adjustments, leading to weaker demand for precision gear reducers, a key component of industrial robots.

Under these circumstances, SHI saw an increase in both orders and sales compared with the previous fiscal year, owing to industrial motor manufacturer Lafert Group of Italy becoming a consolidated subsidiary, in addition to firm demand for small- and medium-size general-purpose power transmissions.

Moreover, SHI moved to expand its global supply capacity for precision gear reducers in anticipation of stronger demand for industrial robots in the future, constructing a new plant in Vietnam to produce key components in precision gear reducers. SHI continued to invest heavily in Japan and abroad, focusing intently on strengthening its service operations with the acquisition of a gear reducer servicer in Spain and construction of a new service base in Australia.

In June 2018, SHI brought Lafert Group into the scope of consolidation, taking its first step toward expanding operations in the electrical and control fields. We also domestically launched the Planetary Gear Reducer IB Series PE Type for Servo Motors that achieve high cost performance and short delivery times as a part of efforts to develop new markets and applications.

Fiscal 2019 Strategies and Initiatives

In FY2019, there are signs of deceleration in some regional economies, including China and Europe, on worsening market sentiment due to trade friction. However, demand for power transmissions and motors should remain brisk, supported in Japan by investments in automation to alleviate labor shortages and investments to modernize aging facilities, in addition to support overseas from investments in infrastructure alongside urbanization and investments to conserve energy.

SHI intends to continue making capital investments to reinforce its supply chains and expand production capacity in Japan and overseas, including the construction of a new gear reducer assembly plant in an area with a concentration of Japanese manufacturing bases in central Mexico this fiscal year. The Company targets growth in the service business by expanding service bases, especially overseas, while focusing on needs for inspections and maintenance of gear reducers.

SHI is keen to bring new products to market that help customers create value, such as the launch of the High-Precision CYCLO®DRIVE DA Series, and the overseas launch of the Planetary Gear Reducer IB Series PE Type for Servo Motors. With Lafert Group, SHI intends to steadily generate synergies through the joint development of products and use of mutual channels.

We will also proactively seek alliances outside the SHI Group to facilitate product development.



Planetary Gear Reducer IB Series PE Type for Servo Motors

High-Precision CYCLO®DRIVE DA Series



Servo Motors made by Lafert



High-Efficiency Motors made by Lafert

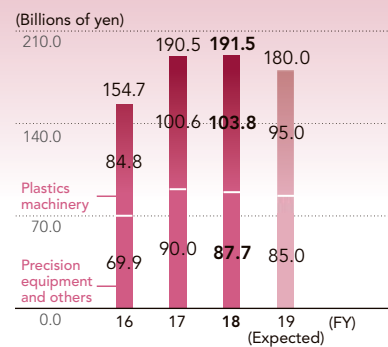
Precision Machinery

- Main Products and Markets
- **Plastics machinery**
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, Space technology development, Semiconductors
 - **Precision forgings**
Jet engines for airplanes, Turbines for power generation
 - **Defense equipment**
Defense

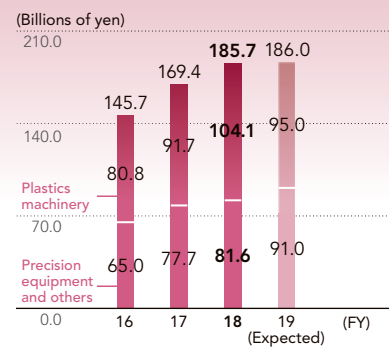


Net Sales
¥185.7
billion
21%

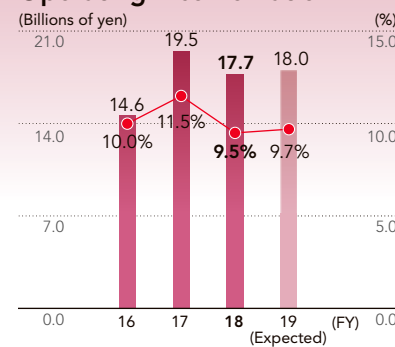
Orders



Net Sales



Operating Income/ Operating Income Ratio



Precision Machinery

Segment Overview

Our injection molding machines are able to fabricate a variety of products by injecting hot plastic into molds. The Company's machines excel in terms of precision and high-cycle molding. We are particularly strong in electric markets, especially smartphones that demand precision molding. Our machines can quickly and efficiently create complex shapes down to thin molds like food containers.

Fiscal 2018 Review and Key Topics

In the first half of FY2018, demand for molding machines remained strong worldwide in continuation from FY2017. Demand was particularly brisk in the Chinese market for electric and electronic components, including smartphone components, as well as in the automotive-related and daily necessities markets in Japan and Europe. Since the second half of FY2018, however, the deepening trade friction between the U.S. and China and other factors led to slower growth in the Chinese market, resulting in a slight decline in orders received by the Plastics Machinery business compared with FY2017.

Sumitomo (SHI) Demag Plastics Machinery GmbH grew its market share on the back of a rise in sales volume of electric injection molding machines and other sales in Europe.

Fiscal 2019 Strategies and Initiatives

Companies that have manufacturing facilities in China and export products to the U.S. are considering whether to shift production to other countries in Southeast Asia. In continuation from FY2018, SHI expects demand to weaken in FY2019 owing to the slowdown in China's economy.

In addition to the Company's traditional strengths in electric markets, SHI will continue to strengthen initiatives in the automotive-related and daily necessities markets in a bid to create a more competitive product portfolio.

In the automobile market in particular, as demand for electronic and optical parts is expected to increase due to the conversion to EV and automatic operation, we will reinforce our solution proposals to meet customer needs.

We also aim to strengthen IoT-related technologies and accelerate sales of our i-Connect system for managing the quality of output from injection molding machines.

SHI will pursue greater synergies through strategic sharing with Sumitomo (SHI) Demag Plastics Machinery GmbH.

Precision Equipment and Others, Cryogenic Equipment

Segment Overview

Our cryogenic equipment is not only used in the medical field for MRI and other devices, but also as cryopumps to create clean, ultra-high vacuum environments required for semiconductor production processes. We have the No. 1 share of the global market in MRI applications.

Fiscal 2018 Review and Key Topics

The medical MRI market continued minor growth overall, with flat growth in Europe, but showing steady demand in China, which accounts for 25% of global markets, and the North American market. In the semiconductor market, investment increased in China in the first half of the fiscal year, but memory demand fell sharply in the second half. In the display market, challenging conditions persisted as major investment plans were either delayed or suspended in South Korea and China, centered on OLED for smartphones.

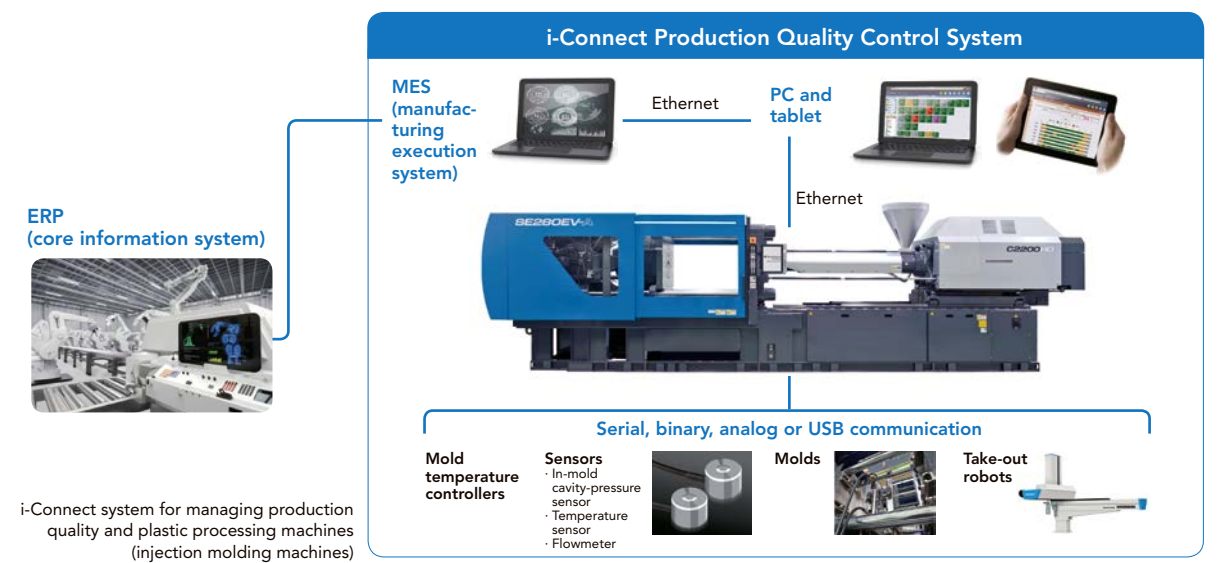
Against this backdrop, SHI endeavored to expand its market share by targeting replacement demand and increasing its market share by launching new products for both cryocoolers and cryopumps. In cryocoolers, the Company strengthened its competitive advantages in the market by starting to produce a low-helium model in response to rising prices for helium around the world, while also switching to

higher-efficiency models. In cryopumps, the Company continued efforts to expand the market by having major customers start evaluating their use in ion implantation equipment, in addition to mainstay sputtering systems.

Fiscal 2019 Strategies and Initiatives

SHI anticipates minor growth on the medical MRI market, driven mainly by Chinese government measures to promote MRI. In the semiconductor market, cutting-edge lines in Taiwan should drive growth in the logic field, and the Company expects memory demand, which lost momentum in FY2018, to begin to improve in the second half of FY2019 or the first half of FY2020. Therefore, a year-on-year decline is anticipated for the entirety of FY2019. In the display market, a rebound in OLED panels for smartphones should materialize from FY2020, but there is a plan to increase TV panel production in South Korea. The Company continues to take a cautious outlook on market trends amid concerns for inventory adjustments caused by Brexit and the impact from U.S.-China trade friction.

In cryocoolers for MRI systems, SHI is focusing on maintaining its market advantages and enhancing profitability with the switch to high-efficiency models, which began in 2018, and tapping into growing demand for a low-helium model. In cryopumps, while increasing the number of its customers, SHI is keen to convince customers to use cryopumps in ion implantation equipment, secure mass production from major customers, and expand the business to new customers. In the vacuum robotics business, we aim to expand our share among key customers, win over new customers, and improve profitability by reducing costs.



Precision Equipment and Others, Semiconductor Production Equipment Sumitomo Heavy Industries Ion Technology Co., Ltd.

Segment Overview

SHI produces ion implantation equipment that implant ions with high precision into silicon wafers to control their electrical properties. The Company has a top-class position in terms of share of domestic sales.

Fiscal 2018 Review and Key Topics

In FY2018, the semiconductor market continued to expand in the double digits in the first half in continuation from firm growth in FY2017, but in the second half, growth slowed down quickly in reflection of a decline in demand and market prices for DRAM and NAND flash memory due to lower investment in data centers, as well as weaker demand for smartphone CPUs due to sluggish growth in sales of smartphones. Even though operating rates remained at high levels at the plants of semiconductor device manufacturers, some companies curtailed operating rates in order to adjust inventories and postponed capital investments.

Under these conditions, SHI's orders for new equipment increased 18% compared with the previous fiscal year. In Japan, orders from image sensor manufacturers increased sharply, accounting for roughly half of equipment orders received for the fiscal year. Overseas, SHI saw year-on-year growth in both customer numbers and order volume as it tapped into robust investment demand in China, making considerable progress solidifying its business foundation in China.

In product development, the Company placed its focus on fundamental structural research for next-generation ultra-high energy equipment, in addition to development for ultra-high energy equipment and new concepts for single-wafer ion implantation equipment used in customers' environments, which are expected to play a role in the next medium-term management plan.

Fiscal 2019 Strategies and Initiatives

The correction in the semiconductor market that began in the second half of FY2018 is likely to continue until the end of FY2019. An upturn in investment in semiconductor production facilities should take place from 2020. Over the medium term, demand for semiconductors is expected to continue strengthening as the spread of 5G-compatible devices increases the volume of data communications, IoT continues to advance, and self-driving cars and other applications demand higher-performance semiconductors.

As was the case in the previous year, in equipment sales, we aim to increase profitability by expanding sales of the mainstay SAion and S-UHE Series, while positioning aftermarket service as the revenue-supporting business to ensure business stability.



SICERA® Ultra cryopump



Semiconductor production equipment (New all-in-one ion implantation equipment: SAion)

Construction Machinery

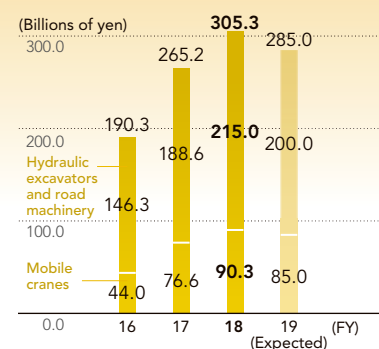
Main Products and Markets

- Hydraulic excavators
Construction, Civil engineering, Scrap, Forestry
- Mobile cranes
Construction, Civil engineering
- Road machinery
Roadway construction

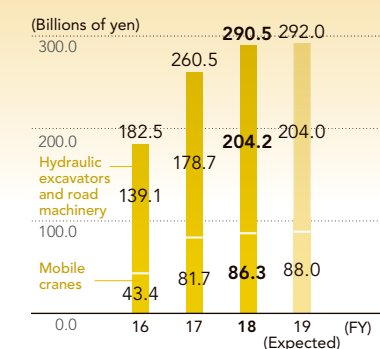


SH135X-7 outfitted for forestry operations

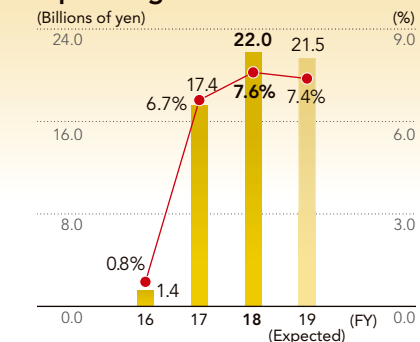
Orders



Net Sales



Operating Income/ Operating Income Ratio



Hydraulic Excavators and Road Machinery
Sumitomo (S.H.I.) Construction Machinery Co., Ltd.

Segment Overview

Our hydraulic excavators boast exceptional fuel economy, having won awards for energy efficiency from the Ministry of Economy, Trade and Industry, a first for construction machinery. The equipment models are highly praised, receiving multiple awards including the Energy-Efficient Machinery and Systems Award and the Good Design Award. In recent years, the Company had added more sophisticated functions with monitoring equipment to ensure safety around the hydraulic excavator work area. Our asphalt pavers for road paving have a dominant market share in Japan, and we are focusing on business development overseas, including Southeast Asia.

Fiscal 2018 Review and Key Topics

In FY2018, domestic demand for hydraulic excavators was 24,000 units, a decrease of 5% from FY2017 in reaction to a surge in demand before stricter exhaust gas regulations went into effect. Overseas demand totaled 322,000 units, an increase of 23% year on year with strong growth in almost all regions, including China, the world's largest market for hydraulic excavators.

In order to meet sharply growing demand worldwide, SHI focused on enhancing production capacity at three global plants in Japan, China, and Indonesia to raise supply capacity. As a result, the Company was able to latch onto stronger demand, shipping more than 13,000 hydraulic excavators, an increase of 12% from the previous fiscal year. In our product line, the mainstay SH200-7 hydraulic excavator that SHI developed won the Japan Machinery Federation Chairman's Award in the 2018 Energy-Efficient Machinery and Systems Awards sponsored by the Japan Machinery Federation. The SH200-7 model is the successor to the SH200-6 model that won an Energy-Efficient Machinery Award in FY2013. The latest award recognizes the energy efficiency of two successive generations of models. To strengthen our lineup of products that offer excellent economic performance, we launched four models of new hydraulic excavators and one asphalt paver for road paving compliant with 2014 standards under the Act on Regulation, Etc. of Emissions from Non-road Special Motor Vehicles (off-road law).

In FY2018, SHI posted record-high sales of ¥204.2 billion in the segment as a result of favorable market conditions and aggressive business development.

Fiscal 2019 Strategies and Initiatives

In FY2019, the outlook for global demand for hydraulic excavators is uncertain, with demand likely to decrease year on year in China, the largest market in the world, and other regions as well. Based on this outlook, SHI is taking steps to increase production efficiency, including investments to expand production at its three plants in order to further increase supply capacity for products that have firm demand around the world. In Japan, we aim to expand sales of new excavators and road machinery equipped with a new safety support device (Field View Monitor 2+) and compatible with information-driven construction. Overseas, we aim to increase our market share through reinforced marketing and servicing activities tailored to specific areas around the world. Our development division will develop products that utilize the most advanced technologies to enhance customers' productivity while speeding up development itself.

Mobile Cranes Sumitomo Heavy Industries Construction Cranes Co., Ltd. Link-Belt Cranes, L.P., LLLP

Segment Overview

Sumitomo Heavy Industries Construction Cranes Co., Ltd. mainly manufactures and sells crawler cranes in Japan and foreign countries (except the Americas).

Our market share in Japan is more than 40%. In 2018, the mainstay SCX-3 Series won the Good Design Award.

In North America, Link-Belt Cranes, L.P., LLLP primarily manufactures and sells truck cranes, with a top-class share of the local market. We are promoting collaboration with this company.

Fiscal 2018 Review and Key Topics

In the construction crane market, machinery operating rates were robust due to an increase in domestic public works projects and construction related to the Tokyo

Olympics and Paralympics. However, demand was lower than the previous fiscal year owing in part to a shortage of crane operators and a snapback from sharp growth in demand over the past few years, leading to postponements in investments. Overseas, anticipated infrastructure-related maintenance was slow to emerge in North America, and business conditions were flat in Western Europe. In China, however, domestic infrastructure investment continued, and also in Asia excluding China, demand grew in tandem with economic recoveries. Overall, demand was up sharply on overseas markets.

FY2018 marked the second year after Sumitomo Heavy Industries Construction Cranes Co., Ltd. became a consolidated subsidiary of the SHI Group. Domestic sales decreased 8% from the previous fiscal year, owing to a decline in sales volume for large-sized machines, despite a minor year-on-year increase in sales volume of new models, in addition to efforts to expand the service business.

Continuing on from last year, we strengthened agent support and developed new markets in the overseas business, resulting in an increase in sales volume for new models and overall growth of 3% in overseas sales for the fiscal year. Regarding collaboration with our consolidated subsidiary Link-Belt Cranes, L.P., LLLP in North America, we will further promote cooperation in sales, marketing, development, and procurement.

Fiscal 2019 Strategies and Initiatives

Uncertainty in the global market environment will likely continue in light of the stall in domestic investment amid rising material prices, hardship in parts procurement, and the risk of contraction in global trade due to extended protectionist policies in trade. Looking ahead, we will continuously aim at building a competitive business structure, pursuing synergies by accelerating and improving quality in new product development, enhancing customer satisfaction by strengthening cooperation with overseas agents, and strengthening collaboration with SHI Group companies including Link-Belt Cranes, L.P., LLLP, in addition to promoting the efficient use of resources.



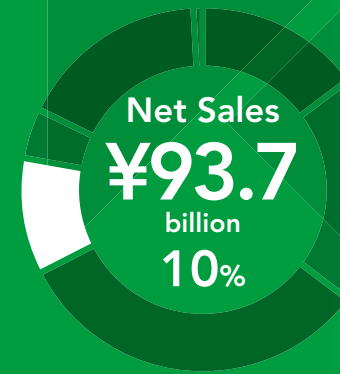
Asphalt paver HA45C-10

SH200-7 hydraulic excavator (model that won the Japan Machinery Federation Chairman's Award at the 2018 Energy-Efficient Machinery and Systems Awards)



Hydraulic crawler crane SCX2000-3

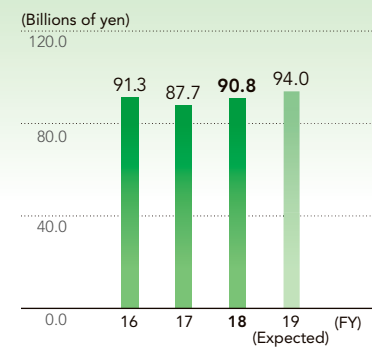
Industrial Machinery



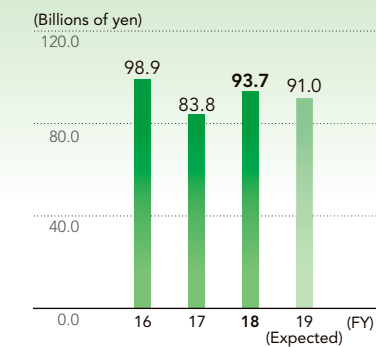
- Main Products and Markets
- Cyclotrons for medical use
Medical equipment
 - Cyclotrons for research use
Research
 - Coating systems
LCDs
 - Forging presses
Automobiles, Iron and steel, Non-ferrous metals
 - Material handling machinery
Iron and steel, Electric power, Shipbuilding, Port logistics
 - Logistics & handling systems
Logistics
 - Turbines
Power generation
 - Pumps
Oil refineries, Petrochemical facilities



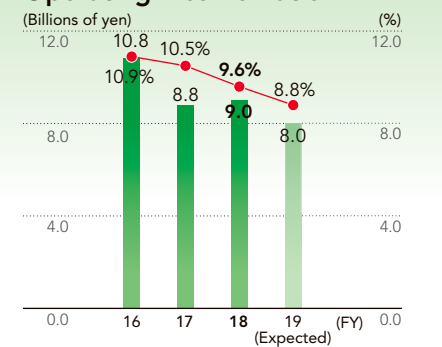
Orders



Net Sales



Operating Income/ Operating Income Ratio



Forging Presses

Segment Overview

Our hot forging presses are used to produce engine parts and other components with hot steel in automobile manufacturing plants around the world.

Fiscal 2018 Review and Key Topics

Tier 1 and tier 2 suppliers are biding their time on investment decisions amid growing uncertainties in the biggest automobile markets in China and the U.S., impacted by a slowdown in the Chinese market and trade friction between the two countries. However, SHI continues to invest in expanding its overseas bases with the aim of securing more market share, and carries out investments to keep up with growing demand for aluminum-forged parts in order to lighten the weight of automobiles.

SHI has received orders for several medium-sized presses and a large-sized 6300T press.

Fiscal 2019 Strategies and Initiatives

SHI has brought to market the new FPZ Series of forging presses based on the concepts of stable, suitable and comfortable. The FPZ Series was unveiled at MF-TOKYO 2019, an exhibition at the 6th Metal Forming Fair Tokyo held in July and August 2019. Our goal is to contribute to a better forging work environment and to expand our business.



New FPZ Series of forging presses

Medical Equipment

Segment Overview

Our cyclotron technologies are used in the manufacture of advanced systems for cancer diagnosis and treatments. In the diagnostics field, SHI has a dominant share of the domestic market for equipment for production of radiopharmaceuticals for PET scans, which detect the early stages of cancer within a short time. In the treatment field, SHI has rich references for proton therapy systems, which provide advanced radiation therapy, in the global market.

Fiscal 2018 Review and Key Topics

In the diagnosis field, there is strong demand in the PET cyclotron market for research purposes and updating aging facilities in Japan. In the overseas market, demand is quite strong for clinical use, especially in China and Southeast Asian countries.

SHI received orders for two PET cyclotron systems from a national hospital in the Philippines, in addition to orders of PET cyclotrons from China.

In the treatment field, demand has been increasing for proton and heavy-ion therapy systems in the U.S., Europe and Asia.

SHI has completed development of high-speed scanning technology with fast layer switching to respond to treatment of moving respiratory organs with proton therapy systems. SHI received orders of linear accelerators for injectors used in heavy-ion therapy systems for Taiwan and South Korea.

Fiscal 2019 Strategies and Initiatives

In the diagnosis field, we will work for expansion of PET cyclotron systems at research facilities and hospitals around the world, as well as at pharmaceuticals companies who distribute radiopharmaceuticals.

In the treatment field, SHI is developing next-generation proton therapy systems while marketing a newly developed compact model. Regarding boron neutron capture therapy (BNCT), we are focusing our efforts on obtaining approval of medical devices from the Japanese government at the earliest timing.

Material Handling Systems

Sumitomo Heavy Industries Material Handling Systems Co., Ltd.

Segment Overview

This segment produces industrial material handling systems, automated warehouses and other logistics systems for distributors, and automated parking lot systems.

SHI provides material handling systems to a broad range of customers in the steelmaking, shipbuilding and other manufacturing fields, as well as the energy and harbor fields. In recent years, demand for automation has been strong in the logistics industry for warehouse-related products.

Fiscal 2018 Review and Key Topics

In material handling systems, demand for upgrading aging facilities remained brisk in the steel and energy fields. Although demand weakened in the shipbuilding field, overall investments were made as planned, resulting in domestic demand in FY2018 that was roughly equivalent to FY2017. In logistics systems, demand for automation was robust amid serious shortages of workers in the logistics field while the volume of packages in distribution grew. In automated parking systems, large-scale redevelopment plans are gaining momentum for major urban train stations and the surrounding areas as a source of demand post-Tokyo Olympic and Paralympic Games.

SHI was able to secure a certain amount of orders for material handling systems from customers in a wide range of fields, including steel, energy and harbors, leading to a year-on-year increase in orders. In logistics systems, the Company received a large volume of orders for RDRV[®] and automated warehouse systems amid brisk capital investment in the high-performance film segment, a field of expertise. The Magic Rack[®], the industry's first high-density deep storage system, continued to see firm demand, and orders were up compared with the previous fiscal year. In automated parking systems, we received orders, mainly for urban parking projects, thanks to the appeal of our systems as having the fastest speeds for loading and unloading vehicles in the industry. SHI maintained a leading share with steady growth in the number of installed systems.

Fiscal 2019 Strategies and Initiatives

SHI aims to hone the competitiveness of its products by focusing on developing and commercializing automation technologies as a way of alleviating labor shortages across various industries, while also steadily implementing measures to reinforce its service business.

Turbines and Pumps

Shin Nippon Machinery Co., Ltd.

Segment Overview

In this segment, SHI manufactures small- and medium-size steam turbines used in power generation systems at factories, as well as pumps for oil refineries and other plants. The overseas ratio of sales has increased for steam turbines, mainly in Southeast Asia.

Fiscal 2018 Review and Key Topics

In the power generation business, orders were brisk for feed-in tariff (FIT) projects in Japan. However, challenging business conditions continued as the market contracted in size, with fewer coal-fired power generation projects in Asia due to rising awareness of environmental issues, as well as some projects being cancelled or postponed due to insufficient profitability following cuts in retail electricity rates in some countries.

In the oil and gas business, several large-scale projects stalled out in the petroleum distillation segment due to persistently low crude oil prices and political instability. However, plans for environmental improvement projects (improving the performance of refineries, etc.) moved forward in India and Southeast Asia.

Against this backdrop, in the power generation business, SHI focused on expanding orders in the overseas private power generating segment and the power selling segment by continuing to expand its base of loyal customers, mainly in Southeast Asia, by leveraging its extensive track record. In the oil and gas business, SHI aimed to increase orders in the petroleum distillation and petrochemical fields by leveraging its strengths in turbine and pump packages compliant with API standards.



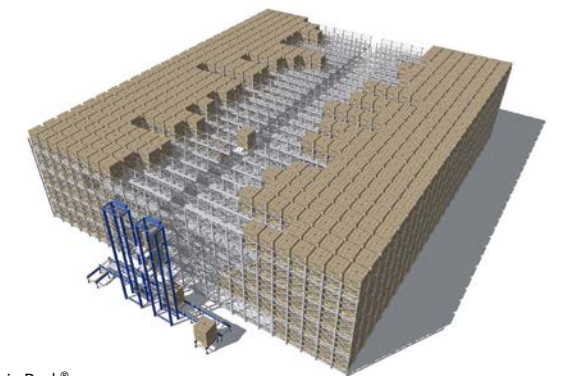
Steam turbine

Fiscal 2019 Strategies and Initiatives

In the power generation business, despite concerns about fewer projects in coal-fired power generation, new projects look likely to emerge as attention focuses on wind, solar and biomass power generation with the objective of increasing the ratio of renewable energy in countries.

In the oil and gas business, we expect to see new projects related to a shift in focus toward higher-value-added facilities, in light of the emerging trend to install ethylene plants next to existing crude oil upstream processing facilities.

SHI aims to increase orders through a unified approach to marketing that combines services with ordered products, while upgrading its area-based control functions and further improving its products by increasing efficiency and reducing costs.



Magic Rack[®]



Tire mounted jib crane (photo provided by Niihama Port Authority)

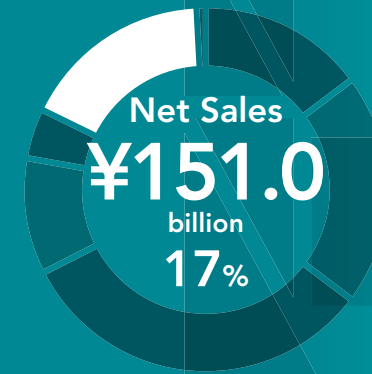
Ships

Main Products and Markets
 □ Ships
 Marine transportation

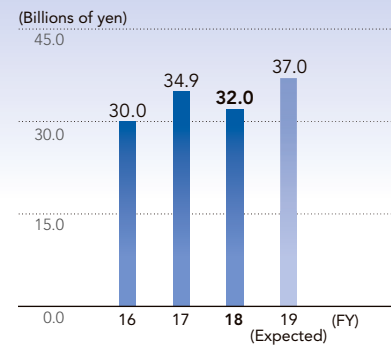


Environmental Facilities & Plants

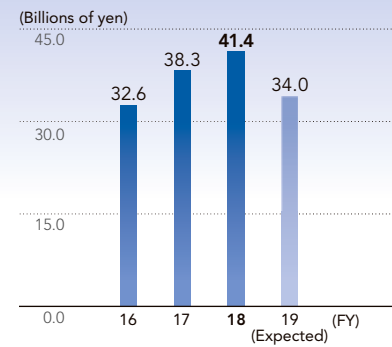
- Main Products and Markets
- Power plants, Industrial wastewater treatment systems
 Electric utilities, Paper manufacturing, Steelmaking, Cement, Food processing plants, Pulp and paper, Chemicals, Electricity and electronics, Machinery
 - Water and sewage treatment system, Landfill leachate treatment 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



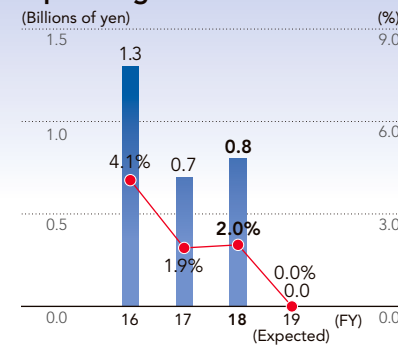
Orders



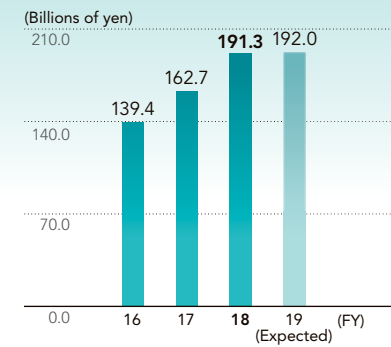
Net Sales



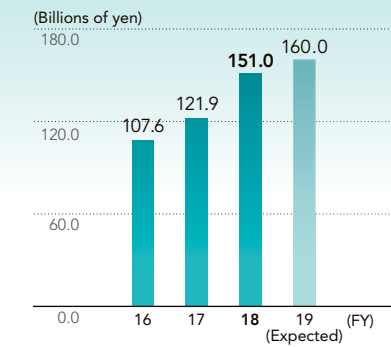
Operating Income/ Operating Income Ratio



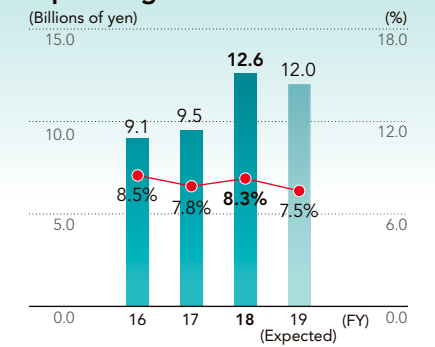
Orders



Net Sales



Operating Income/ Operating Income Ratio



Ships

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Segment Overview

Over the past few years, SHI has specialized in building mid-size oil tankers, reflecting its precise customer needs in design development through marketing activities. By narrowing down the types of vessels, it enables us to realize efficiencies in design and manufacturing, and achieve further differentiation in products, such as supreme environmental performance.

Fiscal 2018 Review and Key Topics

The shipping market remained sluggish with low rates for both the dry bulk and tanker sectors. In the shipbuilding market, numbers of orders for new ships were on the low side in anticipation of sulfur oxide (SOx) emissions regulations coming into effect in 2020. On the other hand, oversupply conditions of new ships eased slightly in the wake of a number of overseas shipbuilding yards entering bankruptcy as a result of prolonged stagnation in the shipbuilding market.

Under these circumstances, SHI concentrated its efforts on marketing Aframax tankers ahead of SOx regulations, winning orders for three ships in FY2018 and securing about two years' worth of work as of

March 31, 2019. We completed construction on and handed over four vessels, one less than the previous fiscal year. We remained profitable at the operating level for a fourth consecutive fiscal year, thanks in part to improvements in productivity and margins on individual projects.

Fiscal 2019 Strategies and Initiatives

It is uncertain how SOx regulations coming into effect in 2020 will impact the shipping market. However, the market has shown gradual improvement from the previous fiscal year and looks likely to improve further in the second half of FY2019 because of an ease of the vessel oversupply conditions as a result of the scrapping of ships in 2017 and 2018, and sharp expansion of exports of crude oil from the U.S., which has become the world's second largest producer of petroleum.

Based on these market conditions, SHI will develop ships with new designs that are able to satisfy diversifying market requirements and are more environmentally friendly. Amid lingering uncertainties in market conditions, we will strive to secure orders across broader markets, reach our targets and increase profitability by accurately perceiving customer requirements and market trends.

Energy Plants

Segment Overview

SHI is a leading company in circulating fluidized bed (CFB) boilers which are able to utilize a wide variety of fuels including biomass.

Fiscal 2018 Review and Key Topics

In Japan's domestic power market, there has been a steady increase in construction projects for biomass power plants taking advantage of the feed-in tariff (FIT) renewable energy scheme since it was introduced in 2012. In 2018, the FIT scheme was changed so that for biomass power plants of more than 10 MW capacity purchase prices are determined through a bidding process. The market has evolved so that the cost of power generation is now a key factor, with a news report referring to large-scale biomass power plants that do not need to depend on the FIT scheme being considered. In this rapidly changing market, SHI won three new equipment orders and delivered one power plant project that features CFB boilers.

Outside Japan, demand is strong in Asian countries for power plants due to potential electricity shortages. Moreover, similarly to Japan, South Korea and Taiwan

also have policies to encourage installation of renewable energy systems. Sumitomo SHI FW Energie B.V., a subsidiary we established in FY2017, received orders for CFB boilers for three biomass power plants in South Korea.

Fiscal 2019 Strategies and Initiatives

With expectations for renewable energy increasing every year as a means of moving away from carbon-based fuels, securing enough biomass fuel for biomass power generation has become a key issue for project development. We therefore anticipate demand for biomass fuel that is both sustainable and



economically viable. SHI has a track record in the stable combustion of various biomass fuels around the world, and is leveraging this experience to propose high-efficiency facilities in response to emerging customer needs.

Water and Wastewater Treatment Plants
Sumitomo Heavy Industries Environment Co., Ltd.

Segment Overview

Our sewage and water treatment systems and effluent treatment systems used in production plants are highly regarded for their energy-saving performance and are being provided for a wide range of uses, from construction of facilities through to operation and management.

Fiscal 2018 Review and Key Topics

The government and public sector for water treatment systems has been a stable but fiercely competitive market. SHI was able to secure orders on a par with the previous fiscal year thanks to redoubled efforts to expand sales of unit products and lock in plant design-and-build projects.

The market for private sector water treatment systems expanded with brisk investments in the steel and chemicals sectors. SHI won orders for major projects in the steel industry, having proposed solutions in line with customer needs.

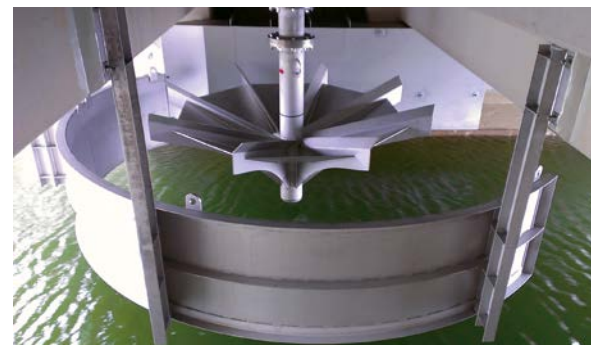
Fiscal 2019 Strategies and Initiatives

In the market for water treatment systems in the government and public sector, the public-private partnership business is likely to gain momentum with revisions to laws designed to promote the privatization of water treatment services, as well as higher investments in pumping stations and other measures to address heavy rainfall with the objective of making Japan more resilient to natural disasters. We will continue to concentrate on expanding sales of unit products and design-and-build projects, while methodically advancing initiatives in public-private collaborative projects.

In the market for water treatment systems in the private sector, companies may take a more cautious stance on investments due to U.S.-China trade friction and concerns about the slowing economy in China. Regardless, we aim to expand orders by strengthening our ability to propose solutions in tune with customer needs, including renovation projects for aging facilities.



Wastewater treatment system
(Water treatment system for sewage treatment plant)



Wastewater treatment system SUMIRATOR



Wastewater treatment system
(Anaerobic effluent treatment system)



Base Supporting the SHI Group

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Directors, Corporate Auditors, and Executive Officers

Board of Directors



Shunsuke Betsukawa
Representative Director, Chairman of the Board

Apr. 1978 Joined the Company
Apr. 2007 Senior Vice President, General Manager of Corporate Finance, Accounting & Administration Group
Apr. 2009 General Manager of Corporate Planning and Development Department
Jun. 2009 Director, Senior Vice President
Apr. 2010 Director, Executive Vice President
Apr. 2011 Representative Director, CFO and General Manager of Export Administration Department
Apr. 2012 Senior Executive Vice President
Apr. 2013 Representative Director, President and CEO
Apr. 2019 Representative Director, Chairman of the Board (current)

Reason for appointment as a director

Mr. Shunsuke Betsukawa was appointed as the Representative Director and President and CEO in 2013 after serving as the person in charge of the finance, accounting, and corporate planning divisions. He formulated two medium-term management plans titled Medium-Term Management Plan 2016 and Medium-Term Management Plan 2019, and promoted the building of a robust business structure. Since being appointed as the Representative Director and Chairman of the Board in April 2019, he has encouraged the enhancement of governance systems as the Chairman of the Board of Directors and has been responsible for the management of the SHI Group.
Since he has a high level of management knowledge and supervising ability, SHI has determined that he is qualified to serve as a director of the Company.



Shinji Shimomura
Representative Director, President and CEO

Apr. 1982 Joined the Company
Apr. 2012 Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Apr. 2013 Executive Managing Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Apr. 2014 Senior Executive Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd., Vice President of the Company
Apr. 2015 Senior Vice President, Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.
Apr. 2016 Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Jun. 2016 Director of the Company
Apr. 2018 Executive Vice President
Apr. 2019 Representative Director, President and CEO (current)

Reason for appointment as a director

As Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd., Mr. Shinji Shimomura oversaw strong business growth in the Construction Machinery segment with his strong leadership, and was responsible for the management of the SHI Group. In April 2019, he was appointed as Representative Director, President and CEO of the Company. As CEO, he has directed the management of the SHI Group with the aim of achieving the targets in Medium-Term Management Plan 2019, which started in FY2017.
Since he has a high level of management knowledge and supervising ability, SHI has determined that he is qualified to serve as a director of the Company.



Eiji Kojima
Director, Senior Vice President

Apr. 1984 Joined the Company
Nov. 2013 General Manager of Mechatronics Division
Apr. 2016 Senior Vice President (current)
Jul. 2016 General Manager of Energy & Environment Group (current)
Jun. 2017 Director (current)

Reason for appointment as a director

After being appointed as General Manager of the Mechatronics Division in 2013, Mr. Eiji Kojima performed his duties as the person in charge of the business driving the control technologies across the SHI Group. In 2016, he was appointed as Senior Vice President, and the same year he was appointed as General Manager of the Energy & Environment Group. He has advanced initiatives to strengthen business competitiveness and build competitive advantages. In 2017, he was appointed as a director, and in this role he has been responsible for the management of the SHI Group.
Since he has a high level of management knowledge and supervising ability, SHI has determined that he is qualified to serve as a director of the Company.



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
Jun. 2014 External Director of the Company (current)
Apr. 2018 Chairman Emeritus of The Japan Research Institute, Limited (current)

Reason for appointment as a director

Please see page 46 for details.



Yoshiyuki Tomita
Representative Director, Executive Vice President

Apr. 1981 Joined the Company
Apr. 2011 Vice President, General Manager of Research & Development Center, Corporate Technology Management Group
Jun. 2012 Director
Apr. 2014 Senior Vice President, General Manager of Corporate Technology Management Group (current)
Apr. 2016 Executive Vice President (current)
Apr. 2018 Representative Director (current)

Reason for appointment as a director

Mr. Yoshiyuki Tomita has held key positions in the technology divisions, and has contributed to the development of technology for the Company over a long period. He was appointed as Representative Director in 2018. In addition to leading the SHI Group's research and development as the head of the technology divisions, he assists the President across all businesses and has been responsible for the management of the SHI Group.
Since he has a high level of knowledge of the technologies which constitute the SHI Group's foundation, as well as a high level of management knowledge and supervising ability, SHI has determined that he is qualified to serve as a director of the Company.



Toshiharu Tanaka
Director, Executive Vice President

Apr. 1983 Joined the Company
Apr. 2005 Principal Engineer of Planning & Control Department, Quantum and Advanced Equipment Center, Precision Equipment Group
Apr. 2006 General Manager of Planning & Control Department, Quantum Equipment Division
Apr. 2010 Chief Staff Manager of Corporate Planning & Development Department
Apr. 2011 General Manager of Precision Equipment Group
Apr. 2013 Senior Vice President
Jun. 2013 Director (current)
Apr. 2014 General Manager of Overseas Sales Department, Power Transmission & Controls Group
Oct. 2014 General Manager of Power Transmission & Controls Group (current)
Apr. 2015 Executive Vice President (current)

Reason for appointment as a director

After being appointed as General Manager of the Precision Equipment Group in 2011, Mr. Toshiharu Tanaka was appointed as a director and a Senior Vice President in 2013. Since 2014, he has been advancing efforts to develop the business as the person in charge of the Machinery Components segment. Mr. Tanaka was promoted as Executive Vice President in 2015, and has been responsible for the management of the SHI Group.
Since he has a high level of management knowledge and supervising ability, SHI has determined that he is qualified to serve as a director of the Company.



Hideo Kojima
External Director

Mar. 1980 Registered as a certified public accountant
May 1995 Representative Partner of Ota-Showa Auditors Office
May 2000 Vice Chairman of Century Ota Showa & Co.
May 2004 General Manager of International Division, Tokyo office, Shin Nihon & Co.
May 2006 Deputy Chief Executive Officer of Shin Nihon & Co.
Sep. 2010 Senior Advisor of Ernst & Young ShinNihon LLC
Jun. 2011 External Corporate Auditor of Alpine Electronics, Inc.
External Corporate Auditor of the Company
Established Hideo Kojima CPA Office
Jun. 2013 External Corporate Auditor of Mitsubishi UFJ Financial Group, Inc.
Jun. 2015 External Director of the Company (current)
Jun. 2016 External Director (Audit and Supervisory Committee Member) of Alpine Electronics, Inc.

Reason for appointment as a director

Please see page 46 for details.



Tetsuya Okamura
Director, Executive Vice President

Apr. 1980 Joined the Company
Mar. 2008 Managing Director & CEO of Demag Ergotech GmbH
Apr. 2012 Senior Vice President of the Company
Apr. 2017 General Manager of Industrial Equipment Division (current)
Apr. 2018 Executive Vice President (current)
Jun. 2018 Director (current)

Reason for appointment as a director

After being appointed as Managing Director & CEO of Demag Ergotech GmbH in 2008, Mr. Tetsuya Okamura was appointed as a Senior Vice President of the Company in 2012, and he contributed to strengthening the competitiveness of the SHI Group's Plastics Machinery business. After his appointment as the General Manager of the Industrial Equipment Division in 2017, he was appointed as a director and Executive Vice President in 2018. As the head of this business segment, he is advancing initiatives to stabilize earnings and enhance the strengths of products.
Since he has a high level of management knowledge and supervising ability, SHI has determined that he is qualified to serve as a director of the Company.



Hideo Suzuki
Director, Executive Vice President

Apr. 1982 Joined the Company
Jun. 2005 Director of SHI Financial Services Co., Ltd. (currently Sumitomo Heavy Industries Business Associates, Ltd.)
Mar. 2006 Representative Director and President of SHI Financial Services Co., Ltd.
Apr. 2012 General Manager of Corporate Finance, Accounting & Administration Group
Apr. 2014 Senior Vice President
Apr. 2018 Executive Vice President (current)
Jun. 2018 Director (current)
Apr. 2019 CFO (current)

Reason for appointment as a director

After being appointed as General Manager of the Corporate Finance, Accounting & Administration Group in 2012, Mr. Hideo Suzuki was appointed as Senior Vice President in 2014, and a director and Executive Vice President in 2018. As CFO since April 2019, he has been working to manage the SHI Group's operating performance and maintain financial discipline in the Company's aggressive investment activities targeting growth.
Since he has a high level of management knowledge and supervising ability, SHI has determined that he is qualified to serve as a director of the Company.

Messages from the External Directors

In the SHI Group, two external directors—one is an expert in economics and management and the other is in finance and accounting—are in charge of overseeing the Group’s management. Here are the current issues and prospects of the SHI Group seen from their respective standpoints.

Corporate Auditors



Yuji Takaishi
Standing Corporate Auditor

Apr. 1977 Joined the Company
Apr. 2007 Senior Vice President, General Manager of Human Resources Department
Jun. 2007 Director
Apr. 2010 Executive Vice President, General Manager of Plastics Machinery Division
Apr. 2012 General Manager of Corporate Planning & Development Department
Apr. 2013 Representative Director, General Manager of Export Administration Department
Apr. 2014 General Manager of Corporate Planning Group
Apr. 2015 Regional General Manager of Kansai Office
Jun. 2016 Corporate Auditor (current)



Jun Nogusa
Standing Corporate Auditor

Apr. 1979 Joined the Company
Apr. 2014 General Manager of Internal Control Dept.
Jun. 2018 Corporate Auditor (current)



Takeo Wakae
External Corporate Auditor

Apr. 1983 Registered as attorney-at-law
Apr. 1992 Civil conciliation commissioner at Tokyo District Court (current)
Apr. 2003 Vice President of Daiichi Tokyo Bar Association (fiscal year 2003)
Jun. 2012 External Corporate Auditor of the Company (current)
Apr. 2014 Executive Director of Japan Federation of Bar Associations (fiscal year 2014)



Masaichi Nakamura
External Corporate Auditor

Mar. 1987 Registered as a certified public accountant
Aug. 2008 Managing Director of Ernst & Young ShinNihon LLC
Jul. 2014 Representative Partner and Vice President of Ernst & Young ShinNihon LLC
Representative Director of Ernst & Young Business Initiative Co., Ltd.
Sep. 2016 Established Masaichi Nakamura CPA Office
Jun. 2017 External Corporate Auditor of the Company (current)

Executive Officers (○ designates concurrent position as a director)

President	○ Shinji Shimomura	CEO
Executive Vice President	○ Yoshiyuki Tomita	General Manager of Export Administration Department; General Manager of Corporate Technology Management Group
Executive Vice President	○ Toshiharu Tanaka	General Manager of Power Transmission & Controls Group
Executive Vice President	○ Tetsuya Okamura	General Manager of Industrial Equipment Division
Executive Vice President	○ Hideo Suzuki	CFO
Senior Vice President	Hiroo Morita	Chairman of the Board of Sumitomo Heavy Industries (China), Ltd.; Representative Director, President & CEO of Sumitomo Heavy Industries Business Associates, Ltd.
Senior Vice President	Kazuo Hiraoka	General Manager of Plastics Machinery Division
Senior Vice President	Tatsuya Endo	Representative Director, President & CEO of Sumitomo Heavy Industries Material Handling Systems Co., Ltd.; General Manager of Ehime Works
Senior Vice President	Taiji Tsuchiya	General Manager of Precision Equipment Group
Senior Vice President	○ Eiji Kojima	General Manager of Energy & Environment Group
Senior Vice President	Hiroshi Arito	Representative Director, President & CEO of Nihon Spindle Manufacturing Co., Ltd.
Senior Vice President	Hideshi Shimamoto	General Manager of Ship & Marine Division; Representative Director and President & CEO of Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Senior Vice President	Morihiro Kondo	General Manager of Corporate Planning Group
Senior Vice President	Junichi Murakami	Representative Director, President & CEO of Sumitomo Heavy Industries Ion Technology Co., Ltd.
Senior Vice President	Kyoichi Manabe	Representative Director, President & CEO of Sumitomo Heavy Industries Environment Co., Ltd.
Senior Vice President	Yasunobu Kazumi	Representative Director, President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.; Representative Director, President & CEO of Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.
Vice President	Toshihiko Chijiwa	General Manager of Technology Research Center, Corporate Technology Management Group
Vice President	Shaun Dean	General Manager of Global HQ, Power Transmission & Controls Group; Managing Director and CEO of Sumitomo (SHI) Cyclo Drive Germany GmbH; CEO, Lafert S.p.A.
Vice President	Tatsuro Araki	General Manager of Gearbox Business Unit, Power Transmission & Controls Group; Representative Director and President & CEO of Sumitomo Heavy Industries Gearbox Co., Ltd.

Management with Compliance as Its Highest Priority

Japanese companies are experiencing rapid changes in the business environment impacted by structural changes in the world economy, such as trade friction between the U.S. and China, and the digital revolution. To keep up with these changes in the business environment, companies must quickly reform their business structures and corporate organizations. SHI has moved quickly to reform its business structure and reinforce profitability by acquiring companies and bringing forward capital investment and R&D spending with an eye on growth. I have witnessed the Company’s measures to strengthen corporate governance and reform management.

At the spearhead of these efforts, the emergence of projects that had inappropriate inspections underscores the inadequacy of the Company’s compliance promotion structure. This was truly regrettable. It can only be said that the Company’s reforms to corporate governance did not go far enough.

After the problem surfaced, SHI quickly established a Special Investigation Committee consisting of external directors and auditors to investigate the background and causes behind this incident and suggest measures to prevent a recurrence. I believe this can be seen as evidence that corporate governance is functioning now.

The string of quality management problems was not an organization-wide problem, and as an external director, I was in no position to know about the incidents. Regardless, I did not fulfill all of my responsibilities as an external director. Looking ahead, I will ceaselessly work at reforming corporate governance with the intention of fulfilling my responsibilities as an external director, and focus on supervision and oversight duties to deepen compliance and advance measures to prevent a recurrence.

Susumu Takahashi External Director

Chairman Emeritus,
The Japan Research Institute,
Limited

Appointed as a private sector member of the government’s Economic and Financial Advisory Council in January 2013 and as External Director of the Company in June 2014.



Increasing the Effectiveness of Strengthening Corporate Governance

In June 2018, the revised Corporate Governance Code was published, prompting listed companies to strengthen their corporate governance. Looking back at the problems that arose over the past year, however, it can be said that corporate governance was not always effective. Specific problems include a case of insufficient transparency in the process for determining director compensation at a company, a series of scandals about quality issues, and the disclosure of legal breaches.

Even though companies sought to strengthen corporate governance by increasing the number of external directors and auditors, promoting diversity and setting up compensation and nomination committees, these problems indicate there are still operational issues that need to be addressed.

SHI intends to reinforce corporate governance, but I believe there are lingering issues with spreading awareness and implementing measures.

SHI has announced measures to prevent a recurrence of inappropriate inspections that occurred in the past. I believe one reason for these problems was an inadequate adherence to “A Tireless Commitment to Improving Operational Quality,” one of the basic principles in the Company’s medium-term management plan. As part of measures to prevent a recurrence, the Company reconfirmed the importance of thoroughly understanding and instilling the Sumitomo Business Spirit and our Business Principles, in addition to management policies that have compliance as their highest priority. As an external director, I am examining how I can help the Company carry out these measures. I aim to contribute to the Company’s sustained growth by reinforcing corporate governance.

Hideo Kojima External Director

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



Corporate Governance

Sumitomo Heavy Industries (SHI) believes that the essence of corporate governance lies in the establishment of a system that enables efficient and transparent management. Exerting continuous efforts to enhance corporate governance helps the Group achieve higher enterprise value and gain high respect and confidence from all its stakeholders.

Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd.

Chapter 1 General Provisions

Chapter 2 Securing the Rights and Equal Treatment of Shareholders

- ▶ Securing the equal treatment of shareholders ▶ General Meeting of Shareholders
- ▶ Basic strategy for capital policy ▶ Strategic shareholdings ▶ Related party transactions

SHI shall treat all shareholders equally in practice according to the feature and number of each shareholder's owned shares. Aiming to have the return on invested capital (ROIC) of each business owned by SHI always exceed the capital cost in order to realize an improvement of shareholder value, SHI shall deem strategic investment leading to improvements in shareholder value and the implementation of appropriate returns to shareholders as two of the most important management tasks.

Chapter 3 Appropriate Cooperation with Stakeholders Other Than Shareholders

- ▶ Ethics code ▶ Approach to environmental problems ▶ Whistleblowing
- ▶ Ensuring diversity in the Company, including the active participation of women

SHI distributes a compliance manual to all employees that serves as specific action guidelines for work, based on the Ethics Code as its code of conduct that all employees follow. At the same time, SHI implements compliance training with the aim of spreading awareness of compliance. Furthermore, the Company draws up a medium-term environmental plan based on the SHI Group Environmental Policy, and takes proactive steps to help solve environmental issues. The Company has created whistleblower channels and an internal whistleblower system for reporting violations or suspected violations of laws, regulations and corporate ethics. Management encourages the use of this system with the intention of quickly discovering any problems. SHI promotes diversity management with the objective of creating organizations where each and every employee can thrive and work to the best of their abilities.

Chapter 4 Ensuring Appropriate Information Disclosure and Transparency

- ▶ Basic policy on information disclosure

To maintain and develop relationships of trust with all stakeholders, SHI shall disclose important information concerning the SHI Group in an appropriate and timely manner, focusing on transparency, fairness, and continuity.

Chapter 5 Responsibilities of the Board of Directors, etc.

- ▶ Roles and responsibilities of the Board of Directors ▶ Effectiveness of the Board of Directors
- ▶ Roles and responsibilities of corporate auditors and the Board of Corporate Auditors ▶ Outside officers
- ▶ The Nomination Committee and the Compensation Committee ▶ Training for directors and corporate auditors

SHI's Board of Directors and senior management officials shall recognize the medium-term management plan, which includes SHI's specific target figures for sales, operating income, ROIC, dividend payout ratio, and the like, as one of their commitments to shareholders, and make their utmost efforts to realize the plan. If the plan is not realized, SHI's Board of Directors and senior management officials shall analyze the reasons for this, provide an explanation to shareholders, and then reflect such analysis in SHI's plans for the terms thereafter.

Chapter 6 Dialogue with Shareholders

- ▶ Policies on constructive dialogue with shareholders

For the purpose of promoting SHI's dialogue with its investors, including shareholders, SHI shall establish Policies on Constructive Dialogue with Shareholders.

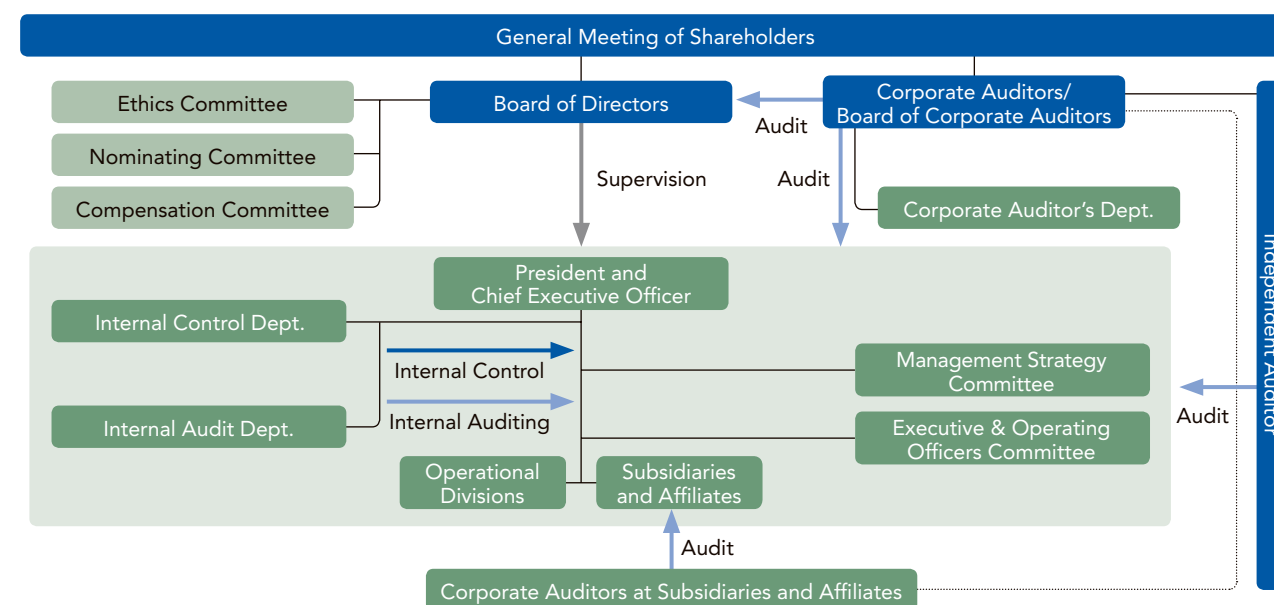
Corporate Governance System

Sumitomo Heavy Industries (SHI) has adopted the company with a board of corporate auditors 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 nine directors, of whom two are external directors whose role is to supervise management from an independent standpoint and are in charge of

appropriately reflecting the stakeholders' perspective.

The Board of Corporate Auditors is comprised of four corporate auditors, including two external corporate auditors. The external corporate auditors have advanced specialist knowledge and a wealth of experience in various fields and the standing corporate auditors have specialist knowledge and a wealth of experience of SHI management. They will utilize these and provide highly effective audits.



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.

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 directors. 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 Corporate Auditors

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.

Title	Name	Reason for Appointment	Attendance at Meetings of the Board of Directors/ Board of Corporate Auditors
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.	Mr. Takahashi attended 14 of 14 Board of Directors meetings in FY2018.
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, Mr. Kojima, as an external director, has objectively and independently directed the management of the Company by providing advice on ways in which the Company can achieve sustainable growth and increase corporate value.	Mr. Kojima attended 14 of 14 Board of Directors meetings in FY2018.
External Corporate Auditor	Takeo Wakae	As a lawyer, Takeo Wakae boasts a wealth of experience and has skillful insight through the law. Based on this experience and insight, he has independently and objectively audited the effectiveness of the Company's management through his role as external corporate auditor.	Mr. Wakae attended 14 of 14 Board of Directors meetings in FY2018. Mr. Wakae attended 12 of 12 Board of Corporate Auditors meetings in FY2018.
External Corporate Auditor	Masaichi Nakamura	Masaichi Nakamura is a certified public accountant and a specialist in finance and accounting with many years of practical experience. Based on this insight and experience, he can objectively and independently audit the effectiveness of the Company's management through his role as external corporate auditor.	Mr. Nakamura attended 13 of 14 Board of Directors meetings in FY2018. Mr. Nakamura attended 11 of 12 Board of Corporate Auditors meetings in FY2018.

Compensation of Directors and Corporate Auditors

Compensation for the Company's directors and executive officers comprises basic remuneration, performance-linked remuneration and stock purchase remuneration in a general ratio of 60%, 30% and 10%, respectively.

Basic remuneration is a fixed form of compensation determined for each position, with an additional amount for directors. About 85% of basic remuneration is a preset amount of fixed remuneration.

Performance-linked remuneration comprises dividend-based remuneration (50%), which changes in accordance with the Company's annual dividend, and remuneration linked to the performance of operational divisions (50%), which varies in accordance with the Company's consolidated performance, as well as the performance of the operational divisions overseen by directors and executive officers in charge of specific business segments. Dividend-based remuneration consists of a standard amount for each position multiplied by a coefficient corresponding to the Company's annual dividend. The 15% addition for directors varies based on the coefficient used to calculate dividend-based remuneration. Remuneration linked to the performance of operational divisions is calculated based on four indicators comprising ROIC, net income before tax adjustments, orders and free cash flow, with additional consideration made for safety records and the state of compliance, among other factors, with the president assigning ranks ranging from A to E as the final decision-maker. A standard amount for each position is then multiplied by a coefficient

for each rank to arrive at amounts for this form of remuneration. Through the application of these indicators, SHI aims to share value with shareholders and reflect in the compensation of directors and executive officers a variety of factors that include profitability, growth potential, financial discipline, safety and compliance.

Stock purchase remuneration is the remuneration paid for the purpose of purchasing SHI stock, and with this remuneration, SHI's directors and executive officers purchase SHI shares in excess of the amounts stipulated for each position through the officers' shareholding association. SHI's directors and executive officers hold these SHI shares during their term of office.

SHI discontinued its director retirement bonus system as of the conclusion of the 109th Ordinary General Meeting of Shareholders held on June 29, 2005.

Compensation for external directors only consists of basic remuneration.

The maximum amount of compensation paid to directors shall not exceed ¥40.0 million per month pursuant to the resolution of SHI's Ordinary General Meeting of Shareholders ratified in June 2006. The maximum amount of compensation paid to corporate auditors shall not exceed ¥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.

Classification	Amount of Compensation (Millions of yen)	Amount by Type of Compensation (Millions of yen)			Number of Eligible Officers
		Basic Remuneration	Performance-Linked Remuneration	Stock Purchase Remuneration	
Directors (excluding external directors)	345	205	108	32	10
Corporate auditors (excluding external corporate auditors)	69	69	—	—	3
External officers	38	38	—	—	4

Compliance

Compliance Activities

Basic Concept

The SHI Group calls for its officers and employees to comply with laws and corporate ethics and always act with discernment. The basic action guidelines as summarized in the Ethics Code are required to be put into practice. We also have compiled a Compliance Manual that summarizes detailed remarks such as various rules to be observed by officers and employees as well as the Sumitomo Business Spirit and Ethics Code.

In addition, the president of the Company sends the message "Safety and compliance take precedence over all" to all Group employees through many opportunities such as distributed items and briefing sessions for employees.

Whistleblowing System

We have a whistleblowing system called the SHI Group Ethics Hotline that allows officers and employees of the Company and affiliated companies to report to or consult with the Ethics Committee Secretariat concerning incidences that violate or may violate laws and internal rules. Since 2017, in Japan alone, we have been operating external hotlines that can be used in common by all Group employees to facilitate reporting and consultation.

Promotion of Compliance Education

In order to maintain and improve awareness of compliance, the following multilayered education and training system has been developed and carried out annually.

Level-Specific Education:	Eligible persons are newly hired employees, newly appointed assistant managers, managers, and officers.
Workplace-Specific Education:	In our compliance education, employees at each workplace are divided into small groups for discussion and make presentations so that they become thoroughly familiar with what compliance means to them.
E-learning:	In addition to compliance, safety and harassment are also taken up as subjects of education and all Group employees take a confirmation test conducted across Group companies. From FY2018, CSR was also added as an education subject. E-learning is also deployed to overseas affiliated companies, with all Chinese affiliates introducing e-learning in 2016 and major ASEAN affiliates in 2018.
Function-Specific Education:	In addition to education for employees newly assigned to the Sales Division, we started providing education on misconduct to employees belonging to sales-related divisions, with division heads and other eligible persons as lecturers.

Pledge of Compliance

To ensure the execution of business activities with awareness of compliance, we require managers of each company to submit the pledge of compliance to the president of each company every year.

Compliance Promoting System

We set up the Ethics Committee, chaired by the president, to formulate compliance policies of the Group, grasp the occurrence of compliance problems, and give guidance for prevention.

Compliance policies and other rules decided by the Ethics Committee are being developed through the Compliance Promoting System (see page 48).

The Internal Control Department serves as the secretariat of the Ethics Committee and is responsible for developing plans, implementing them, and monitoring their progress to promote compliance of the entire Group. Each of the groups, manufacturing works, and subsidiaries has its own internal control organization (staffed with the lead internal control promoter and internal control promoters) to promote compliance in each unit in collaboration with the Internal Control Department. In 2018, we revised the SHI Group Compliance Regulation and applied it to all domestic subsidiaries so that they implement plans and measures on compliance more comprehensively as a group.

Compliance Awareness Survey

We conduct a groupwide compliance awareness survey annually to confirm employees' level of understanding on compliance, potential risks, and other problems, including employees of affiliated companies in Japan and China. We carry out measures to improve compliance focusing on survey results not only from the current fiscal year, but the trends in results from past fiscal years as well.

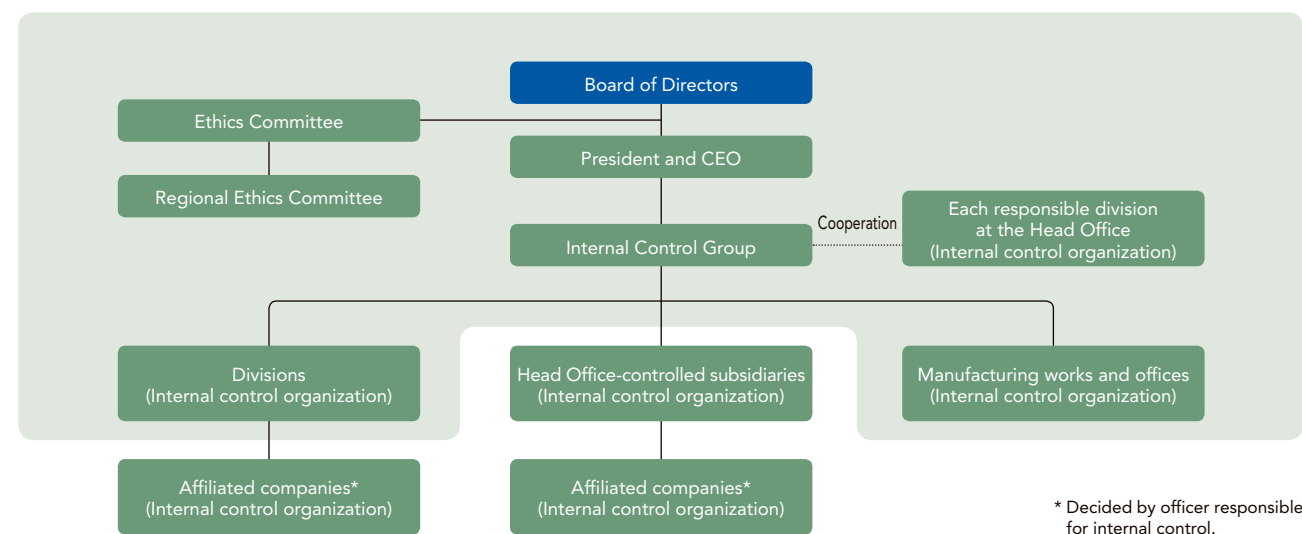
Risk Management

Risk Management Activities

The SHI Group divides risks into two categories, business risk that may be posed in the course of business activities and operational risk that may be posed through the execution of daily operations, and the risks of each category are being addressed in each division. We designate such risks that have a significant impact on the Group as priority risk items and address them in an organizational and systematic manner.

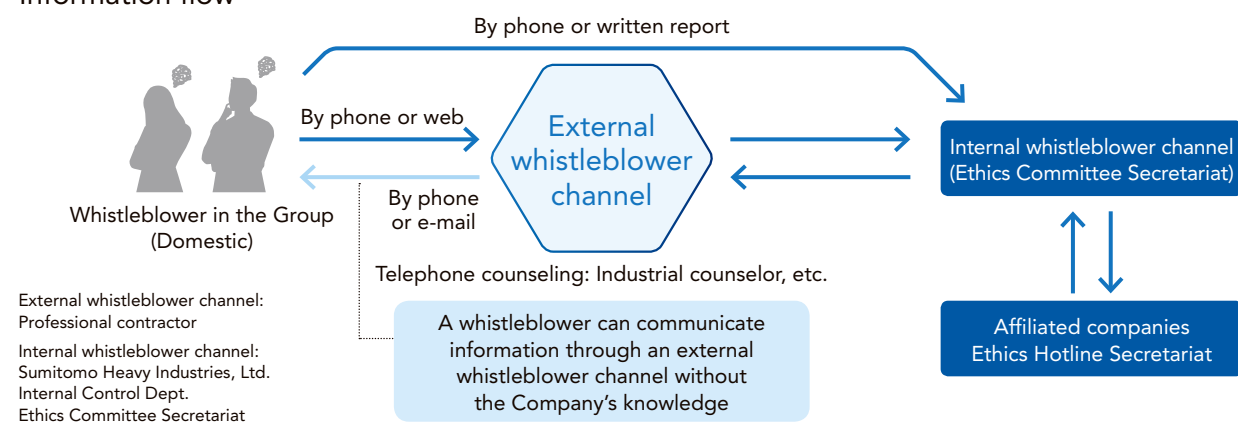
In an emergency, we immediately report to the top management in accordance with the "Information communication principle in emergency situations" and take appropriate measures in a timely manner.

Compliance Promoting System



The SHI Group Ethics Hotline (whistleblowing system)

Information flow



Procurement-Related Risk Management at Overseas Production Bases in China and the ASEAN Region

Since the 2000s, the SHI Group has developed production bases in China and the ASEAN region as a part of its growth strategy. Already, 10–20 years have passed since these production bases were created, and the Company has successfully strengthened its relationships with suppliers of direct and secondary materials, as well as sellers of scrap metal. However, the Company needs

to be diligent about preventing misconduct caused by collusion and uncomfortably close relationships formed from doing business together for many years. The SHI Group implements measures with a focus on the following key points to prevent the risk of misconduct.

- 1) At overseas production bases, SHI is implementing compliance training through annual e-learning and on-site programs for the people in charge and decision-makers involved in incoming order work, in order to improve their ability to understand whether misconduct or prohibited activity is occurring.
- 2) The Company is documenting various rules, standards and work procedures, starting with rules about decision-making authority, and thoroughly raising awareness of the content of these documents among relevant parties.
- 3) The Company has created a 25-point checklist for materials procurement and dealing with scrap sellers, and periodically checks up on actual documents on the ground every year to ensure predetermined rules, standards and procedures are being properly followed.

By repeatedly conducting these activities, SHI is reinstilling an awareness of prohibited behavior among employees in China and the ASEAN region, while reforming awareness in a bid to prevent misconduct beforehand.



Compliance training at PT SUMITOMO S.H.I. CONSTRUCTION MACHINERY INDONESIA

Response to Misconduct in Quality Management

The Company and SHI Group companies would like to offer their deepest apologies for causing their stakeholders great inconvenience and concern for the inappropriate inspections of its products and services. Sincerely accepting the gravity of this situation, SHI has established the Special Investigation Committee headed by an external director to investigate the background and causes that led to these inappropriate inspections. The SHI Group has drawn up measures to prevent a recurrence based on the advice given by this

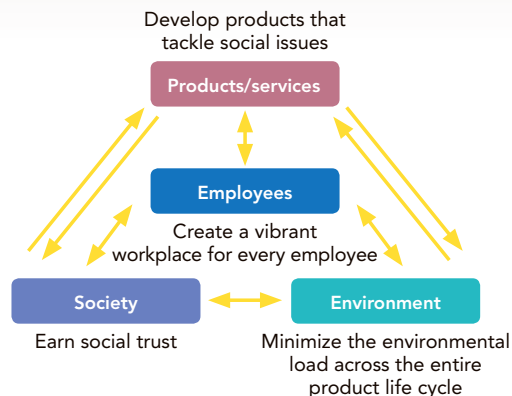
committee. The employees who were involved in the misconduct have been strictly disciplined in accordance with our workplace rules, and some directors and executive officers have returned a portion of their compensation. While steadily implementing measures to prevent a recurrence, SHI aims to improve work quality and reinstitute compliance as management's highest priority. We are sparing no effort to regain the trust of our stakeholders.

CSR Mid-Term Plan

1. CSR Mid-Term Plan and Its Progress

The SHI Group has been promoting CSR centered on its CSR Department directing activities in related departments, following the creation of the CSR Mid-Term Plan in 2017, which is linked to the medium-term management plan, while identifying four priority areas: products/services, environment, society and employees.

In fiscal 2018, the second year of the CSR Mid-Term Plan, SHI made progress on the following issues.



Issues in the SHI Group's CSR Mid-Term Plan and Progress in Fiscal 2018

Sector	Purpose	Activities	Our goals	Index	Progress in FY2018
Products/services	Develop products that tackle social issues	Dialogue with business divisions	<ul style="list-style-type: none"> Hold meetings on tackling social issues through products/services with 6 divisions 	(Construction machinery example) <ul style="list-style-type: none"> Number of environmentally friendly products on the market Reduction in CO₂ emissions as a result of cycle time improvements 	<ul style="list-style-type: none"> Held meetings with 15 operational divisions Clearly stated significance of contributions to society through products Furthered understanding of contributions to SDGs Set indicators to measure the progress of CSR Proposed CSR activities to business managers
		Improving product quality	<ul style="list-style-type: none"> Achieving the rework cost of each business division 	<ul style="list-style-type: none"> Rework cost ratio 	<ul style="list-style-type: none"> Achieved 100%
		Compliance with/shortening delivery deadlines	<ul style="list-style-type: none"> Production lead time Shorten by 30% compared to fiscal 2016 	<ul style="list-style-type: none"> Amount by which production lead times for target processes of each division are reduced 	<ul style="list-style-type: none"> Divisional ratio of 44% in achieving production lead time targets
Environment	Minimize the environmental load across the entire product life cycle	Reducing CO ₂ emissions	<ul style="list-style-type: none"> Reduce CO₂ emissions by 2% compared with fiscal 2016 during production and product transport in Japan 	<ul style="list-style-type: none"> During production: CO₂ emissions per unit of sales compared to fiscal 2016 During product transport: CO₂ emissions per transport weight compared to fiscal 2016 During product use: Disclosure of the total amount of reduction 	<ul style="list-style-type: none"> During production: 107% During product transport: 102% During product use: Disclosed the total amount of reduction of 6,367,000 tons Obtained third-party certification for Scope 1 and 2 Received energy conservation award for hydraulic excavators Investments in energy conservation equivalent to about 0.2% of last year's net sales
		Environmental risk management			<ul style="list-style-type: none"> Revised and expanded scope of environmental risk assessments Transitioned to unified ISO 14001 certification PT SUMITOMO S.H.I. CONSTRUCTION MACHINERY SOUTHEAST ASIA acquired ISO 14001 certification
Society	Earn social trust	Promoting clean procurement	<ul style="list-style-type: none"> Establish CSR procurement guidelines Held a seminar for suppliers Survey key suppliers on the implementation status of CSR 	<ul style="list-style-type: none"> Establish CSR procurement guidelines, rate of progress Number of suppliers provided with a seminar Number of divisions and suppliers from which surveys were collected 	<ul style="list-style-type: none"> 100% (Finished. Disclosed on the Company's website) 275 companies 12 business divisions, 245 companies
		Internal/external dissemination of CSR	<ul style="list-style-type: none"> Publish integrated reports Series article in SHI Group magazine Send email magazine 	<ul style="list-style-type: none"> Publish Publish in series Send as scheduled 	<ul style="list-style-type: none"> Published integrated reports Published series article in SHI Group magazine Send email magazine
		Supporting and contributing to local communities	<ul style="list-style-type: none"> Develop the basis of regional cooperation (concluding a disaster prevention agreement, etc.) Reduce regional disparities in activities 	<ul style="list-style-type: none"> Number of sites with no disaster prevention agreement concluded Number of sites with no blood donor/cleaning implemented 	<ul style="list-style-type: none"> Concluded disaster prevention agreements between all bases and local governments, registered business locations with AEDs Implemented and planned cleaning activities at all bases. Blood donation activities implemented with exception of one small base

Sector	Purpose	Activities	Our goals	Index	Progress in FY2018
Employees	Create a vibrant workplace for every employee	Create a workplace with zero accidents and both physically and mentally healthy employees	<ul style="list-style-type: none"> Zero serious accidents 9 accidents that led to lost worktime 	<ul style="list-style-type: none"> Number of serious accidents Number of accidents accompanied with lost worktime (4 days or more/Japan) 	<ul style="list-style-type: none"> Zero serious accidents 16 accidents versus the target 9 accidents (January–December 2018)
			<ul style="list-style-type: none"> Introduction of health management system (finished selection) 	<ul style="list-style-type: none"> System introduction steps 	<ul style="list-style-type: none"> Finished system selection
	Promoting diversity		<ul style="list-style-type: none"> Promote the active participation of women 	<ul style="list-style-type: none"> Ratio of female employees (non-consolidated) Number of female managers (non-consolidated) 	<ul style="list-style-type: none"> Female assistant manager's training and training plan for the purpose of developing manager candidates Establish training plan through supervisors Participated in J-Win, a group for women's management training E-learning for all employees about unconscious bias
			<ul style="list-style-type: none"> Promote work-life balance 	<ul style="list-style-type: none"> The total number of working hours per year (consolidated) 	<ul style="list-style-type: none"> 2,007 target hours 2,024 actual hours

In addition to the aforementioned activities, SHI aims to instill a thorough awareness of compliance, led by the Internal Control Department, based on the understanding that compliance is the highest priority in CSR.

2. Promotion of Clean Procurement

SHI makes concerted efforts to gain the trust of society by spreading awareness among suppliers of its CSR procurement guidelines, which were created in fiscal 2017. Specifically, we ask our suppliers to strictly comply with relevant laws, regulations and social norms, and endeavor to build healthy and sustained relationships with suppliers based on compliance.

These activities have encouraged suppliers to disclose CSR policies on their websites, and to declare that protecting the rights of employees and adhering to laws and regulations are their first priority.

In fiscal 2019, SHI will continue to hold briefings for suppliers about its CSR procurement guidelines.

As a result of these dialogues, the significance of our businesses is clarified in writing, benchmarks are set for measuring progress on CSR, and reports are made to business managers.

In fiscal 2018, the managers of business divisions began reporting the outcomes of these dialogues to the president of SHI. Through these dialogues, we will advance discussions to identify key issues from among issues related to the SHI Group's contributions to society through its diverse operations.



Dialogue with business managers and the president

3. CSR Dialogues with Employees

CSR dialogues are held for employees with the CSR Department and business divisions in order to further their understanding of social contributions being made through business activities.

Lessons from a Leading CSR Company

The SHI Group invited Mr. Masafumi Yamamoto, the Executive Officer in charge of CSR at Daikin Industries, Ltd., to give a presentation to its board members for the purpose of deepening their understanding of CSR in the value creation process. Among the board members who participated, one said that the presentation was memorable for the company's aggressive approach to providing value by changing the risk of global warming into business opportunities.



Presentation given by Daikin Industries, Ltd.

Environment

We are promoting environmental management with the awareness that businesses have the social responsibility to protect the global environment and to engage in economic activities that are oriented toward recycling. In particular, we consider it necessary to reduce the environmental burden throughout the entire product life cycle and will concentrate more on reducing CO₂ emissions.

SHI Group Environmental Policy

Environmental Philosophy

The SHI Group will adhere to the principles of the Sumitomo Business Spirit, and make sincere efforts towards the preservation of the global environment throughout all of its business activities, with the aim to achieve a sustainable society.

Environmental Policy

The SHI Group will, based on the environmental philosophy, positively and actively make efforts in the following areas:

- Prevention of environmental pollution
- Contribution to a low-carbon society
- Achievement of a recycling-based society
- Preservation of biodiversity
- Compliance with laws and other regulations
- Strengthening and continuous improvement of the environmental management system

Transition of the Environmental Policy

The Environmental Committee was established in 1992 and since then the SHI Group has been promoting compliance and environmental protection in local communities. Moreover, in November 1999, we established the SHI Group Environmental Policy to clarify the basic policy for activities and to expand environmental management across the Group as a whole, including overseas facilities. In May 2017, we revised the above policy to address long-term CSR objectives, basic governance policy, and the ISO 14001 revision.

Priority Issues

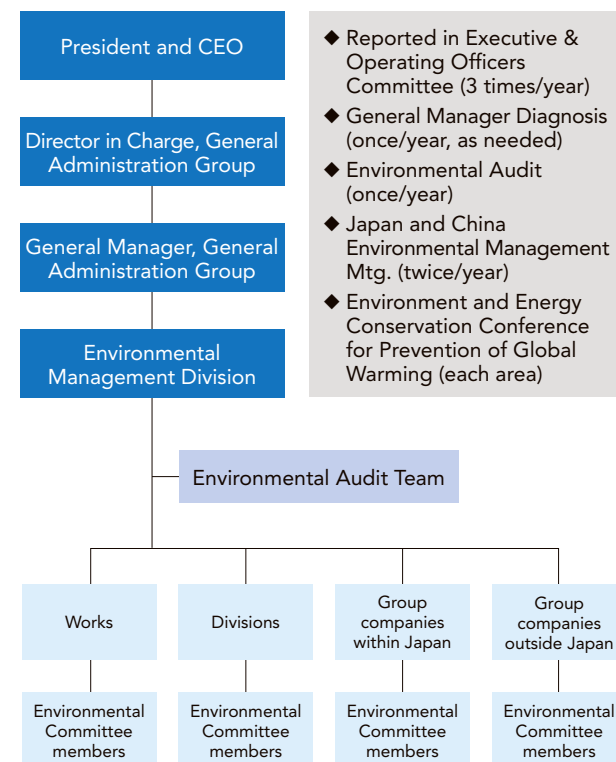
The SHI Group has formulated a medium-term environmental plan every three years since fiscal 2005 to achieve our environmental policy and enhance environmental management.

In our 5th Medium-Term Environmental Plan (FY2017–FY2019), we set the following four items as global priority issues and are promoting activities.

Particularly for fiscal 2018, we started focusing on ascertaining and disclosing reduction of a great proportion of CO₂ emissions that are expected from product use (known as avoided emissions), to address “2. Reduction of CO₂ emissions throughout the entire product life cycle.”

1. Strengthening of environmental risk management
2. Reduction of CO₂ emissions throughout the entire product life cycle
3. Reduction of environmental burden associated with business activities
4. Conservation of biodiversity

Environmental Management System



- ◆ Reported in Executive & Operating Officers Committee (3 times/year)
- ◆ General Manager Diagnosis (once/year, as needed)
- ◆ Environmental Audit (once/year)
- ◆ Japan and China Environmental Management Mtg. (twice/year)
- ◆ Environment and Energy Conservation Conference for Prevention of Global Warming (each area)

Uniform ISO 14001 Certification

With the aim of increasing the efficiency of maintaining certification and integrating rules for the operation of environmental management systems in Japan, SHI obtained uniform ISO 14001 certification on February 1, 2019, for 38 sites, including the Head Office of SHI, 6 manufacturing sites and 7 plants.

Based on Group environmental principles and policies, the SHI Group has engaged in activities to protect the environment. Under the current 5th Medium-Term Environmental Plan (FY2017–FY2019), SHI has identified four priority issues to guide activities across the entire Group, comprising strengthening environmental risk management, reducing CO₂ emissions throughout the entire product life cycle, reducing the environmental burden associated with business activities, and conserving biodiversity. Going forward, we will continue Group-wide promotion of these activities.



Unified ISO 14001 certification presentation ceremony

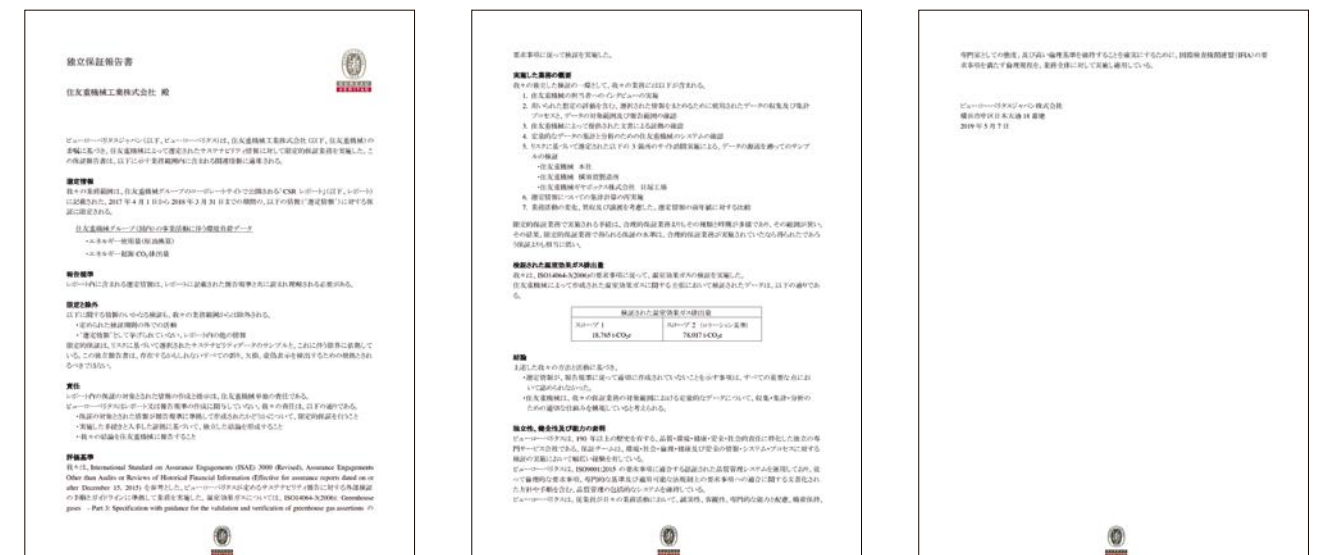
Acquisition of Third-Party Certification of Environmental Data (Scope 1 and 2)

The SHI Group has obtained third-party certification from Bureau Veritas Japan Co., Ltd. for environmental data associated with its business activities in Japan*1, including energy usage (crude oil equivalent)*2 and CO₂ emissions from energy use*3 in fiscal 2017.

*1 Excludes Tanashi Works, which already has certification under Tokyo ordinances

*2 Energy usage (crude oil equivalent): Electricity, city gas, LPG, heavy fuel oil A, gasoline, light oil, kerosene, hot water, cold water

*3 CO₂ emissions from energy use: CO₂ emissions from energy used by the Company*2



Independent Assurance Statement

Environment

Environmentally Friendly Products

The SHI Group has its environmentally friendly products certified using independent assessment methods. Every year, there is an increasing number of nominations from each segment for environmentally friendly products, which now represent 26%* of net sales for the entire SHI Group.

For the next Medium-Term Environmental Plan, the Company plans to set a target for increasing the ratio of environmentally friendly products in net sales, and contribute more strongly to the reduction of CO₂ emissions when its products are used.

* 2017 results

List of Environmentally Friendly Products

Segment	Product name (model)	Registration classification	Assessment criteria		
			Resource recycling	Combats global warming	Environmental risk
Precision Machinery	SEEV-A injection molding machine	Environmentally friendly product	△	○	◎
	SAion-300 ion-implantation devices	Environmentally friendly product	○	○	◎
	MC3-II/GP ion-implantation devices	Environmentally friendly product	△	◎	◎
	S-UHE ion-implantation devices	Environmentally friendly product	△	◎	◎
	High-reach electric forklifts	Environmentally friendly product	△	◎	◎
Construction Machinery	LEGEST hybrid hydraulic excavators	Super environmentally friendly product	△	◎	◎
	LEGEST hydraulic excavators	Super environmentally friendly product	△	◎	◎
	Hydraulic asphalt finisher	Environmentally friendly product	△	◎	◎
	SCX crawler crane	Environmentally friendly product	△	◎	○
	HSL crawler crane	Environmentally friendly product	△	◎	○
	HLX crawler crane	Environmentally friendly product	△	◎	○
Industrial Machinery	Forging servopress (FPS)	Super environmentally friendly product	◎	◎	◎
	FPR hot forging presses	Environmentally friendly product	○	○	◎
	Steam turbines (long-blade, high-efficiency model)	Environmentally friendly product	○	○	△
	Hybrid power supply equipment for transfer cranes	Environmentally friendly product	△	◎	◎
Environmental Facilities & Plants	Biomass boiler	Environmentally friendly product	○	○	◎
	Compact biomass boiler	Environmentally friendly product	○	○	◎
	Kiln equipment	Environmentally friendly product	○	○	○
	Evaporator	Environmentally friendly product	△	○	◎
	Sumijetter grit jet pump	Environmentally friendly product	○	○	◎
	DWC vertically split distillation columns	Environmentally friendly product	△	○	◎
	Eco Pulser™ bag filter dust collector	Environmentally friendly product	△	◎	○
	Thermal series of air conditioners	Environmentally friendly product	△	◎	○

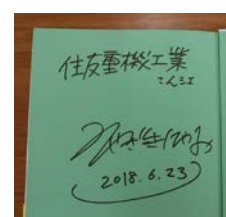
◎=90 or higher; ○=70-89; △=30-69; ×=29 or lower/out of a perfect 100

Tanashi Forest of Inspiration

At Tanashi Works, there is a forest in Musashino that covers roughly 30% of the site's land, featuring more than 4,500 trees of 40 varieties.

Part of this forest has been named the Forest of Inspiration and is open to the public as a place for ordinary people to relax. It also functions as a disaster prevention base for the community and a learning and research center about biodiversity. We were gifted a signed book by the famous Japanese animator and

movie director Mr. Hayao Miyazaki (a director of Studio Ghibli, Inc.). We are even more motivated to continue these activities thanks to this gift from such a famous person well-versed in preserving the natural environment.



Autographed book received from Mr. Hayao Miyazaki



Forest of Inspiration at Tanashi Works



Children playing at the Forest of Inspiration

CSR Activities: Environmental Education for Elementary School Pupils and Work Experiences for Junior High School Students

- Sumitomo Heavy Industries Environment Co., Ltd. participates in an environmental fair held every June in Minamiashigara City, talking about the environment while displaying panels and hosting mini classes.
- At Yokosuka Works, we give five students from Yokosuka Gakuin Junior High School an opportunity to gain work experience assembling electronic circuits and helping with processing.



Environmental Fair



Work experiences for students

Capital Investment in Environmental and Energy-Saving Equipment

In fiscal 2018, the ratio of capital investment in environmental and energy-saving equipment inside and outside Japan was 0.28% of net sales. SHI is taking a systematic and proactive approach to upgrading aging equipment and installing equipment with the latest technologies from the standpoint of increasing efficiency, conserving energy and preventing environmental accidents.

	Ratio of capital investment in fiscal 2018		
	Environment-related	Energy conservation-related	Total
Percentage of net sales	0.05%	0.23%	0.28%

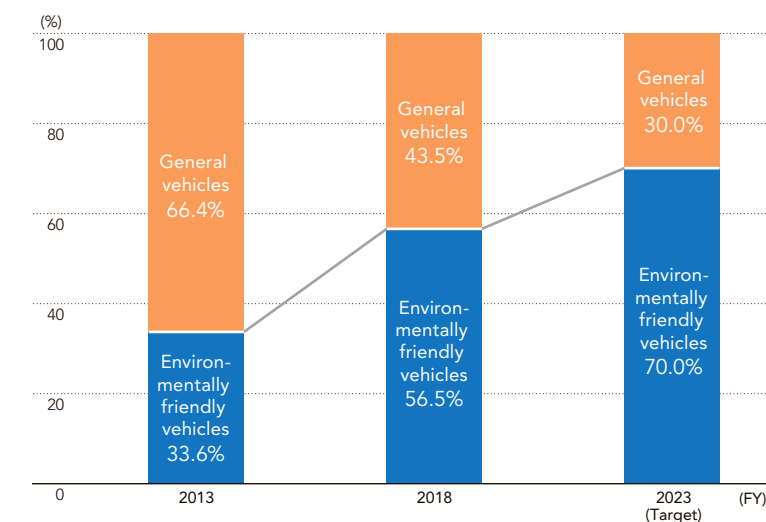
Initiatives to Increase Environmentally Friendly Vehicles

As a part of our activities to prevent global warming, we are prioritizing environmentally friendly vehicles for company cars and teaching drivers how to operate vehicles in an environmentally friendly way.

As of fiscal 2018, 56.5% of the Company's fleet of vehicles were environmentally friendly, an increase of 22.9 percentage points compared with fiscal 2013. SHI will continue to prioritize environmentally friendly vehicles with the aim of increasing this ratio to 70% by fiscal 2023, while encouraging environmentally friendly and safe driving techniques.

	Environmentally friendly vehicles	General vehicles
Fiscal 2013	33.6%	66.4%
Fiscal 2018	56.5%	43.5%
Fiscal 2023 (target)	70.0%	30.0%

Ratio of environmentally friendly vehicles in corporate fleet



Human Resources

“Our Business Is the People”

These words express a truth that runs throughout the SHI Group. In the era of VUCA*, greater importance is being placed on people.

The SHI Group has declared the SHI Group Human Resource Policy as its fundamental approach to human resource management.

Based on this policy, the SHI Group sets growth targets for each employee after holding discussions about personnel in the workplace, with the aim of creating workplaces where each and every employee can work to the best of their abilities. To help employees attain

these targets, we provide opportunities for growth within the organization as a part of initiatives for employees to grow alongside the Company. From management’s perspective, we take a strategic approach to health management, strive to provide work environments with zero accidents that are healthy for both mind and body, and promote diversity with a focus on empowering women in the workplace and encouraging work-life balance.

* VUCA = Volatility, Uncertainty, Complexity, Ambiguity

SHI Group Human Resource Policy

We have created the SHI Group Human Resource Policy to codify our fundamental approach to all aspects of human resource management and

encourage all employees to always be aware of and follow the Sumitomo Business Spirit and the SHI Group Business Principles.

SHI Group Human Resource Policy

Our Business Is the People.

Based on the notion that our most important management resource is our human capital, we at the SHI Group will achieve HR management that will contribute to sustainable business growth.

Organizational Climate	We will create an organization that respects the diverse personalities and potential of all individuals, and encourages good communication and open collaboration. We will create a workplace that is vibrant, and that is safe, secure and healthy.	Deployment	We will assign the right people in the right places to maximize employee and organizational performance.
Recruitment	We will recruit people who contribute to our business growth, resonating with Sumitomo’s Business Philosophy and the SHI Group’s Business Principles.	Talent Development	We will respect employees’ will to develop themselves, and will also offer learning opportunities as well as opportunities to put their learning into practice.
		Evaluation and Treatment	We will offer a fair and convincing evaluation system and process to boost employee motivation.

Human Resource Development

(1) Training Personnel Able to Create New Customer Value

Starting with on-the-job training focused on target management, we provide opportunities for employees to learn necessary skills and knowledge through level-specific education and specialized field training, while establishing frameworks so employees can grow by learning and putting into practice their newfound knowledge.

We also provide career training based on promotion tracks in order to facilitate the steady growth of all

employees in line with their own career visions. For management positions, we have programs for learning management skills to encourage the personal growth of colleagues.

We continue to train personnel with the objective of sustaining growth for the SHI Group, as personal growth for employees translates into new customer value.

SHI Group Human Resource Training Systems

Hierarchical level	Experience / Allocation of subject	Head Office-controlled activities							Business-unit activities		
		Stratified human resource development		Specialized human resource development					Training of business leaders	Expertise education	Others
		Training of business leaders	Stratified education	Global business training	Strengthening of knowledge and skills	Accounting and HR	Each division	Management quality			
Executive officers / managers	Succession plan HR hearing / Group human resource mtg. HR interview / Management by objectives (assignment) Transfer & development plan (development planning mtg. held for each business unit)	Assessment training ASBS SBS	Newly assigned line manager training Newly assigned manager-qualified training Mid-career new employee training	Language education (English, Chinese, etc.) Education before overseas assignment Overseas dispatch (study abroad, etc.)	Correspondence education subsidy E-learning	Accounting / HR training Purchasing education	Purchasing Division managers mtg. Sales Division managers mtg. Service Division managers mtg. Manufacturing Division managers mtg. Design Division managers mtg.	CIPO training MBB BB	Quality Control Division managers mtg. (New training course available)	Business skills training	Coaching
Member		Newly assigned 1st grade function training Newly assigned 2nd grade function training Foremen training 3-year introduction education Introduction training				Purchasing education Production engineer education New sales employee training VE training Expertise engineering education (Selective courses) Expertise engineering education (General courses/practices) Expertise engineering education (General courses/classroom lectures) Basic engineering education Newly hired employee training	GB WB		Specific technology education New employee training		

Training of business leaders
ASBS: Advanced SHI Group Business School
SBS: SHI Group Business School

Development design
CIPO training: Chief Intellectual Property Officer Training
VE training: Value Engineering Training

Management quality
MBB: Master Black Belt Training
BB: Black Belt Training
GB: Green Belt Training
WB: White Belt Training

< Experience and allocation of subjects >

In human resource meetings held by each business division, participants draw up plans for training individual employees based on future business targets and plans. At the same time, personnel meetings between superiors and subordinates in each workplace serve as an opportunity to work out training plans based on individual aptitudes, ambitions and life plans.

The topics covered in these personnel meetings are shared at the human resource meetings at the business division level and reflected in employee rotation plans and plans to dispatch employees for training programs.

< Stratified human resource development >

Employees undertake career training in their third year at the Company and at the time of promotions thereafter based on their carefully thought out career plans for the future. Employees are offered training opportunities to improve their ability to solve problems and their communication abilities based on their rank.

In recent years, we have concentrated in particular on training for the manager class and for foremen at manufacturing sites in a bid to enhance their management abilities while training personnel through helpful experiences at each worksite.

Group companies select candidates for key management positions to attend the SHI Group Business School (SBS) and take advanced courses (ASBS) in an intensive

training program that lasts 1–2 years with the objective of training future management personnel.

< Specialized human resource development >

Beginning with technical training, we conduct level-based training for employees for acquiring an area of expertise required for specialized fields related to each functional division at the Head Office.

E-learning is offered to employees for acquiring basic knowledge. Hands-on training in control programs is also offered for moving things around.

Every year, we continue to expand the curriculum of technical training programs in particular, in accordance with the needs of business divisions, such as training for AI through external organizations.

At sales division managers meetings and manufacturing division managers meetings, the leaders of each functional division across the Group learn about best practices in other divisions to assist with the training of personnel in their own divisions.

< Other >

Each business division also undertakes unique training activities, such as programs for proprietary technologies and passing along technical skills to younger employees.

Through cross-organizational coaching that spans across business divisions, some business divisions take steps to enhance the abilities of mid-career employees and to invigorate their organizations.

Human Resources

(2) Promoting Diversity as a Corporate Strength

In order to fulfill the SHI Group's Corporate Mission Statement of aim to become a machinery manufacturer that continues to provide excellent products and services to the world, it is essential for us to nurture an organizational foundation where diverse personnel can work to the best of their abilities. In 2016, top management declared the promotion of diversity a priority, and began to advance three important business measures to empower women in the workplace, namely raising awareness, changing systems and improving environments. While promoting work-life balance, we are discouraging employees from working long hours and promoting more flexible work styles.

Targets

- 1 Increase the number of newly employed women (Raise the ratio of women among new graduate hires above 20%)
- 2 Double the number of female managers (Compared to the data of 2015, to be achieved until 2020)
- 3 Reduce long work hours (work-life balance) (achieved 1,900 total annual work hours in fiscal 2019)

< Career development promotion for female employees >

We take a sophisticated approach to managing organizations with diverse human resources, creating environments where female employees can work to the best of their abilities.

- We send employees to participate in J-Win, an NPO, for the purpose of improving measures to train women for management positions.
- We create and provide opportunities for women to learn in workplace settings led by 3-4 women in each business office, as a part of the Plus One Project women's working group at the Head Office and each manufacturing site.



Plus One Project

- We have periodically held events for employees to talk with managers since 2016 (50 people participated in fiscal 2018).
- We assist with career formation through personnel meetings with superiors of female employees eyeing management positions and by creating training plans.
- Provision of return-to-work support seminars after maternity leave and superior's consultation

< Raising awareness >

- All employees receive e-learning about unconscious bias
- Provision of information on diversity management using e-mail magazines and internal newsletters
- Manager and level-specific training for diversity management



Management training

< Changing systems >

- Introduction of a work-from-home system in April 2019 for management personnel at the Head Office, expanding scope of eligibility to other areas
- Introduction of measures for flexible work styles, including the use of outside satellite offices and creation of relaxation spaces at the Head Office



< Improving environments >

- We help employees strike a work-life balance amid an increase in dual-income households. In fiscal 2018, we provided information to dual-income households through seminars about returning to work, finding kindergartens, and finding after-school programs for elementary students. We also make it easier for people to return to work by establishing systems that prioritize the dependents of our employees at neighboring kindergartens.



Kindergarten seminars

- To encourage male employees to take time off for raising their children, the director in charge of human resources at the Head Office sends emails about leave programs to male employees with newborns and their immediate superiors. We also interview male employees who took time off to care for their children and post the interviews on the Company intranet in order to raise awareness.
- Hosting Family Day (Family visits to manufacturing sites)

< Deploying diverse human resources >

- For foreign nationals working in Japan, we offer assistance in the form of education about understanding foreign cultures and Japanese language courses.
- We have various initiatives to hire and retain people who have disabilities.
 - Cleaning and greening teams are in charge of cleaning areas around manufacturing sites (Yokosuka Works).
 - SHI Iki-Iki Farm
 - Vegetables grown on the farm are sold at a discount to employees, and the proceeds are all donated to NPOs that assist with children's education.



SHI Iki-Iki Farm

(3) Safety Initiatives for Creating Safe and Secure Workplaces

< Safety initiatives >

To create pleasant workplaces where all employees can work in healthy, safe and secure environments, a core principle behind occupational safety at the SHI Group, management has declared "safety first" as its highest priority in the Third Action Plan (2017-2019) for the Safety and Sanitation Reform Basic Plan, under which all employees working for the Group are promoting safety and health activities. While working to prevent accidents with machinery and equipment in particular, a priority issue in the Ministry of Health, Labour, and Welfare's 13th Occupational Safety & Health Program, we are actively engaged in providing education on occupational safety and health, in addition to realistic

safety training experiences, in a bid to enhance risk awareness among all employees. In recent years, employee sensitivity to risks has declined, but we aim to improve awareness of risks through virtual reality training systems. Through such measures, we intend to nurture a corporate culture that prioritizes occupational safety and health.



Simulation-based training using virtual reality

(4) Health Management

In January 2018, the president announced our Health Declaration that was created to spread awareness of health management initiatives inside and outside the SHI Group.

< Health declaration >

Based on "respecting people" as stated in the Business Principles, the SHI Group will proactively maintain and promote the health of workers and develop an environment where everyone lives with good mental and physical health.

SHI has established the Health Advancement Committee in conjunction with companies, labor unions and health insurance associations to share issues, formulate measures and ascertain progress as a collaborative effort. Based on the Healthy Workplace Creation Action Plan formulated by the committee, we are implementing the following key measures.

- Creation and Operation of Health Management System It is necessary to introduce a health management system as a part of overall management systems. By gathering, standardizing and unifying data based on the

health checkup results of SHI Group employees, we are able to manage this data as employees age to help them prepare to manage their health more effectively. By introducing this system and utilizing a PDCA cycle for the management system, we aim to reduce health risks in the workplace.

- Measures to Help People with Mental Health Problems Based on the results of a stress check, we provide mental health education to employees and direct consultations for high-stress individuals and people who work long hours, while improving systems for helping people fix their mental health problems and return to work.
- Measures to Help People with Cardiovascular Diseases We offer guidance about healthcare resources for high-risk individuals, such as people with high blood pressure, and refer them to specialist physicians for further diagnosis. To prevent lifestyle-related ailments, we are examining new programs to improve the health of our employees. In addition to in-house recreation programs, we are also encouraging employees to make exercise a part of their daily lives while promoting communications about health.

Eleven-Year Summary and Key Financial Data

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

Millions of yen

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Summary of Income (for the year):											
Net sales	¥642,918	¥516,165	¥548,015	¥624,100	¥585,871	¥615,271	¥667,099	¥700,838	¥674,328	¥ 791,025	¥ 903,051
R&D expenses	10,047	8,187	7,445	9,343	9,835	10,718	11,415	12,299	11,276	14,805	16,836
Operating income	56,940	28,254	45,803	47,135	31,288	34,329	45,998	50,568	48,431	69,921	75,244
EBITDA (Note 1)	75,260	47,979	63,744	64,955	49,570	52,946	62,279	70,289	68,742	92,925	101,219
Ordinary income	50,275	26,333	44,253	44,619	30,997	33,000	45,113	49,131	48,274	67,466	72,623
Profit attributable to owners of parent	13,649	13,280	27,926	19,492	5,865	17,891	24,348	33,133	33,613	34,660	45,650
Cash Flows (for the year):											
Cash flows from operating activities	¥ 34,676	¥ 57,513	¥ 36,521	¥ 23,309	¥ 2,660	¥ 63,661	¥ 62,170	¥ 18,315	¥ 38,158	¥ 71,111	¥ 55,173
Cash flows from investing activities	(35,924)	(13,954)	(23,513)	(22,672)	(19,660)	(27,622)	(14,112)	(15,350)	(25,852)	(37,810)	(54,973)
Free cash flows (Note 2)	(1,248)	43,559	13,008	638	(17,000)	36,039	48,058	2,965	12,306	33,301	199
Cash flows from financing activities	15,625	(26,686)	(22,020)	19,879	(11,428)	(9,498)	(36,889)	(23,789)	(17,809)	(10,146)	(13,314)
Cash and cash equivalents at the end of year	42,414	61,452	51,700	72,376	46,476	76,418	90,324	68,625	61,017	85,503	69,776
Financial Position (at year-end):											
Total assets	¥657,436	¥610,087	¥626,829	¥691,841	¥647,724	¥724,182	¥786,027	¥782,859	¥796,484	¥ 894,835	¥ 954,051
Interest-bearing debt	110,339	87,660	67,833	96,522	98,547	107,433	83,644	68,232	60,460	64,181	73,311
Net interest-bearing debt (Note 3)	65,654	25,149	15,347	23,149	50,732	29,607	(8,779)	(2,572)	(3,360)	(24,052)	(278)
Total net assets	238,697	254,153	269,380	282,145	292,826	331,059	365,101	382,817	409,171	444,964	465,001
Amounts per Share of Common Stock: (unit: yen) (Note 4)											
Profit (Note 5)	¥ 22.62	¥ 22.01	¥ 45.87	¥ 31.75	¥ 9.56	¥ 29.17	¥ 39.71	¥ 54.06	¥ 54.85	¥ 282.83	¥ 372.56
Total net assets	378.78	404.73	435.10	454.43	470.69	532.28	587.37	614.51	650.47	3,517.33	3,701.01
Cash dividends	6.00	4.00	8.00	10.00	8.00	7.00	12.00	16.00	16.00	85.00	112.00
Financial Indexes: (unit: %)											
Operating income ratio	8.9	5.5	8.4	7.6	5.3	5.6	6.9	7.2	7.2	8.8	8.3
EBITDA ratio	11.7	9.3	11.6	10.4	8.5	8.6	9.3	10.0	10.2	11.7	11.2
R&D expenses ratio to net sales	1.6	1.6	1.4	1.5	1.7	1.7	1.7	1.8	1.7	1.9	1.9
Return on assets (ROA)	2.0	2.1	4.5	3.0	0.9	2.5	3.1	4.2	4.2	3.9	4.8
Return on equity (ROE)	5.9	5.6	10.9	7.1	2.1	5.8	7.1	9.0	8.7	8.4	10.3
Stockholders' equity ratio	34.8	40.0	42.6	40.3	44.6	45.1	45.8	48.1	50.0	48.2	47.5
Interest-bearing debt ratio	16.8	14.4	10.8	14.0	15.2	14.8	10.6	8.7	7.6	7.2	7.7
D/E ratio (times)	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.2
ROIC (Note 6)	9.6	4.8	7.8	7.4	4.9	4.8	6.5	7.6	7.3	10.3	10.5
Investment in Plant and Equipment and Others:											
Capital expenditures (Note 7)	¥ 31,753	¥ 24,465	¥ 14,292	¥ 19,682	¥ 29,888	¥ 20,329	¥ 20,670	¥ 23,721	¥ 27,539	¥ 30,432	¥ 33,713
Depreciation and amortization	18,320	19,725	17,941	17,820	18,282	18,617	16,281	19,720	20,311	23,003	25,975

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. The Company carried out a 5-to-1 reverse stock split for its common shares with an effective date of October 1, 2017. Amounts per share of common stock was calculated, under the assumption that such share consolidation was conducted at the beginning of FY2017.
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) = $\frac{(\text{Operating income} + \text{Interest and dividends received}) \times (1 - \text{Effective tax rate}^*)}{(\text{FY average of stockholders' equity} + \text{FY average of interest-bearing debt})}$ * Effective tax rate = 45% until FY2013, 40% for FY2014, 35% from FY2015
7. Capital expenditures are capitalized and recorded as assets.

Seven-Year Non-Financial Key Data

Evaluation item (middle classification)		Evaluation item (small classification)	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	
E	Climate change, Air pollution	CO ₂ emissions (domestic) (10,000 tons-CO ₂)	9.76	9.65	10.22	10.75	10.80	11.12	11.57	
		Energy productivity (domestic) (Millions of yen/CO ₂ -t)	4.81	4.67	4.86	4.68	4.67	4.88	5.07	
		Volume of waste disposed (domestic) (ton)	29,211	25,985	26,547	31,066	29,345	28,809	31,919	
Water resource	Water consumption (1,000 m ³)	Domestic	1,153	1,129	1,099	1,146	1,143	1,166	1,226	
		Overseas	373	337	304	248	245	239	275	
S	Employment	Number of employees (consolidated)	18,245	17,936	18,061	18,491	19,321	21,017	22,543	
		Managers (%)	Ratio of female employees	1.4	1.4	1.5	1.4	1.5	1.5	1.6
			Regular recruitment (%)	7.0	8.0	12.5	12.7	10.1	25.8	20.2
		Number of employees (non-consolidated)	Ratio of women and foreign nationals in upper management positions (higher than department manager, officers, including executive officers) (%)	—	—	—	—	1.8	1.9	1.9
			Number of foreign-registered employees	68	65	50	61	160	248	241
			Number of foreign-registered managers	5	5	6	6	6	6	4
			Number of foreign-registered employees newly employed	5	14	11	14	6	2	7
			Average length of service by gender	Male	—	—	—	—	16.7	17.5
		Average age by gender	Female	—	—	—	—	—	—	11.4
			Male	—	—	—	—	43.2	43.1	42.6
		Number of employees by age group	Female	—	—	—	—	40.9	40.7	40.2
			Under 30	—	—	—	—	450	488	527
			30-39	—	—	—	—	614	697	738
			40-49	—	—	—	—	788	740	757
		Retirement rate (non-consolidated) (%)	50-59	—	—	—	—	668	706	770
Above 60	—		—	—	—	252	226	210		
Working practices	Way of working (non-consolidated)	Retirement rate (%)	—	—	—	—	1.6	2.1	2.8	
		Turnover rate within three years of joining (%)	—	—	—	—	15.8	15.5	10.3	
		Retirement rate for personal reasons (%)	—	—	—	—	1.1	1.5	2.2	
		Number of consolidated foreign employees	—	—	—	—	8,091	9,647	10,861	
		Working hours per year	Working hours per year	2,060	2,091	2,086	2,074	2,054	2,039	2,029
			Number of nursing care leave users	1	0	0	0	2	3	6
		Number of annual paid leave days	Number of annual paid leave days	22	22	22	22	22	22	22
			Number of annual paid leave days taken (average per person)	14.8	14.8	14.9	14.8	15.7	15.9	16.3
		Number of disabled people employed	Number of disabled people employed	53	57	57	56	53	62	68
			Employment ratio of disabled people (%)	2.17	2.14	2.14	2.04	1.97	2.44	2.32
Number of childcare leave users	Male	0	1	0	4	3	9	18		
	Female	6	12	8	11	12	6	5		
Return-to-work ratio after taking childcare leave (%)	100	100	100	100	100	100	100			
Number of employees who took time off for volunteer work	—	—	—	—	1	0	0			
Occupational health and safety (non-consolidated)	Number of work-related deaths	Number of work-related deaths	1	0	0	0	0	0		
		Number of work-related injuries that require lost work days (4 days or more)	2	2	0	6	5	0	16	
		Number of employees who took time off for mental health reasons	—	—	—	—	9	12	13	
Support and contribution to society (non-consolidated)	Industry-university collaborative research* ² (Millions of yen)	Industry-university collaborative research* ² (Millions of yen)	—	41	124	61	140	48	81	
		Social contribution expenditures (Millions of yen)	60	43	50	50	86	69	82	
G	Compliance	Number of cases reported to Ethics Hotline	Non-consolidated	22	26	23	26	28	16	20
		Number of employees completing compliance education by e-learning	Domestic Group companies	45	39	43	44	39	54	63
			Domestically consolidated	8,358	9,162	9,314	9,408	9,800	9,815	10,432
		Number of managers submitting Pledge of Compliance	Overseas	—	—	—	—	868	1,059	1,799
			Domestically consolidated	—	—	—	2,479	2,490	2,436	2,748
		Number of compliance awareness survey respondents	Non-consolidated	2,400	2,490	2,501	2,490	2,471	2,466	2,645
			Domestic Group companies	5,738	6,150	6,348	6,513	6,475	7,252	10,055
Overseas	—	—	—	—	—	—	929			

*1. Detailed environmental data is published on the web.
*2. Total of commissioned and farmed-out studies

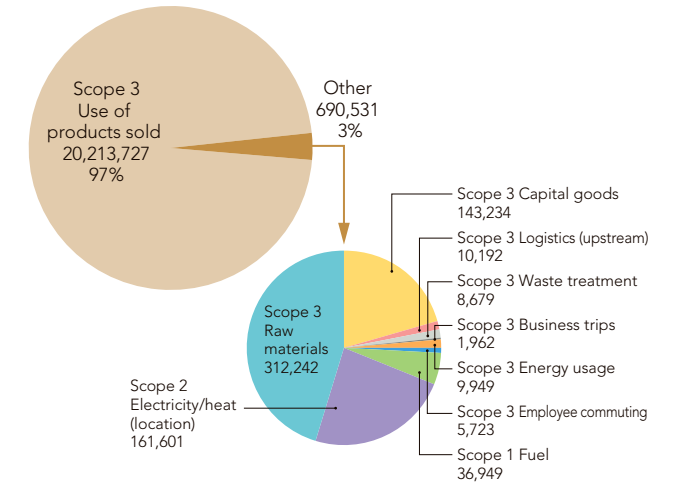
Life Cycle CO₂ Emissions (FY2018)

The percentage of CO₂ emissions (including energy-related emissions) from the use of products throughout their entire life cycle was a very high 97% in FY2018. Reducing CO₂ emissions when sold products are used is an important issue to address going forward.

Domestic and overseas CO₂ emissions

		(Tons-CO ₂)		Total
		Japan	Overseas	
Scope 1	Fuel	18,286	18,663	36,949
Scope 2	Electricity/heat (location)	97,444	64,157	161,601
Scope 3				
Raw materials				312,242
Capital goods				143,234
Energy usage				9,949
Logistics (upstream)				10,192
Waste treatment				8,679
Business trips				1,962
Employee commuting				5,723
Use of products sold				20,213,727
Scope 3 total				20,705,708
Grand total				20,904,258
Five greenhouse gases		44	0	44

Life Cycle CO₂ emissions (Tons-CO₂)



Expansion of Scope 3 items for data collection

In FY2018, the Company expanded Scope 3 items for data collection. The expanded items comprise capital goods, energy usage, business trips and employee commuting. Furthermore, the Company expanded the range of products for which data is collected during their post-sales use.

By improving visibility of these items, SHI is able to more efficiently conduct activities to prevent global warming.

Product-Related Contribution to CO₂ Emission Reduction

In FY2018, our products contributed to reductions of CO₂ emissions by a total of 8,110,000 tons, of which energy-related sectors comprised 79%. A decrease in sales for energy-related fields in FY2018 lowered its contribution to reductions in CO₂ emissions compared with FY2017. The size of contributions to reductions in CO₂ emissions in energy-related sectors is significant. Nonetheless, the Company is advancing measures to increase the size of contributions to reductions in CO₂ emissions in the transportation-related and industrial machinery sectors as well, while developing technologies in a bid to increase the magnitude of their contributions, as a part of activities based on awareness of these important issues for the environment and CSR.

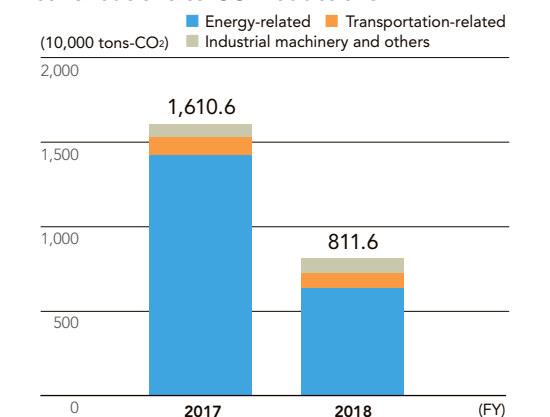
Product-related contribution amount to CO₂ emission reduction (major products delivered in FY2018)

Sector	Contribution to CO ₂ emission reduction over product life cycles (10,000 tons-CO ₂) (Based on design standards)	Calculation base	Product
Energy-related	643.0	Reduction and high efficiency due to biomass power generation	CFB boiler, turbine
Transportation-related	83.3	Improved fuel efficiency and propulsion capability achieved in new models, etc.	Aframax tanker
Industrial machinery and others	85.3	Improved fuel efficiency, energy saving, regenerative energy use, high efficiency achieved in new models, etc.	Hydraulic excavator, forklift, plastic injection molding machine, precision vacuum pump, diffuser, mixer, etc.
Total	811.6		

Contribution to CO₂ emission reduction due to biomass power generation (accumulated in FY1999 to FY2018)

Energy-related products
5,723,000 tons-CO₂

Life cycle (based on design standards) contributions to CO₂ reductions



Consolidated Financial Statements

[Financial Section]

1 Methods for Preparing the Consolidated Financial Statements

The consolidated financial statements of Sumitomo Heavy Industries, Ltd. (SHI) have been prepared in accordance with the "Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Order No. 28 of 1976; hereinafter the "Consolidated Financial Statements Regulation").

Out of certain comparative information included in the consolidated financial statements for the current consolidated fiscal year (from April 1, 2018 to March 31, 2019), those relating to Article 15-5, paragraph (2) and paragraph (3) of the Consolidated Financial Statements Regulation as amended by the "Cabinet Office Order Partially Amending the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Cabinet Office Order No. 7 of March 23, 2018; hereinafter the "Amended Cabinet Office Order") have been prepared based on the regulation before amendment in accordance with the Consolidated Financial Statements Regulation pursuant to Article 3, paragraph (2) of the Supplementary Provisions of the Amended Cabinet Office Order.

Consolidated Balance Sheets

	Millions of yen	
	March 31, 2018	March 31, 2019
ASSETS		
Current assets		
Cash and deposits	*1 ¥ 88,233	*1 ¥ 73,589
Notes and accounts receivable—trade	*2 269,409	*2 291,578
Finished goods	65,953	74,552
Work in process	*3 67,619	*3 72,522
Raw materials and supplies	33,828	41,971
Others	30,597	33,185
Allowance for doubtful accounts	(4,055)	(3,829)
Total current assets	551,584	583,568
Non-current assets		
Property, plant and equipment		
Buildings and structures	*1 162,382	172,609
Accumulated depreciation	(109,157)	(115,147)
Buildings and structures, net	53,225	57,462
Machinery, equipment and vehicles	187,575	203,668
Accumulated depreciation	(131,279)	(142,832)
Machinery, equipment and vehicles, net	56,296	60,836
Land	*1, *4 107,826	*4 107,720
Construction in progress	5,260	6,131
Others	53,035	54,550
Accumulated depreciation	(36,047)	(38,422)
Others, net	16,988	16,128
Total property, plant and equipment	239,596	248,276
Intangible assets		
Goodwill	18,030	24,049
Others	32,319	41,022
Total intangible assets	50,349	65,071
Investments and other assets		
Investment securities	*5 20,243	*5 18,270
Long-term loans receivable	4,466	3,812
Deferred tax assets	22,297	26,874
Others	*5 11,824	*5 13,493
Allowance for doubtful accounts	(5,524)	(5,314)
Total investments and other assets	53,306	57,136
Total non-current assets	343,251	370,483
Total assets	¥ 894,835	¥ 954,051

2 Audit Certification

The consolidated financial statements of SHI for the current consolidated fiscal year (from April 1, 2018 to March 31, 2019) and the previous consolidated fiscal year (from April 1, 2017 to March 31, 2018) have been audited by KPMG AZSA LLC pursuant to the provisions of Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act.

3 Efforts to Ensure the Adequacy of the Consolidated Financial Statements

SHI has been making efforts to ensure the adequacy of the consolidated financial statements. More concretely, SHI joined the Financial Accounting Standards Foundation and attends seminars in order to enhance the understanding of the accounting standards and develop a system that enables it to adapt to the changes in accounting standards.

	Millions of yen	
	March 31, 2018	March 31, 2019
LIABILITIES		
Current liabilities		
Notes and accounts payable—trade	*2 ¥184,227	*2 ¥188,069
Short-term loans payable	33,516	23,444
Bonds redeemable within 1 year	—	10,000
Current portion of long-term loans payable	*1 7,801	1,956
Commercial papers	—	17,000
Income taxes payable	5,726	11,453
Advances received	42,540	52,579
Provision for construction warranties	13,478	13,339
Provision for loss on construction contracts	*3 5,451	*3 6,309
Provision for loss on business	228	—
Others	54,718	58,229
Total current liabilities	347,684	382,378
Non-current liabilities		
Bonds payable	20,000	10,000
Long-term loans payable	2,864	10,912
Provision for loss on business transfers	115	115
Provision for loss on product liability claims	40	39
Defined benefit liability	40,466	46,082
Deferred tax liabilities for land revaluation	*4 20,730	*4 20,713
Others	17,972	18,812
Total non-current liabilities	102,187	106,673
Total liabilities	449,871	489,051
NET ASSETS		
Shareholders' equity		
Share capital	30,872	30,872
Capital surplus	25,267	26,071
Retained earnings	314,296	348,863
Treasury shares	(1,000)	(1,048)
Total shareholders' equity	369,434	404,757
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,406	3,871
Deferred gains or losses on hedges	925	(318)
Revaluation reserve for land	*4 40,831	*4 40,820
Foreign currency translation adjustments	17,565	8,879
Remeasurements of defined benefit plans	(3,153)	(4,542)
Total accumulated other comprehensive income	61,574	48,711
Non-controlling interests	13,956	11,533
Total net assets	444,964	465,001
Total liabilities and net assets	¥894,835	¥954,051

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Net sales	¥791,025	¥903,051
Cost of sales	*1, *2 598,285	*1, *2 693,128
Gross profit	192,740	209,923
Selling, general and administrative expenses	*2, *3 122,819	*2, *3 134,679
Operating profit	69,921	75,244
Non-operating income		
Interest income	559	915
Dividend income	993	825
Others	3,777	3,279
Total non-operating income	5,329	5,019
Non-operating expenses		
Interest expenses	1,023	1,082
Foreign exchange losses	1,032	2,286
Patent related expenses	801	765
Others	4,928	3,507
Total non-operating expenses	7,784	7,640
Ordinary profit	67,466	72,623
Extraordinary losses		
Impairment loss	*4 294	*4 3,448
Loss on settlement following buyout of pension plan	—	*6 2,105
Loss on litigation-related settlement	*5 14,480	—
Total extraordinary losses	14,774	5,553
Profit before income taxes	52,692	67,070
Income taxes—current	13,737	21,070
Income taxes—deferred	1,505	(2,637)
Total income taxes	15,241	18,433
Profit	37,451	48,637
Profit attributable to non-controlling interests	2,791	2,987
Profit attributable to owners of parent	¥ 34,660	¥ 45,650

Consolidated Statements of Comprehensive Income

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Profit	¥37,451	¥ 48,637
Other comprehensive income		
Valuation difference on available-for-sale securities	1,277	(1,535)
Deferred gains or losses on hedges	621	(1,240)
Revaluation reserve for land	7	—
Foreign currency translation adjustments	4,701	(9,168)
Remeasurements of defined benefit plans	2,595	(857)
Share of other comprehensive income of entities accounted for using equity method	6	13
Total other comprehensive income	*1 9,207	*1 (12,787)
Comprehensive income	¥46,657	¥ 35,850
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	¥42,908	¥ 33,345
Comprehensive income attributable to non-controlling interests	3,749	2,505

Consolidated Statements of Changes in Equity

For the year ended March 31, 2018

	Millions of yen				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	¥30,872	¥25,267	¥289,587	¥ (915)	¥344,810
Changes of items during the period					
Dividends of surplus			(10,417)		(10,417)
Profit attributable to owners of parent			34,660		34,660
Purchase of treasury shares				(86)	(86)
Disposal of treasury shares			1	1	2
Reversal of revaluation reserve for land			465		465
Change in ownership interest of parent due to transactions with non-controlling interests					—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	—	24,709	(84)	24,624
Balance at the end of the period	¥30,872	¥25,267	¥314,296	¥(1,000)	¥369,434

	Millions of yen							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of the period	¥4,128	¥320	¥41,289	¥13,824	¥(5,770)	¥53,791	¥10,570	¥409,171
Changes of items during the period								
Dividends of surplus								(10,417)
Profit attributable to owners of parent								34,660
Purchase of treasury shares								(86)
Disposal of treasury shares								2
Reversal of revaluation reserve for land								465
Change in ownership interest of parent due to transactions with non-controlling interests								—
Net changes of items other than shareholders' equity	1,278	605	(458)	3,742	2,616	7,783	3,386	11,168
Total changes of items during the period	1,278	605	(458)	3,742	2,616	7,783	3,386	35,792
Balance at the end of the period	¥5,406	¥925	¥40,831	¥17,565	¥(3,153)	¥61,574	¥13,956	¥444,964

For the year ended March 31, 2019

	Millions of yen				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	¥30,872	¥25,267	¥314,296	¥(1,000)	¥369,434
Changes of items during the period					
Dividends of surplus			(11,641)		(11,641)
Profit attributable to owners of parent			45,650		45,650
Purchase of treasury shares				(49)	(49)
Disposal of treasury shares		0		1	1
Reversal of revaluation reserve for land			10		10
Change in ownership interest of parent due to transactions with non-controlling interests		804			804
Remeasurements of retained earnings due to the U.S. tax reform			548		548
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	804	34,568	(49)	35,323
Balance at the end of the period	¥30,872	¥26,071	¥348,863	¥(1,048)	¥404,757

	Millions of yen							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at the beginning of the period	¥ 5,406	¥ 925	¥40,831	¥17,565	¥(3,153)	¥ 61,574	¥13,956	¥444,964
Changes of items during the period								
Dividends of surplus								(11,641)
Profit attributable to owners of parent								45,650
Purchase of treasury shares								(49)
Disposal of treasury shares								1
Reversal of revaluation reserve for land								10
Change in ownership interest of parent due to transactions with non-controlling interests								804
Remeasurements of retained earnings due to the U.S. tax reform								548
Net changes of items other than shareholders' equity	(1,535)	(1,243)	(10)	(8,686)	(1,389)	(12,863)	(2,423)	(15,286)
Total changes of items during the period	(1,535)	(1,243)	(10)	(8,686)	(1,389)	(12,863)	(2,423)	20,037
Balance at the end of the period	¥ 3,871	¥ (318)	¥40,820	¥ 8,879	¥(4,542)	¥ 48,711	¥11,533	¥465,001

Consolidated Statements of Cash Flows

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Cash flows from operating activities		
Profit before income taxes	¥ 52,692	¥ 67,070
Depreciation	23,003	25,975
Loss on settlement following buyout of pension plan	—	2,105
Impairment loss	294	3,448
Loss on litigation-related settlement	14,480	—
Interest and dividend income	(1,552)	(1,740)
Interest expenses	1,023	1,082
Increase (decrease) in provision	4,178	597
Decrease (increase) in notes and accounts receivable—trade	(3,776)	(11,622)
Decrease (increase) in inventories	(7,610)	(22,416)
Increase (decrease) in notes and accounts payable—trade	16,475	2,972
Others	3,934	2,448
Subtotal	103,141	69,918
Interest and dividend income received	1,553	2,028
Interest expenses paid	(981)	(1,078)
Amount paid for litigation-related settlement	(15,381)	—
Income taxes paid	(17,221)	(15,696)
Net cash provided by (used in) operating activities	71,111	55,173
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(29,914)	(33,852)
Proceeds from sale of property, plant and equipment and intangible assets	1,552	1,081
Purchase of shares of subsidiaries and investments in capital resulting in change in the scope of consolidation	*2 (14,547)	*2 (20,908)
Purchase of shares of subsidiaries and associates	(44)	(189)
Proceeds from sale of shares of subsidiaries and associates	3,911	—
Proceeds from sale of investment securities	159	407
Net decrease (increase) in short-term loans receivable	6	139
Payments of loans receivable	(373)	(161)
Collection of loans receivable	2,289	337
Others	(850)	(1,827)
Net cash provided by (used in) investing activities	(37,810)	(54,973)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(3,740)	(12,615)
Net increase (decrease) in commercial papers	(5,000)	17,000
Proceeds from long-term loans payable	3,563	9,642
Repayments of long-term loans payable	(1,709)	(8,944)
Proceeds from issuance of bonds	10,000	—
Cash dividends paid	(10,410)	(11,636)
Dividends paid to non-controlling interests	(606)	(662)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(5,166)
Others	(2,245)	(934)
Net cash provided by (used in) financing activities	(10,146)	(13,314)
Effect of exchange rate change on cash and cash equivalents	1,260	(2,613)
Net increase (decrease) in cash and cash equivalents	24,414	(15,728)
Cash and cash equivalents at the beginning of the period	61,017	85,503
Increase in cash and cash equivalents from newly consolidated subsidiaries	66	—
Increase in cash and cash equivalents resulting from merger	6	—
Cash and cash equivalents at the end of the period	*1 ¥ 85,503	*1 ¥ 69,776

Notes to the Consolidated Financial Statements

(Basis of Preparation)

1 Basis of presenting consolidated financial statements

(1) Basis of accounting

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain aspect in terms of 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. However, Practical Issues Task Force No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. for Consolidated Financial Statements" issued by the Accounting Standards Board of Japan (ASBJ) requires making adjustments for the following four specific items, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancelling revaluation model or fair value model of accounting for property, plant and equipment and investment properties, and applying the cost model of accounting.

The accompanying consolidated financial statements for Sumitomo Heavy Industries, Ltd. (SHI) and its subsidiaries (collectively, the Company) have been reformatted and translated into English 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 Act.

(2) Transactions eliminated on consolidation

All significant intercompany accounts and transactions have been eliminated in consolidation. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of SHI's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(Significant matters constituting the basis of preparation of the consolidated financial statements)

2 The scope of consolidation

(1) Number of consolidated subsidiaries—140 companies

Major consolidated subsidiaries: Shin Nippon Machinery Co., Ltd.

Sumitomo Heavy Industries Gearbox Co., Ltd.
 Sumitomo Construction Machinery Co., Ltd.
 Sumitomo Construction Machinery Sales Co., Ltd.
 Sumitomo Heavy Industries Ion Technology Co., Ltd.
 Sumitomo Heavy Industries Environment Co., Ltd.
 Sumitomo Heavy Industries PTC Sales Co., Ltd.
 Sumitomo Heavy Industries Material Handling Systems Co., Ltd.
 Sumitomo Heavy Industries Process Equipment Co., Ltd.
 Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
 Nihon Spindle Manufacturing Co., Ltd.
 Sumitomo Heavy Industries Construction Cranes Co., Ltd.
 LBCE Holdings, Inc.
 PT Sumitomo S.H.I. Construction Machinery Indonesia
 SCM (America), Inc.
 Sumitomo Heavy Industries (Vietnam) Co., Ltd.
 Sumitomo Industrias Pesadas do Brasil Ltda.
 SUMITOMO MSCHINERY CORPORATION OF AMERICA
 Sumitomo (SHI) Cryogenics of America, Inc.
 Sumitomo (SHI) Cyclo Drive Germany GmbH
 Sumitomo (SHI) Demag Plastics Machinery GmbH
 Sumitomo SHI FW Energie B.V.
 Lafert S.p.A
 Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.
 Sumitomo Heavy Industries (China), Ltd.
 Sumitomo Heavy Industries (Tangshan), Ltd.
 Sumitomo (SHI) Cyclo Drive China, Ltd.

From the current consolidated fiscal year, Lafert S.p.A. and 12 other subsidiaries whose shares were newly acquired by SHI, as well as SM Cyclo de Peru S.A.C. which was newly formed, are included in the scope of consolidation. In addition, Sumiju Tomida Machinery Co., Ltd. and 3 other subsidiaries that were dissolved upon the merger were excluded from the scope of consolidation.

(2) Name of major non-consolidated subsidiaries

Major non-consolidated subsidiary: Kyokuto Seiki Co., Ltd.

(Reasons for exclusion from the scope of consolidation)

All of the non-consolidated subsidiaries are small-scale companies and their aggregated total assets, net sales, and profit or loss (amount commensurate with equity interests) and retained earnings (amount commensurate with equity interests) do not have a material effect on SHI's Consolidated Financial Statements.

3 The application of the equity method

(1) The number of non-consolidated subsidiaries accounted for using the equity method: nil

(2) The number of affiliated companies accounted for using the equity method: 4

Name of major company: Sumitomo NACCO Forklift Co., Ltd.

(Change in the affiliated companies accounted for using the equity method)

Lafert Motores Electricos, S.L. and 2 other subsidiaries whose shares were newly acquired by SHI are included in the scope of affiliated companies accounted for using the equity method.

(3) The non-consolidated subsidiaries (including Kyokuto Seiki Co., Ltd.) and affiliated companies (including Mizu Kankyo Chiba K.K.) not accounted for using the equity method are excluded from the scope of application of the equity method because their respective profit or loss and retained earnings have an immaterial effect on SHI's Consolidated Financial Statements and are insignificant as a whole.

4 The fiscal years of consolidated subsidiaries

Among the consolidated subsidiaries, the closing date of 97 overseas subsidiaries (other than Nihon Spindle Cooling Towers Sdn. Bhd. and one more company) is December 31, and their financial statements prepared as of December 31 or for the year ended December 31 are used for the preparation of SHI's Consolidated Financial Statements.

Material transactions that arose during the period between their closing date and the closing date of SHI's consolidated financial statements have been adjusted as necessary for the purposes of the consolidated financial statements.

The closing date of other consolidated subsidiaries is March 31, which is consistent with SHI.

5 Accounting policies

(1) Basis of and methods for valuation of significant assets

(i) Securities

(a) Bonds held to maturity

The amortized cost method (The straight-line depreciation method)

(b) Available-for-sale securities

Securities with market value

The market value method, for example, based on market prices at the end of the consolidated fiscal year.

(Valuation difference is reported as a component of shareholders' equity, and the cost of sales is calculated using the moving-average method.)

Securities without market value

The cost method based on the moving-average method

(ii) Derivatives

The market value method

(iii) Inventories

(a) Works in process

Mainly the cost method based on the specific identification method

(Carrying amounts in the balance sheets are measured after the consideration of write-down to reflect decreased profitability.)

(b) Finished goods, raw materials and supplies

Mainly the cost method based on the weighted average method

(Carrying amounts in the balance sheets are measured after the consideration of write-down to reflect decreased profitability.)

(2) Methods for depreciation of significant depreciable assets

(i) Property, plant and equipment (excluding leased assets)

The straight-line method is adopted.

Depreciable lives of major assets are as shown below:

Buildings and structures: 10 to 50 years

Machinery, equipment and vehicles: 5 to 12 years

(ii) Intangible assets (excluding leased assets)

The straight-line method is adopted.

Depreciable lives of in-house software are based on the useful life estimated by the Company (5 years).

(iii) Leased assets

The straight-line method is adopted for leased assets for financial lease transactions without the transfer of ownership, in which the lease period is considered as depreciable life and the residual value is zero.

For the finance lease transactions without the transfer of ownership, the lease transactions that are immaterial and were commenced on or prior to March 31, 2008 are accounted for as ordinary rental transactions.

(3) Basis of accounting for significant provisions

(i) Allowance for doubtful accounts

The allowance is provided based on historical bad debts losses from general accounts receivables. For doubtful accounts receivable, and claims provable in bankruptcy and claims provable in rehabilitation and other, the required allowance is determined at the amount estimated to be uncollectible on an individual basis.

(ii) Provision for construction warranties

In order to provide for free repair work expenditures after the delivery of finished goods, the required allowance is provided for based on historical data.

(iii) Provision for loss on construction contracts

For undelivered construction works at the end of the consolidated fiscal year that are highly likely to generate losses subsequent to the fiscal year, if the losses can be reliably estimated, the estimated amount of losses is recognized as provision for loss on construction contracts.

(iv) Provision for loss on business

The estimated amount of losses that is expected to be generated in the future for the contracts maintained by affiliated companies with their sales agents is recognized as provision for loss on business.

(v) Provision for loss on business transfers

The estimated amount of losses that is expected to be generated in the future as a result of transferring the resort development business is recognized as provision for loss on business transfers.

(vi) Provision for loss on product liability claims

The estimated amount of losses on product liability claims that is expected to be generated in the future from the crane business of overseas subsidiaries is recognized as a provision for loss on product liability claims.

(4) Methods for accounting retirement benefits

(i) Method of attributing expected retirement benefits

For retirement benefit obligations, the benefit formula basis is used to calculate the expected retirement benefits up to the term elapsed for the end of the consolidated fiscal year.

(ii) Method of amortization of actuarial difference and past service costs

Past service costs are amortized following the straight-line method over a period within the historical average remaining service period of employees when those costs are incurred.

Actuarial difference is amortized proportionally from the following year of the incurrence of actuarial difference using the straight-line method over a period within the average remaining service period of employees at the time of incurrence of actuarial difference.

(5) Method of significant hedge accounting

(i) Method of hedge accounting

The Company adopts deferred hedge accounting. However, for interest swap transactions that meet the requirements for simplified accounting treatment, the Company adopts such simplified accounting treatment.

If forward exchange contracts meet the requirements for allocation, the Company adopts the allocation accounting method.

(ii) Hedge instruments and hedged items

Forward exchange contracts: Foreign currency-denominated accounts receivable, foreign currency-denominated accounts payable and forecast transaction

Interest swap transactions: Loans

(iii) Hedge policy

Under the "Market Risk Management Policy" stipulated by the Board of Directors, the Company's objective for hedging transactions is to mitigate foreign currency and interest rate fluctuation risks, and not to execute speculative transactions.

(iv) Method of assessing hedge effectiveness

The Company compares the aggregated fluctuation from cash flow or market condition of the hedged items against aggregated fluctuation from cash flow or market condition of the hedged instruments every six months, and assesses hedge effectiveness based on the fluctuation. The Company, however, does not assess the hedge effectiveness of interest swap transactions for which it is subject to simplified accounting treatment.

(6) Basis of recognition of material revenues and expenses

For construction works, for which the progress can be reliably estimated by the end of the consolidated fiscal year, the Company adopts the percentage-of-completion method (with the output method by compositely aggregating the estimated total man-hours required for each stage of project constructions and man-hours consumed during the estimated construction period to estimate a progress rate or the cost to cost method). For other construction works, the Company adopts the completed-contract method.

(7) Method and period of amortization of goodwill

Goodwill is amortized using the straight-line method over a period of up to 20 years. However, any insignificant amount of goodwill is amortized in full upon its recognition.

(8) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents consists of cash on hand, immediately available cash, and short-term investments that are highly liquid, have an insignificant risk of changes in value with maturities of three months or less.

(9) Other significant matters for preparation of consolidated financial statements

(i) Accounting for the consumption taxes

The consumption tax and local consumption tax are accounted for on a tax-exclusive basis.

(ii) Application of the consolidated tax payment system

SHI and some of its consolidated subsidiaries follow the consolidated tax payment system.

(iii) Net assets

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common share. 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 share 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 SHI's non-consolidated financial statements in accordance with the Japanese laws and regulations.

(iv) Research and development ("R&D") expense

R&D expenditures are expensed as incurred.

(Standards and guidance not yet adopted)

SHI and its domestic subsidiaries

- "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018, Accounting Standards Board of Japan)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018, Accounting Standards Board of Japan)

(1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard for revenue recognition and published "Revenue from Contracts with Customers" (IASB's IFRS 15 and FASB's Topic 606) in May 2014. Given the situation that IFRS 15 applies to an annual reporting period beginning on or after January 1, 2018 and Topic 606 applies to an annual reporting period after December 15, 2017, a comprehensive accounting standard for revenue recognition was developed and issued with an implementation guidance by the ASBJ.

For the accounting standard for revenue recognition, the ASBJ introduced the fundamental principles of IFRS 15 from the standpoint of comparability among companies' financial statements, which is to ensure the consistent application of IFRS 15 and, if there are any considerations required for the practices in Japan, alternative treatment will be added without compromising comparability.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

SHI and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

Overseas subsidiaries

- "Leases" (IFRS 16) and "Leases" (ASU 2016-02)

(1) Overview

Amended, in particular, to require a lessee to recognize assets and liabilities for all leases.

(2) Effective date

IFRS 16 will apply to SHI's overseas subsidiaries other than those in the United States of America, effective from the beginning of the fiscal year ending March 31, 2020.

ASU 2016-02 will apply to SHI's subsidiaries in the United States of America effective from the end of the fiscal year ending March 31, 2021.

(3) Effects of the application of the standards

The Company plans to apply IFRS 16 using the modified retrospective approach by recognizing the cumulative effects of the adoption of IFRS 16 on the date of initial application for transition.

On transition to IFRS 16, "Others" of property, plant and equipment, "Others" of current liabilities, and "Others" of non-current liabilities are expected to increase by ¥2,684 million, ¥1,146 million and ¥1,538 million respectively. In addition, ¥2,830 million included in "Others" of intangible assets is expected to be reclassified to "Others" of property, plant and equipment.

The Company is currently in the process of determining the effects of adopting ASU 2016-02 on the consolidated financial statements.

(Changes in Presentation Methods)

(Changes as a result of the adoption of "Partial Revision of 'Tax Effect Accounting'")

Upon application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ No. 28, February 16, 2018) (hereinafter the "Partial Amendments to Accounting Standard for Tax Effect Accounting") from the beginning of the current consolidated fiscal year, the Company changed the presentation for deferred tax assets in "Investments and other assets" and deferred tax liabilities in "Non-current liabilities," and changed the notes to Tax Effect Accounting.

As a result, in the consolidated balance sheets of the previous consolidated fiscal year, "Deferred tax assets" of current assets decreased by ¥13,253 million, while "Deferred tax assets" of investments and other assets increased by ¥12,519 million. Furthermore, "Others" of current liabilities decreased by ¥36 million, and "Others" of non-current liabilities decreased by ¥698 million.

Total assets decreased by ¥734 million compared with total assets before the amendments due to the effect of the same tax paying entity offsetting deferred tax assets against deferred tax liabilities.

In addition, the narrative descriptions in (Note 8) (excluding the total of valuation allowance) and (Note 9) of Comments on "Accounting Standard for Tax Effect Accounting" stipulated in paragraphs 3 through 5 of the "Partial Amendments to Accounting Standard for Tax Effect Accounting" were added to the notes to Tax Effect Accounting. However, those narrative descriptions that corresponding to the previous consolidated fiscal year were not required to disclose in accordance with the transitional treatment stipulated in paragraph 7 of the Partial Amendments to Accounting Standard for Tax Effect Accounting.

(Consolidated Balance Sheets)

*1 Collateralized assets and secured obligations

The assets offered as collateral are presented below.

	Millions of yen	
	March 31, 2018	March 31, 2019
Cash and deposits	¥ 12	¥11
Buildings and structures	826	—
Land	154	—
Total	¥992	¥11

Secured obligations are presented below.

	Millions of yen	
	March 31, 2018	March 31, 2019
Current portion of long-term loans payable	¥10	¥—
Total	¥10	¥—

*2 Notes due at the end of the year

Notes due at the end of the consolidated fiscal year are accounted for as of the clearing dates.

As the last day of the consolidated fiscal years was a bank holiday, the following notes due at the end of the consolidated fiscal years have been included in the balance at the end of year.

	Millions of yen	
	March 31, 2018	March 31, 2019
Notes receivable—trade	¥4,160	¥4,969
Notes payable—trade	1,870	1,966

*3 Presentation of inventories and provision for loss on construction contracts

Inventories and the provision for loss on construction contracts relating to construction contracts that are highly likely to incur losses have been presented separately and have not been offset. The amount of the provision for loss on construction contracts that relate to inventories resulting from construction contracts which are likely to generate losses is presented below.

	Millions of yen	
	March 31, 2018	March 31, 2019
Provision for loss on construction contracts related to inventories	¥513	¥489

*4 Revaluation of land

Land for business use is revalued pursuant to the Act on Revaluation of Land (Act No. 34 of March 31, 1998) and the Act for Partial Amendment of the Act on Revaluation of Land (Act No. 19 of March 31, 2001).

For revaluation difference, the amount corresponding to the tax on such revaluation difference has been recognized as "Deferred tax liabilities for land revaluation" under the Act for Partial Amendment of the Act on Revaluation of Land (Act No. 24 of March 31, 1999), and the amount from which Deferred tax liabilities for land revaluation are deducted has been recognized as "Revaluation reserve for land" in net assets.

• Method of revaluation

While revaluation has been done by making reasonable adjustments to the value of the property tax stipulated in Article 2, item (iii) of the Order for Enforcement of the Act of on Revaluation of Land (Cabinet Order No. 119 of March 31, 1998), revaluation has at times been done based on the appraised values by real estate appraisers stipulated in item (v) of the said Article.

• Date of revaluation

March 31, 2002

	Millions of yen	
	March 31, 2018	March 31, 2019
Difference between the market value of revalued land at the end of the year and the book value after revaluation	¥(18,104)	¥(18,174)

*5 Securities of non-consolidated subsidiaries and affiliated companies are as follows.

	Millions of yen	
	March 31, 2018	March 31, 2019
Investment securities (equity)	¥3,458	¥3,810
Investments in capital	879	750

For presentation purposes, investments in capital have been included in "Others" of "Investments and other assets."

*6 Loan commitment line agreements

The Company has the loan commitment line agreements with 10 banks to finance operating funds efficiently.

Balances of undrawn loan commitment lines under those agreements are presented below.

	Millions of yen	
	March 31, 2018	March 31, 2019
Total loan commitment lines	¥36,000	¥34,000
Balance of drawn loan commitment lines	—	—
Undrawn loan commitment lines	¥36,000	¥34,000

***7 Guaranteed liabilities**

The Company guarantees loans and other liabilities of companies other than the consolidated companies from banks and financial institutions as shown below.

	March 31, 2018	Millions of yen March 31, 2019
Sumitomo Mitsui Finance and Leasing Company, Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	¥11,638	¥14,811
IBJ Leasing Company, Limited (Purchase guarantee, etc. in connection with the lease agreement)	2,235	3,425
Fuyo General Lease Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	1,624	978
ITOCHU CONSTRUCTION MACHINERY CO., LTD. (Purchase guarantee, etc. in connection with the lease agreement)	275	285
Shutoken Leasing Co., Ltd. (Purchase guarantee, etc. in connection with the lease agreement)	243	243
Another 14 transactions (Purchase guarantee, etc. in connection with the lease agreement)	410	450
Total	¥16,424	¥20,191

The amounts at the end of previous year include foreign currency-denominated liabilities of CNY649 million (¥11,239 million) and NTD5 million (¥17 million), and the amounts at the end of current year include foreign currency-denominated liabilities of CNY933 million (¥15,080 million) and NTD13 million (¥47 million).

(Consolidated Statements of Income)***1 Provision for loss on construction contracts included in the cost of sales**

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
	¥5,770	¥6,423

***2 R&D expenses included in general and administrative expenses and production cost for the period**

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
	¥14,945	¥16,899

***3 Major items of selling, general and administrative expenses**

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Salaries and allowances	¥44,603	¥48,200
R&D expenses	14,805	16,836
Retirement benefit expenses	2,789	3,639
Provision for loss on business	(702)	(220)
Provision of allowance for doubtful accounts and bad debts expenses	811	163

4 Impairment loss*For the year ended March 31, 2018**

The Company recognized impairment loss for the following groups of assets.

Purpose of use	Category	Location	Millions of yen Amount
Business assets	Buildings and others	Niihama City, Ehime and others	¥289
Idle assets	Buildings	Yokosuka City, Kanagawa	5

For the above-mentioned assets, the Company recognized impairment loss because it was not possible to recover the investments due to decreased profitability.

The Company determined impairment loss for each business segment and idle assets not expected to be used in the future, and grouped them by individual property.

Recoverable amounts are calculated mainly by net selling value and are calculated based on the amount of disposal values less costs of disposal.

For the year ended March 31, 2019

The Company recognized impairment loss for the following groups of assets.

Purpose of use	Category	Location	Millions of yen Amount
Business assets	Goodwill and others	United States	¥2,946
Business assets	Machinery, equipment and others	Niihama City, Ehime and others	265
Idle assets	Buildings and others	Obu City, Aichi	238

For the above-mentioned assets, the Company recognized impairment loss because it was not possible to recover the investments due to decreased profitability.

The Company determined impairment loss for each business segment and idle assets not expected to be used in the future, and grouped them by individual property.

Recoverable amounts are calculated based on the underlying net selling value or value in use. Net selling value has been calculated based on the amount of disposal values less costs of disposal. Value in use has been calculated by discounting future cash flow by 11%.

*5 Represents the settlement money and related losses associated with the settlement of the litigation over the incinerated ash melting facility between SHI and Kyoto City in December 2017.

*6 Incurred as a result of the settlement following the buyout of defined benefit pension plans of SHI's consolidated subsidiary Sumitomo (SHI) Demag Plastics Machinery North America, Inc.

(Consolidated Statements of Comprehensive Income)***1 Reclassification adjustment and tax effect relating to other comprehensive income**

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Valuation difference on available-for-sale securities		
Amount accrued during the year	¥ 1,837	¥ (1,907)
Reclassification adjustment	(63)	(216)
Before tax effect adjustment	1,774	(2,123)
Tax effect	(497)	588
Valuation difference on available-for-sale securities	1,277	(1,535)
Deferred gains or losses on hedges		
Amount accrued during the year	947	(915)
Reclassification adjustment	67	(932)
Before tax effect adjustment	1,014	(1,847)
Tax effect	(393)	608
Deferred gains or losses on hedges	621	(1,240)
Revaluation reserve for land		
Tax effect	7	—
Foreign currency translation adjustments		
Amount accrued during the year	4,701	(9,168)
Reclassification adjustment	—	—
Foreign currency translation adjustments	4,701	(9,168)
Remeasurements of defined benefit plans		
Amount accrued during the year	3,628	(4,730)
Reclassification adjustment	605	3,731
Before tax effect adjustment	4,233	(998)
Tax effect	(1,638)	141
Remeasurements of defined benefit plans	2,595	(857)
Share of other comprehensive income of entities accounted for using the equity method		
Amount accrued during the year	10	7
Reclassification adjustment	(4)	7
Share of other comprehensive income of entities accounted for using the equity method	6	13
Total other comprehensive income	¥ 9,207	¥(12,787)

(Consolidated Statements of Changes in Equity)

For the year ended March 31, 2018

1 Type and total number of issued shares and treasury shares

	Thousand shares			
	Number of shares at the beginning of the year	Increase during the year	Decrease during the year	Number of shares at the end of the year
Issued shares				
Common share	¥614,527	¥—	¥491,622	¥122,905
Total	¥614,527	¥—	¥491,622	¥122,905
Treasury shares				
Common share	¥ 1,742	¥52	¥ 1,427	¥ 367
Total	¥ 1,742	¥52	¥ 1,427	¥ 367

Notes: 1 The decrease in total issued shares of common share by 491,622 thousand shares was due to the consolidation of shares closed effective October 1, 2017.
2 The increase in common share of treasury shares by 52 thousand shares was due to requests for repurchase of shares less than one unit.
3 The decrease in common share of treasury shares by 1,427 thousand shares comprised a decrease of 1 thousand shares due to the sale of shares less than one unit and a decrease of 1,426 thousand shares due to the consolidation of shares effective October 1, 2017.

2 Dividends**(1) Cash dividends paid**

(Resolution)	Type of share	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 29, 2017 Annual general meeting of shareholders	Common share	¥ 5,515	¥ 9	March 31, 2017	June 30, 2017
October 31, 2017 Meeting of the Board of Directors	Common share	4,902	8	September 30, 2017	December 1, 2017
Total		¥10,417	¥—		

Note: The share consolidation of five shares of common share into one share was effective on October 1, 2017. The amount of dividend per share payable to SHI's shareholders registered as of the record dates of March 31, 2017 and September 30, 2017 represents the actual amounts of dividends prior to such consolidation of shares.

(2) Dividends recorded during the year, but effective in the next fiscal year

(Resolution)	Type of share	Source for payment of dividends	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 28, 2018 Annual general meeting of shareholders	Common share	Retained earnings	¥5,514	¥45	March 31, 2018	June 29, 2018

For the year ended March 31, 2019

1 Type and total number of issued shares and treasury shares

	Thousand shares			
	Number of shares at the beginning of the year	Increase during the year	Decrease during the year	Number of shares at the end of the year
Issued shares				
Common share	¥122,905	¥—	¥—	¥122,905
Total	¥122,905	¥—	¥—	¥122,905
Treasury shares				
Common share	¥ 367	¥13	¥ 0	¥ 380
Total	¥ 367	¥13	¥ 0	¥ 380

Notes: 1 The increase in common share of treasury shares by 13 thousand shares was due to requests for the repurchase of shares less than one unit.
2 The decrease in common share of treasury shares by less than 1 thousand shares was due to the sale of shares less than one unit.

2 Dividends

(1) Cash dividends paid

(Resolution)	Type of share	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 28, 2018 Annual general meeting of shareholders	Common share	¥ 5,514	¥45	March 31, 2018	June 29, 2018
October 31, 2018 Meeting of the Board of Directors	Common share	6,126	50	September 30, 2018	December 3, 2018
Total		¥11,641	¥—		

(2) Dividends recorded during the year, but effective in the next fiscal year

(Resolution)	Type of share	Source for payment of dividends	Total amount of dividends (Millions of yen)	Amount of dividend per share (Yen)	Record date	Effective date
June 27, 2019 Annual general meeting of shareholders	Common share	Retained earnings	¥7,597	¥62	March 31, 2019	June 28, 2019

(Consolidated Statements of Cash Flows)

*1 Reconciliations between the cash and cash equivalents and cash and deposits presented in the Consolidated Balance Sheets

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Cash and deposits	¥88,233	¥73,589
Time deposits with term of over 3 months to maturity	(2,729)	(3,814)
Cash and cash equivalents	¥85,503	¥69,776

*2 Major components of assets and liabilities of the companies newly included in the scope of consolidation as a result of acquisition of shares

For the year ended March 31, 2018

SHI consolidated the newly acquired subsidiary, Sumitomo SHI FW Energie B.V. The following summarizes the recognized amount of assets acquired and liabilities assumed, and net cash outflow arising from the acquisition of the subsidiary at the acquisition date.

	Millions of yen
Current assets	¥ 22,908
Non-current assets	17,379
Goodwill	12,645
Current liabilities	(24,446)
Non-current liabilities	(4,537)
Non-controlling interests	(979)
Foreign currency translation adjustments	(132)
Price at which SHI acquired shares	22,838
Cash and cash equivalents	(8,291)
Net of acquisition cost	¥ 14,547

For the year ended March 31, 2019

SHI consolidated the newly acquired subsidiary, Lafert S.p.A. and its holding company. The following summarizes the recognized amount of assets acquired and liabilities assumed, and net cash outflow arising from the acquisition of the subsidiary at the acquisition date.

	Millions of yen
Current assets	¥ 12,571
Non-current assets	11,727
Goodwill	12,107
Current liabilities	(10,245)
Non-current liabilities	(4,369)
Non-controlling interests	(10)
Foreign currency translation adjustments	(425)
Price at which SHI acquired shares	21,356
Cash and cash equivalents	(737)
Net of acquisition cost	¥ 20,619

(Lease Transactions)

1 As lessee

(1) Finance lease transactions without the transfer of ownership

Although finance lease transactions without the transfer of ownership carried out before March 31, 2008 have been accounted for by using the accounting treatment for ordinary lease transactions, no further disclosure has been made because those transactions are immaterial.

(2) Operating lease transactions

Lease payments

	Millions of yen	
	March 31, 2018	March 31, 2019
Within 1 year	¥1,464	¥1,563
Over 1 year	3,150	1,634
Total	¥4,614	¥3,197

2 As lessor

(1) Finance lease transactions without the transfer of ownership

Although finance lease transactions without the transfer of ownership carried out before March 31, 2008 have been accounted for by using the accounting treatment for ordinary lease transactions, no further disclosure has been made because those transactions are immaterial.

(2) Operating lease transactions

For operating lease transactions, no further disclosure has been made because those transactions are immaterial.

(Financial Instruments)

1 Financial instruments

(1) Policy to cope with financial instruments

As a general machinery manufacturer, the Company manufactures, sells, and distributes various machines and systems including gear reducers and transmissions, as well as finances necessary operating and equipment funds through bank loans and issue of corporate bonds. Temporary surplus funds are limited to investment in highly stable and short-term financial assets. Derivatives are used to hedge the risks described below and the Company has a policy to refrain from entering into any speculative transactions.

(2) Details of financial instruments and their risks

Notes and accounts receivable—trade, and long-term loans receivable are exposed to customers' credit risks. Although foreign currency-denominated trade accounts receivable generated from the global expansion of business operations are exposed to foreign exchange fluctuation risks, the Company hedges net position of foreign currency-denominated trade accounts receivables and trade accounts payable by utilizing forward exchange contracts to maintain those positions at a certain range of percentages. Reports on hedge ratios and unhedged positions are submitted to the Board of Directors in a timely manner.

Investment securities consist of shares in the companies with which the Company has a business relationship and which are exposed to market price fluctuation risks. Most notes and accounts payable—trade are due within one year. Some of them, which relate to imports of raw materials and are denominated in foreign currencies, are exposed to foreign exchange fluctuation risks and are hedged by utilizing forward exchange contracts.

Loans and bonds are principally intended to finance operating funds and equipment funds necessary for business transactions. For some of the long-term loans payable, the Company utilizes derivative transactions (interest rate swap transactions) as hedge instruments for each individual contract. As interest swap transaction satisfies the requirements for simplified accounting treatment, assessment of the effectiveness is not carried out. Foreign currency-denominated loans are exposed to foreign exchange fluctuation risks.

Derivative transactions consist of forward exchange contracts designed for hedge transactions in preparation for foreign exchange fluctuation risks for foreign currency-denominated trade accounts receivable and payable, and interest rate swap transactions designed to hedge fluctuation risks involving interests payable on loans and foreign exchanges. For details of hedge accounting instruments and hedged transactions, hedge policy, and methods of assessment of the effectiveness, please refer to "Method of significant hedge accounting" in "Accounting policies" above.

(3) Risk management structure for financial instruments

(i) Management of credit risk (risk from default, etc. of counterparty)

For domestic transactions and export transactions in excess of certain levels of amounts, the Company endeavors to mitigate its concerns about the recoverability of trade accounts receivable, for example, by conducting credit examinations prior to accepting orders. In addition, each business division manages due dates and balances of trade accounts receivable for each counterparty in accordance with the credit management regulations, thereby trying to identify concerns about recoverability as early as practicable.

In using derivative transactions, the Company enters into transactions only with highly rated financial institutions to mitigate counterparty risks.

The Company maintains term deposits only with highly rated financial institutions with which the Company has loan transactions to mitigate repayment risks. Therefore, the Company is subject to an insignificant level of credit risks.

(ii) Management of market risk (risk from the fluctuation of foreign currency exchange rate, interest rate or other factors)

The Company hedges net positions of foreign currency-denominated trade accounts receivable and payable in accordance with the Market Risk Management Policy which stipulates, among others, hedge ratio and unhedged volume of

foreign exchange transactions, and submits a report on how those positions are hedged to the Board of Directors on a monthly basis. Major consolidated subsidiaries with foreign currency-denominated trade accounts receivable and payable also manage their foreign exchange fluctuation risks through currency hedging in accordance with the exchange hedging policy which stipulates, among others, hedge ratio or unhedged volume of foreign exchange transactions.

Moreover, the Company monitors interest expenses on loans and submits a report to the Board of Directors in a timely manner. The Company utilizes interest rate swap transactions to control interest expense fluctuation risks.

For investment securities, the Company monitors market values and financial conditions of issuers in a timely manner. The Company also reviews its holdings position considering its relationships with business partners.

SHI and its major consolidated subsidiaries have a policy to utilize derivative transactions for the sole purpose of hedging the foreign exchange and interest fluctuation risks mentioned above and reconcile balances with each counterparty on a monthly basis.

(iii) Management of liquidity risk for financing (risk of becoming unable to pay debts when they become due and payable)

The Company introduces the cash management systems for major consolidated subsidiaries, under which SHI centrally manages the Company's funds. The Company prepares and updates financing plans on a timely basis based on reports from the business divisions and major affiliated companies and manages the liquidity risk.

2 Market values for financial instruments

Carrying amount and market value of financial instruments on the consolidated balance sheets and their difference are presented below. The following table does not include financial instruments that are not practicable to identify market value (see Note 2).

March 31, 2018

	Carrying amount	Market value	Difference
Millions of yen			
(1) Cash and deposits	¥ 88,233	¥ 88,233	¥ —
(2) Notes and accounts receivable—trade	269,409	267,321	(2,089)
(3) Investment securities	14,322	14,322	—
(4) Long-term loans receivable	4,466	3,877	(589)
Total	¥376,430	¥373,752	¥(2,678)
(1) Notes and accounts payable—trade	¥184,227	¥184,227	¥ —
(2) Short-term loans payable	33,516	33,516	—
(3) Bonds payable	20,000	20,069	69
(4) Long-term loans payable	10,665	10,732	66
Total	¥248,408	¥248,544	¥ 136
Derivative transactions ^{(*)1}	¥ 2,033	¥ 2,020	¥ (14)

(*)1 Receivables and payables generated from derivative transactions are presented on a net basis, and net payables are presented in brackets.

March 31, 2019

	Carrying amount	Market value	Difference
Millions of yen			
(1) Cash and deposits	¥ 73,589	¥ 73,589	¥ —
(2) Notes and accounts receivable—trade	291,578	288,901	(2,677)
(3) Investment securities	11,993	11,993	—
(4) Long-term loans receivable	3,812	3,203	(609)
Total	¥380,973	¥377,687	¥(3,286)
(1) Notes and accounts payable—trade	¥188,069	¥188,069	¥ —
(2) Short-term loans payable	23,444	23,444	—
(3) Bonds payable	20,000	20,024	24
(4) Long-term loans payable	12,867	13,064	196
Total	¥244,380	¥244,601	¥ 221
Derivative transactions ^{(*)1}	¥ (624)	¥ (625)	¥ (1)

(*)1 Receivables and payables generated from derivative transactions are presented on a net basis, and net payables are presented in brackets.

Note 1: Method of calculation of market values of financial instruments and matters regarding securities and derivative transactions

Assets

(1) Cash and deposits

The carrying amount of the cash and deposits is approximate the market value because of its short-term in nature.

(2) Notes and accounts receivable—trade

Market value of notes and accounts receivable is calculated at present value obtained by discounting the amounts of receivables after categorizing each receivable by duration, by interest rate that reflects the duration to maturity and credit risk.

(3) Investment securities

Investment securities consist of shares, and their market value is based on prices on the exchanges they are listed or traded.

(4) Long-term loans receivable

Market value of long-term loans receivable is calculated at present value obtained by discounting future cash flows by interest rates, such as yields on government bonds/notes or other appropriate indices, plus credit spread.

Liabilities

(1) Notes and accounts payable—trade, and (2) Short-term loans payable

The carrying amounts of the notes and accounts payable—trade and short-term loans payable approximate the market values because of their short-term nature.

(3) Bonds payable

Market value of bonds issued by SHI is calculated at present value obtained by discounting total amount of principal and interest by interest rate that reflects the durations of those bonds to maturity and credit risk.

(4) Long-term loans payable

Market value of long-term loans payable is calculated at present value obtained by discounting total amount of principal and interest by interest rates assumed at the time of new similar borrowing.

Derivative transactions

Refer to notes to “Derivative transactions.”

Note 2: Carrying amounts of financial instruments on consolidated balance sheets that are not practicable to identify market value are shown as below.

Category	Millions of yen	
	March 31, 2018	March 31, 2019
Shares of subsidiaries and associates	¥3,458	¥3,810
Unlisted shares	2,458	2,462
Equity securities	5	5

Those financial instruments have not been included in “(3) Investment securities” because they have no active market price and it is not practicable to identify their market value.

Note 3: Amounts of financial assets expected to be redeemed after the end of year

March 31, 2018

	Millions of yen		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥ 88,233	¥ —	¥ —
Notes and accounts receivable—trade	261,365	7,956	87
Long-term loans receivable	26	4,435	6
Total	¥349,624	¥12,391	¥93

March 31, 2019

	Millions of yen		
	Within 1 year	Over 1 year but within 5 years	Over 5 years
Cash and deposits	¥ 73,589	¥ —	¥ —
Notes and accounts receivable—trade	282,781	8,666	130
Long-term loans receivable	9	3,799	5
Total	¥356,380	¥12,464	¥136

Note 4: Amounts of bonds payable and long-term loans payable to be repaid after the end of year

March 31, 2018

	Millions of yen					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Bonds payable	¥ —	¥10,000	¥ —	¥—	¥10,000	¥—
Long-term loans payable	7,801	598	164	—	2,102	—
Total	¥7,801	¥10,598	¥164	¥—	¥12,102	¥—

March 31, 2019

	Millions of yen					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Bonds payable	¥10,000	¥ —	¥ —	¥10,000	¥ —	¥ —
Long-term loans payable	1,956	2,814	178	4,400	2,900	621
Total	¥11,956	¥2,814	¥178	¥14,400	¥2,900	¥621

(Securities)

1 Available-for-sale securities

March 31, 2018

Category	Millions of yen		
	Carrying amount on the consolidated balance sheets	Acquisition cos	Difference
Securities for which carrying amount on the consolidated balance sheets is in excess of acquisition cost			
Shares		¥4,628	¥7,466
Securities for which carrying amount on the consolidated balance sheets is not in excess of acquisition cost			
Shares	2,228	2,415	(187)
Total	¥14,322	¥7,043	¥7,279

Note: Shares of subsidiaries and associates (carrying amount on the consolidated balance sheets: ¥3,458 million), unlisted shares (carrying amount on the consolidated balance sheets: ¥2,458 million) and equity securities (carrying amount on the consolidated balance sheets: ¥5 million) are not included in “Available-for-sale securities” in the table above, as those shares have no active market price and it is not practicable to identify their market value.

March 31, 2019

Category	Millions of yen		
	Carrying amount on the consolidated balance sheets	Acquisition cost	Difference
Securities for which carrying amount on the consolidated balance sheets is in excess of acquisition cost			
Shares	¥ 9,706	¥4,022	¥5,684
Securities for which carrying amount on the consolidated balance sheets is not in excess of acquisition cost			
Shares	2,287	2,815	(528)
Total	¥11,993	¥6,837	¥5,156

Note: Shares of subsidiaries and associates (carrying amount on the consolidated balance sheets: ¥3,810 million), unlisted shares (carrying amount on the consolidated balance sheets: ¥2,462 million) and equity securities (carrying amount on the consolidated balance sheets: ¥5 million) are not included in "Available-for-sale securities" in the table above, as those shares have no active market price and it is not practicable to identify their market value.

2 Available-for-sale securities sold during the year

For the year ended March 31, 2018

Type	Millions of yen		
	Amount sold	Total amount of selling profits	Total amount of selling losses
Shares	¥159	¥63	¥—

For the year ended March 31, 2019

Type	Millions of yen		
	Amount sold	Total amount of selling profits	Total amount of selling losses
Shares	¥407	¥216	¥—

(Derivative transactions)

1 Derivative transactions to which hedge accounting is not applied

Foreign currency-related transactions

March 31, 2018

Category	Type	Millions of yen			
		Contract amount	Over 1 year	Market value	Valuation gains (losses)
	Forward exchange contracts				
	Selling				
	USD	¥23,414	¥—	¥487	¥487
	EUR	6,035	—	124	124
	IDR	266	—	13	13
Off-market transactions	CNY	172	—	4	4
	GBP	157	—	(2)	(2)
	THB	104	—	(7)	(7)
	AUD	1	—	0	0
	Buying				
	USD	565	—	1	1
Total		¥30,714	¥—	¥620	¥620

Note: Method of calculation of market value
Forward exchange contracts: calculated using forward exchange rates.

March 31, 2019

Category	Type	Millions of yen			
		Contract amount	Over 1 year	Market value	Valuation gains (losses)
	Forward exchange contracts				
	Selling				
	USD	¥30,291	¥—	¥(184)	¥(184)
	EUR	3,751	—	28	28
Off-market transactions	CNY	772	—	(9)	(9)
	IDR	336	—	(20)	(20)
	THB	86	—	(1)	(1)
	GBP	50	—	(0)	(0)
	Buying				
	USD	796	—	(5)	(5)
Total		¥36,082	¥—	¥(190)	¥(190)

Note: Method of calculation of market value
Forward exchange contracts: calculated using forward exchange rates.

2 Derivative transactions to which hedge accounting is applied

(1) Foreign currency-related transactions

March 31, 2018

Method of hedge accounting	Type	Major hedged items	Millions of yen		
			Contract amount	Over 1 year	Market value
	Forward exchange contracts				
	Selling				
	USD	Accounts receivable—trade	¥32,520	¥14,417	¥1,522
	SEK		2,595	1,530	70
Basic accounting method	EUR		828	53	5
	Buying				
	USD		6,120	3,648	(137)
	SEK	Accounts payable—trade	1,410	—	(50)
	EUR		1,195	153	9
	CHF		127	—	(5)
	CNY		22	—	1
	Forward exchange contracts				
	Selling				
Allocation of forward exchange contracts	USD	Accounts receivable—trade	192	—	0
	EUR		4	—	(0)
	Buying				
	JPY	Accounts payable—trade	287	—	(1)
Total			¥45,300	¥19,801	¥1,413

Note: Method of calculation of market value
Forward exchange contracts: calculated using forward exchange rates.

March 31, 2019

Method of hedge accounting	Type	Major hedged items	Millions of yen		
			Contract amount	Over 1 year	Market value
Basic accounting method	Forward exchange contracts				
	Selling				
	USD	Accounts receivable—trade	¥32,770	¥11,913	¥(778)
	SEK		2,806	567	81
	EUR		747	—	20
	Buying				
	USD	Accounts payable—trade	7,818	3,463	277
	EUR		1,068	369	(21)
	PLN		1,036	—	(2)
	JPY		130	—	(6)
CNY	108		—	1	
Forward exchange contracts					
Selling					
USD	Accounts receivable—trade	47	—	(3)	
EUR		5	—	0	
Buying					
JPY	Accounts payable—trade	946	—	18	
Total			¥47,481	¥16,312	¥(413)

Note: Method of calculation of market value
Forward exchange contracts: calculated using forward exchange rates.

(2) Interest-related transactions

March 31, 2018

Method of hedge accounting	Type	Major hedged items	Millions of yen		
			Contract amount	Over 1 year	Market value
Simplified accounting treatment of interest swaps	Interest rate swap transactions payable at fixed rate and receivable at floating rate	Long-term loans payable	¥3,810	¥3,800	¥(13)
Total			¥3,810	¥3,800	¥(13)

Note: Method of calculation of market value
Swap transactions: calculated using the amounts presented by financial institutions with which the Company has a swap contract.

March 31, 2019

Method of hedge accounting	Type	Major hedged items	Millions of yen		
			Contract amount	Over 1 year	Market value
Simplified accounting treatment of interest swaps	Interest rate swap transactions payable at fixed rate and receivable at floating rate	Long-term loans payable	¥3,022	¥2,220	¥(22)
Total			¥3,022	¥2,220	¥(22)

Note: Method of calculation of market value
Swap transactions: calculated using the amounts presented by financial institutions with which the Company has a swap contract.

(Retirement Benefits)

1 Outline of the retirement benefit plans adopted

SHI and its major domestic consolidated subsidiaries have adopted a combination of the lump-sum retirement allowance plan and the defined contribution pension plan, while certain overseas consolidated subsidiaries have defined benefit-type plans.

A retirement benefit trust has been created for SHI's lump-sum retirement allowance plans.

Some consolidated subsidiaries with the lump-sum retirement allowance plans calculate net defined benefit liability and retirement benefit costs based on the simplified method.

2 Defined benefit plans (excluding the plans to which the simplified method is applied)

(1) Movements in retirement benefit obligations

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Balance at the beginning of the year	¥88,897	¥90,855
Service cost	3,354	3,651
Interest cost	1,250	973
Actuarial loss (gain)	870	(1,082)
Benefit paid	(4,038)	(3,784)
Increase due to change from the simplified method to the principle method	698	288
Increase due to merger	52	—
Decrease due to deconsolidation	(328)	—
Increase due to newly consolidated subsidiaries	—	566
Loss on settlement following buyout of pension plan	—	(4,932)
Others	101	(1,346)
Balance at the end of the year	¥90,855	¥85,189

(2) Movements in plan assets

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Balance at the beginning of the year	¥47,797	¥53,934
Expected return on plan assets	1,649	1,504
Actuarial loss (gain)	4,768	(5,784)
Contributions paid by the employer	1,467	1,256
Benefit paid	(1,219)	(1,122)
Loss on settlement following buyout of pension plan	—	(5,427)
Others	(529)	(562)
Balance at the end of the year	¥53,934	¥43,800

(3) Reconciliations from retirement benefit obligations and plan assets to net defined benefit liability (asset)

	Millions of yen	
	March 31, 2018	March 31, 2019
Funded retirement benefit obligations	¥ 66,698	¥ 60,198
Plan assets	(53,934)	(43,800)
	12,764	16,398
Unfunded retirement benefit obligations	24,158	24,992
Total net defined benefit liability	¥ 36,921	¥ 41,390
Defined benefit asset	¥ (12)	¥ (1,181)
Defined benefit liability	36,934	42,571
Total net defined benefit liability	¥ 36,921	¥ 41,390

(4) Retirement benefit expenses

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Service cost	¥ 3,354	¥ 3,651
Interest cost	1,250	973
Expected return on plan assets	(1,649)	(1,504)
Net actuarial loss amortization	187	1,483
Past service costs amortization	78	143
Increase due to transition from the simplified method to the principle method	—	162
Others	46	29
Total retirement benefit expenses	¥ 3,266	¥ 4,938

(5) Remeasurements of defined benefit plans

Items recognized in remeasurements of defined benefit plans (before tax effect) are as follows.

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Past service costs	¥ (110)	¥ 58
Actuarial gains and losses	4,140	(3,218)
Loss on settlement following buyout of pension plan	—	2,105
Others	203	58
Total	¥4,233	¥ (998)

(6) Remeasurements of defined benefit plans

Items recognized in accumulated remeasurements of defined benefit plans (before tax effect) are as follows.

	Millions of yen	
	March 31, 2018	March 31, 2019
Past service costs that are yet to be recognized	¥ (120)	¥ (118)
Actuarial gains and losses that are yet to be recognized	(5,000)	(6,008)
Total	¥(5,120)	¥(6,126)

(7) Plan assets

(i) Major components of plan assets

Percentages by major category of total plan assets is as follows.

	%	
	March 31, 2018	March 31, 2019
Shares	67	79
Cash and deposits	1	7
Others	31	14
Total	100	100

Note: Total plan assets include the retirement benefit trust created for SHI's lump-sum retirement allowance plan. The retirement benefit trust included as a percentage of total plan assets is 51% (¥27,605 million) at the end of the previous year and 54% (¥23,835 million) at the end of the current year.

(ii) Method of setting a long-term expected rate of return on plan assets

In order to determine a long-term expected rate of return on plan assets, present and predicted allocation of plan assets, and present and expected long-term rate of return on various assets comprising plan assets are considered.

(8) The basis of actuarial assumptions

Basis for major actuarial assumptions

	%	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Discount rate	0.0 to 5.4	0.0 to 7.8
Long-term expected rate of return on plan assets	0.0 to 8.0	0.0 to 8.0

3 Defined benefit plans to which the simplified method is applied**(1) Movements in net defined benefit liability**

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Balance at the beginning of the year	¥3,733	¥3,514
Decrease due to change from the simplified method to the principle method	(327)	(126)
Retirement benefit expenses	637	557
Benefit paid	(458)	(397)
Contributions paid by the employer	(70)	(69)
Balance at the end of the year	¥3,514	¥3,479

(2) Reconciliations from retirement benefit obligations and plan assets to net defined benefit liability

	Millions of yen	
	March 31, 2018	March 31, 2019
Funded retirement benefit obligations	¥ 879	¥ 912
Plan assets	(897)	(944)
	(18)	(32)
Unfunded retirement benefit obligations	3,532	3,511
Total net defined benefit liability	¥3,514	¥3,479
Defined benefit asset	¥ (18)	¥ (32)
Defined benefit liability	3,532	3,511
Total net defined benefit liability	¥3,514	¥3,479

(3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method: ¥637 million for the previous year
¥557 million for the current year

4 Defined contribution plans

The amounts required to be contributed to the defined contribution plans of the Company are ¥855 million for the previous year, and ¥873 million for the current year.

(Tax Effect Accounting)**1 Major components of deferred tax assets and deferred tax liabilities**

	Millions of yen	
	March 31, 2018	March 31, 2019
Deferred tax assets		
Accrued bonuses	¥ 3,364	¥ 3,664
Amount exceeding the limit on deductible allowance for doubtful accounts	1,155	1,252
Provision for construction warranties	2,729	3,473
Defined benefit liability	13,523	14,416
Unrealized profit on inventories	1,893	1,934
Loss on valuation of investment securities	1,698	1,336
Excess of depreciation	1,296	1,561
Tax loss carryforward	5,205	4,821
Loss on valuation of inventories	2,353	2,615
Impairment loss	2,263	2,199
Provision for loss on construction contracts	1,766	1,942
Others	5,998	7,656
Subtotal	43,244	46,868
Valuation allowance for tax loss carryforward (Note 2)	—	(3,069)
Valuation allowance for deductible temporary differences	—	(6,865)
Subtotal of valuation allowance (Note 1)	(10,473)	(9,934)
Total	32,771	36,933
Deferred tax liabilities		
Reserve for reduction entry	(31)	(29)
Unrealized gains on full market value valuation of consolidated subsidiaries	(2,850)	(2,850)
Extra depreciation in overseas subsidiaries	(2,580)	(2,856)
Retained earnings of overseas subsidiaries	(3,381)	(4,116)
Intangible assets identified by business combinations	(3,081)	(4,848)
Valuation difference on available-for-sale securities	(1,892)	(1,274)
Deferred gains or losses on hedges	(415)	—
Others	(492)	(1,005)
Total	(14,723)	(16,978)
Net deferred tax assets	¥ 18,048	¥ 19,955

Notes: 1 There is no material change in the valuation allowance.

2 Tax loss carryforward and its deferred tax assets by expiration periods

March 31, 2019

	Millions of yen						
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years	Total
Tax loss carryforward (a)	¥126	¥90	¥ 450	¥110	¥ 120	¥ 3,924	¥ 4,821
Valuation allowance	—	—	(316)	(34)	(120)	(2,599)	(3,069)
Deferred tax assets	¥126	¥90	¥ 134	¥ 76	¥ —	¥ 1,325	(b) ¥ 1,752

(a) Tax loss carryforward shown in the above table is after multiplying the statutory tax rate.

(b) The Company recognizes deferred tax assets of ¥1,752 million in relation to tax loss carryforward of ¥4,821 million (amount multiplied by the statutory tax rate). These deferred tax assets were recognized mainly for tax loss carryforward at SHI's consolidated subsidiaries. Tax loss carryforward which resulted in the recognition of such deferred tax assets were generated from previously recognized loss before income taxes; however, valuation allowance was not recognized for the portions that were determined to be recoverable based on expected future taxable income and other factors.

2 SHI and its consolidated domestic companies are subject to corporate, inhabitants' and enterprise taxes, which, in the aggregate show a statutory tax rate in Japan of approximately 30.9% and 30.6% for the years ended March 31, 2018 and 2019, respectively. Major items causing the differences between the statutory effective tax rate and the effective income tax rate after application of tax effect accounting are as follows.

	March 31, 2018	March 31, 2019
Statutory effective tax rates	30.9	30.6
(adjustments)		
Items not deductible permanently, such as entertainment expenses	0.6	0.6
Inhabitant tax on a per capita basis	0.5	0.4
Items not taxable permanently, such as dividend income	0.3	(0.1)
Valuation allowance	3.8	(0.8)
Tax credit	(2.5)	(2.7)
Share of profit of entities accounted for using equity method	(0.3)	(0.0)
Retained earnings of overseas subsidiaries	1.2	1.1
Tax rate differences of overseas subsidiaries	(7.0)	(4.3)
Amortization of goodwill	0.8	1.0
Impairment loss on goodwill	—	1.2
Others	0.6	0.5
Effective income tax rates after application of tax effect accounting	28.9	27.5

(Business Combination)**Business combination through acquisition**

The Board of Directors of SHI adopted the resolution for acquisition of shares in Lafert S.p.A, an Italian manufacturer and distributor of industrial motors ("Lafert") and its holding company at its meeting held on May 25, 2018, and SHI entered into the share transfer agreement on the same day. The share transfer was completed on June 25, 2018.

(1) Outline of the acquisition

(Lafert S.p.A.)

(i) Name and nature of business of the acquired company

Name of the acquired company: Lafert S.p.A.

Nature of business: Manufacture, sale and distribution of motors and motion control devices

(ii) Main reason for the business combination

To expand product portfolios of the Company and offer comprehensive solutions to broader customer bases through a combination of gear products of the Company and various motors and driver products of Lafert.

(iii) Business combination date

June 25, 2018

(iv) Legal form of business combination

Acquisition of shares

(v) Company name after the business combination

Lafert S.p.A.

(vi) Percentage of the voting rights acquired

Percentage of voting rights held shortly before the business combination: —%

Percentage of voting rights acquired on the business combination date: 100.0%

Percentage of voting rights after acquisition: 100.0%

(vii) Major grounds leading to the selection of the acquiring entity

Due to the fact that SHI acquired the shares in cash.

(9FIN S.r.l.)

(i) Name and nature of business of the acquired company

Name of the acquired company: 9FIN S.r.l.

Nature of business: Shareholding company

(ii) Main reason for the business combination

To expand product portfolios of the Company and offer comprehensive solutions to broader customer bases through a combination of gear products of the Company and various motors and driver products of Lafert.

(iii) Business combination date

June 25, 2018

(iv) Legal form of business combination

Acquisition of shares

(v) Company name after the business combination

9FIN S.r.l.

(vi) Percentage of the voting rights acquired

Percentage of voting rights held shortly before the business combination: —%

Percentage of voting rights acquired on the business combination date: 100.0%

Percentage of voting rights after acquisition: 100.0%

(vii) Major grounds leading to the selection of the acquiring entity

Due to the fact that SHI acquired the shares in cash.

(3FIN S.r.l.)

(i) Name and nature of business of the acquired company

Name of the acquired company: 3FIN S.r.l.

Nature of business: Shareholding company

(ii) Main reason for the business combination

To expand product portfolios of the Company and offer comprehensive solutions to broader customer bases through a combination of gear products of the Company and various motors and driver products of Lafert.

(iii) Business combination date

June 25, 2018

(iv) Legal form of business combination

Acquisition of shares

(v) Company name after the business combination

3FIN S.r.l.

(vi) Percentage of the voting rights acquired

Percentage of voting rights held shortly before the business combination: —%

Percentage of voting rights acquired on the business combination date: 100.0%

Percentage of voting rights after acquisition: 100.0%

(vii) Major grounds leading to the selection of the acquiring entity

Due to the fact that SHI acquired the shares in cash.

(2) Financial performance period of the acquired company included in the consolidated financial statements

From April 1, 2018 to December 31, 2018

(3) Acquisition cost of the acquired company and breakdown by kind of consideration

	Millions of yen
Consideration for acquisition: Cash	¥21,356
Acquisition cost:	21,356

(4) Details and amount of major acquisition-related expenses

Advisory fees and other: ¥413 million

(5) Amount of goodwill generated, cause of generation, and method and period of amortization

(i) Amount of goodwill generated

¥12,107 million

(ii) Cause of generation

Generated because the acquisition cost exceeded the net amount of assets acquired and liabilities assumed.

(iii) Method and period of amortization

To be amortized equally over 16 years

(6) Amounts and major components of assets acquired and liabilities assumed on the date of acquisition

	Millions of yen
Current assets	¥12,571
Non-current assets	11,727
Total assets	¥24,297
Current liabilities	¥10,245
Non-current liabilities	4,369
Total liabilities	¥14,614

(7) Amount allocated to intangible assets other than goodwill and component by major type, and weighted average amortization period

Type	Amount (Millions of yen)	Weighted average amortization period (Years)
Customer relationships	¥5,504	16
Technical assets	2,301	16
Total	¥7,805	—

(8) Details of contingent consideration for acquisition set forth in the business consolidation contracts and the accounting policy for the current and subsequent years

SHI will make additional payments depending on the future level of financial performance of the acquired companies. For increase in goodwill resulting from the payment of contingent consideration for the acquisition, the total consideration is adjusted as if the contingent consideration was paid at the time of the acquisition of the equities to adjust the amount of goodwill and goodwill amortization.

(9) If the business combination had been completed at the beginning of the current year, the estimated financial effects on the consolidated statements of income for the current year would have been as follows.

	Millions of yen
Sales	¥5,872
Operating profit	240
Ordinary profit	223
Profit before income taxes	223
Profit attributable to owners of parent	105

Method of calculating estimated financial effects

The estimated financial effects are the differences between net sales and profit/loss information calculated assuming that the business combination has been completed at the beginning of the current year, and net sales and profit/loss information in SHI's consolidated statements of income. The amount of amortization is calculated assuming that goodwill is recognized at the beginning of the current year.

This note is unaudited.

Transactions between the entities under the common control

Additional acquisition of shares in the subsidiary

(1) Outline of the transaction

(i) Name and nature of business of the combined company

Name of the combined company: Sumitomo Heavy Industries Material Handling Systems Co., Ltd.

Nature of business: Industrial crane business

(ii) Business combination date

October 1, 2018

(iii) Legal form of business combination

Acquisition of shares from non-controlling interests

(iv) Company name after the business combination

No change.

(v) Other matters relating to the outline of the transaction

The voting ratio of shares additionally acquired by SHI was 17.2%, and SHI made Sumitomo Heavy Industries Material Handling Systems Co., Ltd. its fully owned subsidiary through the transaction. The purpose of such additional acquisition was to maximize revenues from the industrial crane business, aiming at further business growth.

(2) Outline of the accounting adopted

SHI accounted for such additional acquisition as the transaction with the non-controlling interests, considering as a transaction under the common control based on the "Accounting Standards for Business Combinations" and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

(3) Matters to be referred to for additional acquisition of shares in the subsidiary

Acquisition cost of shares and breakdown by kind of consideration

	Millions of yen
Consideration for acquisition: Cash	¥5,023
Acquisition cost:	5,023

(4) Matters relating to change in ownership interest of parent due to transactions with non-controlling interests

(i) Major causes for changes in capital surplus

Additional acquisition of shares in the subsidiary

(ii) Amount of capital surplus increased due to transaction with non-controlling interests

¥611 million

(Asset Retirement Obligations)

No further disclosure is made as those obligations are immaterial in terms of amount.

(Segment Information)

[Segment Information]

1 Summary of reporting segments

(1) Method for determining reporting segments

The reporting segments of the Company are based on the business units for which financial information is separately available and are periodically reviewed by the Board of Directors to determine the allocation of management resources and assess their operating performance.

(2) Type of finished goods and services belonging to each reporting segment

The Company formulates domestic and global comprehensive strategies for its products and services handled by the head office and each consolidated subsidiary and develops business activities. Thus, the reporting segments consist of the following six segments for each of the products and services handled by the head office and each consolidated subsidiary: "Machinery Components," "Precision Machinery," "Construction Machinery," "Industrial Machinery," "Ships," and "Environmental Facilities & Plants."

Businesses	Main finished goods
Machinery Components	Power transmission and control equipment
Precision Machinery	Plastics machinery, film forming machines, semiconductor production equipment, laser processing systems, cryogenic equipment, precision positioning equipment, precision forgings, control components, defense equipment, machine tools
Construction Machinery	Hydraulic excavators, mobile cranes, road machinery
Industrial Machinery	Ion accelerators, medical machines and equipment, forging press machines, material handling systems, logistics systems, automated parking systems, turbines, pumps
Ships	Ships
Environmental Facilities & Plants	Private power generation facilities, boilers, industrial waste treatment facilities, air pollution control equipment, water and sewage treatment systems, process equipment, pressure vessels, mixing vessels, air-conditioning equipment, food processing machinery

2 Method of calculating net sales, profits or losses, assets and other items of each reporting segment

Method of accounting treatment of the business segments reported is almost identical to the descriptions in "Notes to the Consolidated Financial Statements."

Internal sales and transfers among the segments are based on market prices in effect.

3 Information on the amounts of sales, profits or losses, assets and other items by reporting segment

For the year ended March 31, 2018

	Reporting Segments									Adjustments (Note 2)	Carrying amount on the consolidated financial statements (Note 3)
	Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Ships	Environmental Facilities & Plants	Total	Others (Note 1)	Total		
Sales											
Sales to external customers	¥109,396	¥169,405	¥260,457	¥83,790	¥38,291	¥121,885	¥783,224	¥ 7,801	¥791,025	¥ —	¥791,025
Inter-segment sales	2,040	478	44	1,417	8	2,060	6,047	3,771	9,817	(9,817)	—
Total	111,436	169,883	260,501	85,207	38,299	123,945	789,271	11,572	800,843	(9,817)	791,025
Segment profit	11,847	19,462	17,448	8,810	742	9,531	67,840	2,067	69,907	14	69,921
Segment assets	123,909	187,158	235,905	75,957	61,147	133,730	817,806	50,632	868,437	26,398	894,835
Other categories											
Depreciation	4,228	4,529	9,428	1,718	810	1,727	22,439	564	23,003	—	23,003
Amortization of goodwill	—	417	414	111	—	335	1,277	—	1,277	—	1,277
Investments to companies accounting for using the equity method	—	2,386	—	—	—	—	2,386	—	2,386	—	2,386
Increase in tangible and intangible assets	5,555	10,973	9,400	4,095	1,772	31,635	63,430	862	64,292	—	64,292

Notes: 1 "Others" is the business segment which is not included in the reporting segments, and contains real estate business, software-related business and other businesses.

2 Adjustments are as follows.

(1) Adjustments of segment profit (¥14 million) include inter-segment eliminations of ¥14 million.

(2) Adjustments of segment assets (¥26,398 million) include assets of ¥26,398 million relating to surplus investment funds (cash and deposits) and long-term investment funds (investment securities) of SHI.

3 Segment profits have been adjusted to operating profit in the consolidated statements of income.

For the year ended March 31, 2019

	Reporting Segments									Adjustments (Note 2)	Carrying amount on the consolidated financial statements (Note 3)
	Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Ships	Environmental Facilities & Plants	Total	Others (Note 1)	Total		
Sales											
Sales to external customers	¥133,426	¥185,688	¥290,472	¥93,737	¥41,443	¥150,951	¥895,716	¥ 7,335	¥903,051	¥ —	¥903,051
Inter-segment sales	2,191	318	8	1,651	8	882	5,058	3,642	8,700	(8,700)	—
Total	135,617	186,006	290,480	95,387	41,451	151,832	900,774	10,976	911,750	(8,700)	903,051
Segment profit	11,069	17,682	21,957	8,955	830	12,565	73,058	2,180	75,238	6	75,244
Segment assets	165,368	195,393	245,701	73,346	68,081	134,094	881,984	47,627	929,611	24,440	954,051
Other categories											
Depreciation	5,603	5,395	9,442	1,744	1,149	2,083	25,416	559	25,975	—	25,975
Amortization of goodwill	664	537	414	122	—	460	2,197	—	2,197	—	2,197
Investments to companies accounting for using the equity method	204	2,351	—	—	—	—	2,555	—	2,555	—	2,555
Increase in tangible and intangible assets	29,167	8,588	7,564	2,446	3,726	3,494	54,985	1,220	56,205	—	56,205

Notes: 1 "Others" is the business segment which is not included in the reporting segments, and contains real estate business, software-related business and other businesses.

2 Adjustments are as follows.

(1) Adjustments of segment profit (¥6 million) include inter-segment eliminations of ¥6 million.

(2) Adjustments of segment assets (¥24,440 million) include assets of ¥24,440 million relating to surplus investment funds (cash and deposits) and long-term investment funds (investment securities) of SHI.

3 Segment profits have been adjusted to operating profit in the consolidated statements of income.

[Related Information]

For the year ended March 31, 2018

1 Information by finished goods and services

No further disclosure is made because the finished goods and services categories are identical to those in the reporting segments.

2 Information by region

(1) Sales

					Millions of yen
Japan	United States	China	Others	Total	
¥365,524	¥119,607	¥80,446	¥225,448	¥791,025	

Note: Sales are based on the locations of customers and are divided into countries or regions.

(2) Property, plant and equipment

			Millions of yen
Japan	Others	Total	
¥183,019	¥56,577	¥239,596	

3 Information by major customer

There is no description because the Company has no single external customer that accounts for at least 10% of net sales in the consolidated statements of income.

For the year ended March 31, 2019

1 Information by finished goods and services

No further disclosure is made because the finished goods and services categories are identical to those in the reporting segments.

2 Information by region

(1) Sales

					Millions of yen
Japan	United States	China	Others	Total	
¥390,469	¥142,509	¥99,445	¥270,628	¥903,051	

Note: Sales are based on the locations of customers and are divided into countries or regions.

(2) Property, plant and equipment

			Millions of yen
Japan	Others	Total	
¥187,382	¥60,894	¥248,276	

3 Information by major customer

There is no description because the Company has no single external customer that accounts for at least 10% of net sales in the Consolidated Statements of Income.

[Information on Impairment Loss of Non-current Assets by Reporting Segment]

For the year ended March 31, 2018

	Reporting segments									Total
	Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Ships	Environmental Facilities & Plants	Total	Others	Corporate/ Eliminations (Note)	
Total	¥—	¥—	¥—	¥289	¥—	¥—	¥289	¥—	¥5	¥294

Note: All the amounts of corporate/eliminations relate to idle assets, such as residential land or corporate assets.

For the year ended March 31, 2019

	Reporting segments									Total
	Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Ships	Environmental Facilities & Plants	Total	Others	Corporate/ Eliminations (Note)	
Total	¥—	¥2,946	¥—	¥265	¥—	¥—	¥3,211	¥—	¥238	¥3,448

Note: All the amounts of corporate/eliminations relate to idle assets, such as residential land or corporate assets.

[Amortization and Unamortized Balance of Goodwill by Reporting Segment]

For the year ended March 31, 2018

	Reporting segments									Total
	Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Ships	Environmental Facilities & Plants	Total	Others	Corporate/ Eliminations	
Amortization during the year	¥—	¥ 417	¥414	¥111	¥—	¥ 335	¥ 1,277	¥—	¥—	¥ 1,277
Balance at the end of the year	—	3,518	829	277	—	13,406	18,030	—	—	18,030

For the year ended March 31, 2019

	Reporting segments									Total
	Machinery Components	Precision Machinery	Construction Machinery	Industrial Machinery	Ships	Environmental Facilities & Plants	Total	Others	Corporate/ Eliminations	
Amortization during the year	¥ 664	¥537	¥414	¥122	¥—	¥ 460	¥ 2,197	¥—	¥—	¥ 2,197
Balance at the end of the year	11,212	256	414	200	—	11,967	24,049	—	—	24,049

[Information on Gain on Negative Goodwill by Reporting Segment]

Not applicable.

[Information on Related Parties]

Not applicable.

(Per-share information)

	Yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Net assets per share	¥3,517.33	¥3,701.01
Earnings per share	282.83	372.56

Notes: 1 There is no disclosure for diluted earnings per share information after adjustments of dilutive potential shares, because there are no dilutive potential shares.
 2 The share consolidation of five shares of common share into one share was effective on October 1, 2017. Net assets per share and earnings per share are calculated assuming that such share consolidation had been executed at the beginning of the previous year.
 3 Basis for calculation of earnings per share is presented below.

	Millions of yen	
	For the year ended March 31, 2018	For the year ended March 31, 2019
Profit attributable to owners of parent	¥ 34,660	¥ 45,650
Value not attributable to common shareholders	—	—
Profit attributable to common shareholders of parent	34,660	45,650
Average number of outstanding shares for the term (in thousand shares)	122,547	122,530

(Significant Subsequent Events)

On July 24, 2019, SHI issued the following unsecured bonds and received the proceeds on the same date.

(1) Name

Sumitomo Heavy Industries Limited Series 5 Unsecured Bond (with Inter-Bond Pari Passu Clause)

(2) Total issuance amount

¥10,000 million

(3) Issuance price

¥100 per ¥100 of face value

(4) Interest rate

0.130% per annum

(5) Redemption value

¥100 per ¥100 of face value

(6) Redemption period and repayment method

July 24, 2024 (bullet maturity amortization)

(7) Purpose of loan

Planned to be allocated as a part of funds for purchasing equipment by March 2020

(Consolidated Supplementary Schedules)**[Bonds Schedule]**

Company name	Name of issue	Issue date	Millions of yen		Interest rate (%)	Security	Redemption date
			Balance at the beginning of the current period	Balance at the end of the current period			
Sumitomo Heavy Industries, Ltd.	3rd unsecured bonds	October 28, 2014	¥10,000	¥10,000 [10,000]	0.26	Unsecured	October 28, 2019
Sumitomo Heavy Industries, Ltd.	4th unsecured bonds	March 15, 2018	10,000	10,000	0.17	Unsecured	March 15, 2023
Total	—	—	¥20,000	¥20,000 [10,000]	—	—	—

Notes: 1 The figures in [] of the Balance at the end of the current period represents the amounts redeemable due within 1 year.
2 Annualized amounts to be redeemed within five years after the end of the current year are as follows.

Millions of yen				
Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years
¥10,000	¥—	¥—	¥10,000	¥—

[Loans Schedule]

Category	Millions of yen		Average interest rate (%)	Repayment date
	Balance at the beginning of the current period	Balance at the end of the current period		
Short-term loans payable	¥33,516	¥23,444	2.49	—
Current portion of long-term loans payable	7,801	1,956	3.98	—
Lease obligations due within 1 year	3,169	2,105	—	—
Long-term loans payable (excluding long-term debt due within 1 year)	2,864	10,912	0.87	From January 13, 2020 to October 31, 2029
Lease obligations (excluding lease obligations due within 1 year)	8,038	7,108	—	—
Total	¥55,388	¥45,524	—	—

Notes: 1 For "Average interest rate," weighted average interest rate to the balance at the end of the year of loan is presented.
2 The table below is the maturity profile of long-term loans payable and lease obligation at the end of the current year that are due after one year.

Millions of yen				
Category	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years
Long-term loans payable	¥2,814	¥ 178	¥4,400	¥2,900
Lease obligations (long-term)	3,758	1,547	828	605

3 No interest rate information is available because lease obligations are measured by including interest expenses, except for certain consolidated subsidiaries.

[Asset Retirement Obligations Schedule]

No further disclosure has been made because the amount of asset retirement obligations was 1% or less than the total balance of the liabilities and the net assets at the beginning of the current consolidated fiscal year and at the end of the current consolidated fiscal year, respectively.

**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, 2019 and 2018, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of 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 misstatement, 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 judgment, 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, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

KPMG AZSA LLC
September 26, 2019
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Major Subsidiaries and Affiliates (As of June 30, 2019)

Machinery Components Segment

Power Transmission & Controls	<p>Sumitomo Heavy Industries PTC Sales Co., Ltd. Sumitomo Heavy Industries Gearbox Co., Ltd. Sumitomo Heavy Industries Gearmotors Co., Ltd. SUMITOMO MACHINERY CORPORATION OF AMERICA SM Cyclo de Mexico S.A. de C.V. SM Cyclo Redutores do Brasil Com. Ltda. SM Cyclo de Chile, Ltda. SM-Cyclo de Argentina S.A. SM-Cyclo de Colombia Ltda. SM Cyclo de Guatemala Ensambladora, Limitada SM CYCLO OF CANADA, LTD. SM Cyclo de Peru S.A.C Sumitomo Industrias Pesadas do Brasil Ltda. Sumitomo (SHI) Cyclo Drive Germany GmbH SM-Cyclo France S.A.S. SM-Cyclo UK Ltd. SM-Cyclo Italy Srl SM-Cyclo Iberia, S.L. SM-Cyclo Turkey Ltd. Sti. Sumi-Cyclo Drive India Private Limited Hansen Industrial Transmissions NV Sociedad Industrial de Transmisiones S.A. Lafert S.p.A. Lafert GmbH Lafert Electric Motors Ltd. Lafert Moteurs S.A.S. ICME S.p.A. Lafert (Suzhou) Co., Ltd. Lafert Elektromotorji D.o.o. Lafert Servo Motors S.p.A. Lafert Servo Drives S.r.l. Sumitomo (SHI) Cyclo Drive Korea, Ltd. Sumitomo (SHI) Cyclo Drive China, Ltd. SM-Cyclo of Hong Kong Co., Ltd. Sumitomo (SHI) Cyclo Drive Logistics, Ltd. Sumitomo Heavy Industries (Tangshan), Ltd. Sumitomo (SHI) Cyclo Drive Asia Pacific Pte. Ltd. SM-CYCLO (Malaysia) SDN. BHD. SM-CYCLO (Thailand) CO., LTD. Sumitomo (SHI) Hansen Australia Pty. Ltd. PT SM-Cyclo Indonesia SM-Cyclo (Vietnam) Co., Ltd. Sumitomo Heavy Industries (Vietnam) Co., Ltd.</p>
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Precision Machinery Segment

Plastics Machinery	<p>Sumiju Platec Co., Ltd. Sumiju Logitech Co., Ltd. Sumitomo Heavy Industries Modern, Ltd. Izumi Seiki Co., Ltd. SUMITOMO (SHI) DEMAG PLASTICS MACHINERY NORTH AMERICA, INC. Sumitomo (SHI) Demag Plastics Machinery GmbH Sumitomo (SHI) Demag Plastics Machinery (Italia) S.r.l. Sumitomo (SHI) Demag Plastics Machinery (France) S.A.S. Sumitomo (SHI) Demag Plastics Machinery (UK) Ltd. Demag Plastics Machinery (Ningbo) Co., Ltd. Sumitomo (SHI) Demag do Brasil Comercio de Maquinas para Plasticos Ltda Sumitomo (SHI) Demag Plastics Machinery Sp. z.o.o. JSC Sumitomo (SHI) Demag Plastics Machinery Sumitomo (SHI) Demag Plastics Machinery Hungaria Kft.</p>
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Sumitomo (SHI) Demag Plastics Machinery Espana S.L.
Ningbo Sumiju Machinery, Ltd.
SHI PLASTICS MACHINERY (SHANGHAI) CO., LTD.
SHI PLASTICS MACHINERY (HONG KONG) LTD.
S.H.I. Plastics Machinery (S) Pte. Ltd.

Cryogenic Equipment	<p>Sumitomo (SHI) Cryogenics of America, Inc. Sumitomo (SHI) Cryogenics of Europe GmbH SUMITOMO (SHI) CRYOGENICS OF EUROPE, LTD. SUMITOMO (SHI) CRYOGENICS SHANGHAI, LTD. SHI MANUFACTURING & SERVICES (PHILIPPINES), INC.</p>
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Precision Equipment and Components	<p>Sumitomo Heavy Industries Himatex Co., Ltd. SUMIJU BUSINESS, LTD. Sumiju Precision Forging Co., Ltd. Persimmon Technologies Corporation</p>
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Semiconductor Equipment	<p>Sumitomo Heavy Industries Ion Technology Co., Ltd. SENSE Co., Ltd.</p>
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Machine Tools	<p>Sumitomo Heavy Industries Finetech, Ltd.</p>
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Defense Equipment	<p>Sumiju Tokki Service Co., Ltd.</p>
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Construction Machinery Segment

Hydraulic Excavators and Road Machinery	<p>Sumitomo Construction Machinery Sales Co., Ltd. Sumitomo Construction Machinery Co., Ltd. Kenki Engineering Chiba Co., Ltd. Kenki Support Chiba Co., Ltd. Parks Koushinetsu Co., Ltd. Esukei Ishisho Co., Ltd. Osaka Sumijukenki Co., Ltd. SCM (AMERICA), INC. LBX Company, LLC LBX do Brasil Comercio de Equipmentos Industriais Ltda LBX International LLC Sumiju SCE (Xiamen) Construction Machinery Co., Ltd. Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd. Sumitomo Heavy Industries (China) Financial Leasing, Ltd. PT SUMITOMO S.H.I. CONSTRUCTION MACHINERY INDONESIA PT SUMITOMO S.H.I. CONSTRUCTION MACHINERY SOUTHEAST ASIA SCMSEA (Thailand) Co., Ltd.</p>
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Mobile Cranes	<p>Sumitomo Heavy Industries Construction Cranes Co., Ltd. LBCE Holdings, Inc. Link-Belt Cranes, L.P., LLLP LBCE Services, Inc. TRIAD MACHINERY, INC.</p>
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Industrial Machinery Segment

Material Handling Systems	<p>Sumitomo Heavy Industries Material Handling Systems Co., Ltd. Sumimec Engineering Inc.</p>
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Turbines and Pumps	<p>Shin Nippon Machinery Co., Ltd. Shin Nichizo Engineering Co., Ltd.</p>
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Quantum Equipment and Cyclotron Accelerators	<p>SHI-ATEX Co., Ltd. SHI Accelerator Service Ltd.</p>
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Major Subsidiaries and Affiliates

Ships Segment

Ships	Sumitomo Heavy Industries Marine & Engineering Co., Ltd. Sumiju Yokosuka Kogyo Co., Ltd.
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Environmental Facilities & Plants Segment

Energy-Related and Environmental Protection Systems	Sumiju Environmental Technologies, Ltd. Sumiju Plant Engineering Co., Ltd. Sumitomo SHI FW Energie B.V. Sumitomo SHI FW Energia Polska Sp. z.o.o. Sumitomo SHI FW Energia Oy SHI FW FAKOP Sp. z.o.o. Sumitomo SHI FW International Trading (Shanghai) Co., Ltd. Sumitomo SHI FW Energy Management (Shanghai) Co., Ltd. Sumitomo SHI FW Power Group Asia Ltd. FW Europe B.V. Sumitomo SHI FW Energy North America Corporation Sumitomo SHI FW Energie GmbH Sumitomo SHI FW Energia Aktiebolag Sumitomo SHI FW Power Vietnam Ltd. OOO Foster Wheeler Energia Graf-Wulff US Corp. Sumitomo SHI FW Service (Thailand) Ltd. Sumitomo SHI FW Brasil Gerenciamento e Gestão Empresarial Ltda. Sumitomo SHI FW Turkey Enerji Ekipman Hizmetleri Anonim Irketi Sumitomo SHI FW Power Service Philippine Corporation Amec Foster Wheeler Power Machinery Co., Ltd.
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Water Treatment Systems	Sumitomo Heavy Industries Environment Co., Ltd. SHI Airport System Co., Ltd.
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Pressure Vessels, Chemical Processing Equipment and Plants	Sumitomo Heavy Industries Process Equipment Co., Ltd.
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Food Processing Machinery	Izumi Food Machinery Co., Ltd.
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Industrial and Environment Equipment	Nihon Spindle Manufacturing Co., Ltd. SFK Co., LTD. Dalian Spindle Environmental Facilities Co., Ltd. NIHON SPINDLE COOLING TOWERS SDN. BHD.
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Others

Others	Lightwell Co., Ltd. Izumi Support Corporation Sumitomo Heavy Industries Business Associates, Ltd. SUMITOMO HEAVY INDUSTRIES (USA), INC. Sumitomo Heavy Industries (China), Ltd.
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[Equity-method affiliates]

Precision Machinery Segment

Forklift Trucks	Sumitomo NACCO Forklift Co., Ltd. Three other companies
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History

1888	The Company was launched as a machinery production and repair shop for the Besshi Copper Mine	2002	Split the Company's Paper Manufacturing Machinery and Press Machine Divisions and established Sumitomo Heavy Industries Techno-Fort Co., Ltd. Establishment of Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (currently, Sumitomo Heavy Industries Construction Cranes Co., Ltd.) jointly with Hitachi Construction Machinery Co., Ltd.
1897	Incorporated as Uruga Dock Co., Ltd.	2003	Acquired 100% ownership of Shin Nippon Machinery Co., Ltd. after a stock swap Split the Shipbuilding Division and subsequently established Sumitomo Heavy Industries Marine & Engineering Co., Ltd. Merged the film processing equipment business and Sumitomo Heavy Industries Modern Machinery, Ltd. to form Sumitomo Heavy Industries Modern, Ltd.
1928	Name changed to Sumitomo Besshi Copper Mine, Ltd.—Niihama Works	2004	Established Sumitomo Heavy Industries (Shanghai), Limited (currently known as Sumitomo Heavy Industries (Shanghai) Management, Ltd.)
1934	Incorporated as Sumitomo Machinery Co., Ltd.	2006	Acquired 100% ownership of SEISA Gear, Ltd. (currently, Sumitomo Heavy Industries Gearbox Co., Ltd.)
1940	Name changed to Sumitomo Machinery Industries Co., Ltd.	2007	Established Sumitomo Heavy Industries Environment Co., Ltd. Made Nihon Spindle Mfg. Co., Ltd. a subsidiary Established Sumitomo Heavy Industries (Tangshan), Ltd. Established Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.
1945	Name changed to Shikoku Machinery Industries Co., Ltd.	2008	Acquired 100% ownership of Demag Plastics Group (currently, Sumitomo (SHI) Demag Plastics Machinery GmbH)
1949	Listing of company stock on both the Tokyo and Osaka Stock Exchanges	2009	Made SEN-SHI and Axcelis Company, a joint venture between SHI and Axcelis Company, a wholly owned subsidiary (currently known as Sumitomo Heavy Industries Ion Technology Co., Ltd.) Established Sumitomo Heavy Industries Process Equipment Co., Ltd.
1952	Renamed Sumitomo Machinery Industries Co., Ltd.	2010	Established Sumitomo Heavy Industries Business Associates Ltd. Acquired 100% ownership of Nihon Spindle Mfg. Co., Ltd.
1961	Established Nagoya Works	2011	Acquired 100% ownership of Hansen Industrial Transmissions NV in Belgium Established Sumitomo Heavy Industries Gearmotors Co., Ltd.
1962	Opened Hiratsuka Laboratory Uruga Dock Co., Ltd. merged with Uruga Tamashima Diesel Co., Ltd. to form Uruga Heavy Industries Co., Ltd.	2012	Establishment of Sumitomo Heavy Industries (China) Financial Leasing, Ltd.
1965	Established Chiba Works	2013	Establishment of Sumitomo Heavy Industries Material Handling Systems Co., Ltd., by integrating the logistics system and automated parking lot businesses and Sumitomo Heavy Industries Engineering & Services Co., Ltd. Establishment of the Industrial Equipment Division by integrating the Quantum Equipment Division and Sumitomo Heavy Industries Techno-Fort Co., Ltd.
1966	Establishment of Sumitomo Machinery Corporation of America (SMA)	2015	Sumitomo Heavy Industries Material Handling Systems Co., Ltd. takes over the industrial crane business from Mitsubishi Heavy Industries Machinery Technology Corporation
1969	Merged Sumitomo Machinery Industries Co., Ltd. and Uruga Heavy Industries Co., Ltd. to form Sumitomo Heavy Industries, Ltd.	2016	Sumitomo Heavy Industries Environment Co., Ltd. merged with Sumiju Environmental Engineering Co., Ltd.
1972	Established Oppama Shipyard (currently known as Yokosuka Works) Establishment of Sumitomo Yale Co., Ltd. (currently, Sumitomo NACCO Material Handling Co., Ltd.) jointly with Yale Corporation in the U.S.	2017	Acquired 100% ownership of Persimmon Technologies in the U.S. Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (currently, Sumitomo Heavy Industries Construction Cranes Co., Ltd.) became a consolidated subsidiary Acquired the CFB boiler business of Amec Foster Wheeler plc (currently, Sumitomo SHI FW Energie B.V.)
1973	Established Toyo Factory (currently known as Ehime Works—Saijo Factory)	2018	Acquired 100% ownership of Italian industrial motor manufacturer, Lafert Group
1974	Equity investment made into Cyclo Getriebebau Lorenz Braren GmbH (currently, Sumitomo (SHI) Cyclo Drive Germany GmbH)		
1980	Established Sumitomo Heavy Industries Casting and Forging Co., Ltd. (currently known as Sumitomo Heavy Industries Himatex Co., Ltd.)		
1982	Merged with Nittoku Metal Industry Co., Ltd. to form the Precision Equipment Division (currently known as the Precision Equipment Group)		
1983	Establishment of Sumitomo Eaton Nova Corporation (currently, Sumitomo Heavy Industries Ion Technology Co., Ltd.) jointly with Eaton Corporation in the U.S.		
1986	Established Sumitomo (S.H.I.) Construction Machinery Co., Ltd.		
1988	Separation of the Diesel Engine Division to form Diesel United Ltd. jointly with IHI (current SHI stockholding ratio 0%)		
1995	Establishment of the naval shipbuilder Marine United jointly with IHI (current SHI stockholding ratio 0%)		
1999	Acquired Osaka Chain and Machinery, Ltd. (currently known as Sumitomo Heavy Industries Gearbox Co., Ltd.) Established Sumitomo Heavy Industries Engineering & Services Co., Ltd. (currently known as Sumitomo Heavy Industries Material Handling Systems Co., Ltd.)		
2000	Separated the precision forging business from the Company and established Sumiju Precision Forging Co., Ltd. Established Sumitomo Heavy Industries Finetech, Ltd. Acquired CBC Tech Co., Ltd., a manufacturer of extrusion molding machines, and renamed it as Sumitomo Heavy Industries Modern Machinery, Ltd. (currently known as Sumitomo Heavy Industries Modern, Ltd.)		
2001	Split Sumitomo (S.H.I.) Construction Machinery Co., Ltd. into two companies: Sumitomo Construction Machinery Co., Ltd., which focuses on roadwork equipment and excavators, and Sumiju Construction Crane Co., Ltd., which focuses on the crane business Transfer of the Research and Development Center (currently, Technology Research Center) from Hiratsuka Works to Yokosuka Works		

Corporate Data (As of March 31, 2019)

Corporate Data

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/english/index.html>

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 8-30, Tenyamachi, Hakata-ku, Fukuoka-shi,
Fukuoka 812-0025, 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

Founded 1888
Incorporated November 1, 1934
Paid-In Capital ¥30,871,651,300
Number of Employees 22,543 (Consolidated)
3,002 (Non-consolidated)

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, Imazaikae, 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

Evaluations by External Organizations

SHI received the following evaluations from external organizations during FY2018.

Name	Sponsor organization	Evaluation / Certification
CDP Climate change CDP Water security	CDP	B-
14th CSR Company Rankings	TOYO KEIZAI INC.	Overall ranking: 118th
Kurumin	Ministry of Health, Labour and Welfare	2018 certification
21st Environmental Management Rankings	Nikkei Inc.	133th
2nd Smart Work Management Survey	Nikkei Inc.	3.5★

Third-party certification of Scope 1 and 2 CO₂ emissions is on page 53.

Stock-Related Information (As of March 31, 2019)

Stock Information

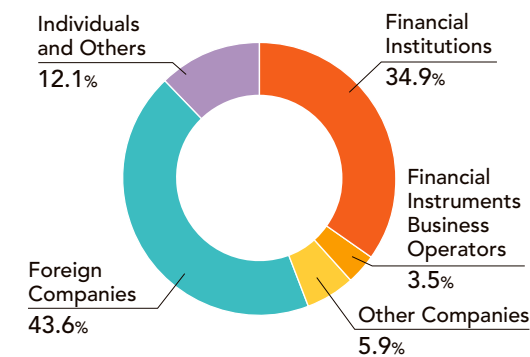
Transfer Agent Sumitomo Mitsui Trust Bank, Limited
Stock Exchange Listing Tokyo
Shares Outstanding 122,905,481
Number of Shareholders 34,210

Major Shareholders

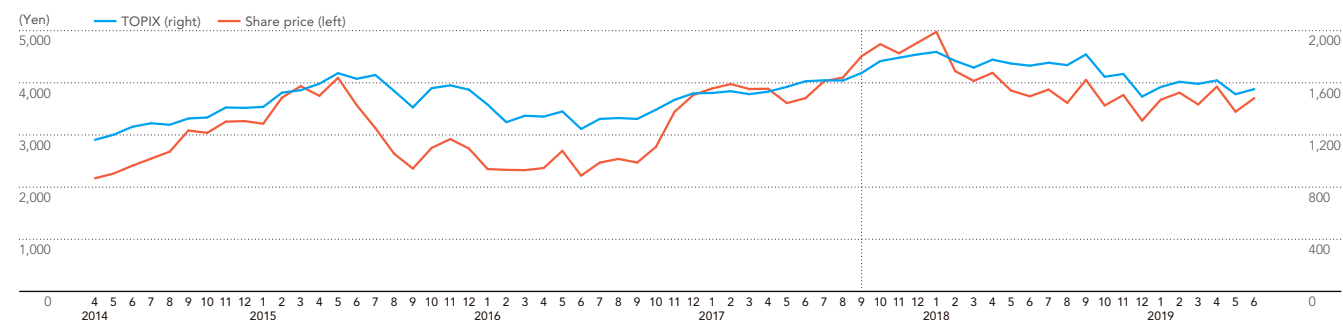
Name of shareholder	Number of shares held (thousands of shares)	Ownership ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	10,014	8.2
Japan Trustee Services Bank, Ltd. (Trust account)	6,479	5.3
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	4,730	3.9
Sumitomo Life Insurance Company	4,333	3.5
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	2,923	2.4
Sumitomo Heavy Industries, Ltd. Kyoaikai	2,714	2.2
Japan Trustee Services Bank, Ltd. (Trust account 9)	2,579	2.1
Japan Trustee Services Bank, Ltd. (Trust account 5)	2,245	1.8
Sumitomo Mitsui Banking Corporation	2,000	1.6
STATE STREET BANK WEST CLIENT – TREATY 505234	1,827	1.5

Note: Ownership ratios are calculated less treasury stock (380,153 shares). The Company's name is listed as the shareholder of record for treasury stock, but this figure includes 200 shares that the Company in effect does not own.

Distribution of Shareholders



Share Price Chart



* The Company carried out a 5-to-1 reverse stock split for its common shares with an effective date of October 1, 2017. Figures for FY2014–2016 have been retroactively adjusted as if the stock split had occurred at the beginning of each fiscal year.

 Sumitomo Heavy Industries, Ltd.

