(Translation)

Sumitomo Heavy Industries, Ltd.

120th Ordinary General Meeting of Shareholders
Information Disclosed on the Website
Fiscal Year 2015 (April 1, 2015, through March 31, 2016)

1. **Consolidated Statement of Changes in Net Assets**
2. **Notes to Consolidated Financial Statements**
3. **Statement of Changes in Net Assets**
4. **Notes to Financial Statements**

Among the documents provided to the shareholders at the time of the notice of the 120th Ordinary General Meeting of Shareholders, the Consolidated Statement of Changes in Net Assets, the Notes to the Consolidated Financial Statements, the Statement of Changes in Net Assets and the Notes to Financial Statements are only published on our website (http://www.shi.co.jp) in accordance with the applicable laws and regulations and Article 16 of the Articles of Incorporation.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2015, to March 31, 2016)

(Millions of yen)

	Shareholders' Equity				
	Common Stock	**Capital Surplus**	**Retained Earnings**	**Treasury Stock**	**Total Shareholders' Equity**
Balance at April 1, 2015	30,872	23,789	239,815	(764)	293,712
Changes in the period					
Dividends from surplus			(8,582)		(8,582)
Net income attributable to shareholders of the parent company			33,133		33,133
Acquisition of treasury stock				(99)	(99)
Disposal of treasury stock			0	1	2
Reversal of land revaluation difference			169		169
Increase due to inclusion of consolidated subsidiaries in the scope of consolidation			1,053		1,053
Change in the parent company's equity due to transaction with non-controlling shareholders		1,565			1,565
Changes in items other than shareholders' equity in the period (net)					
Total changes in the period	—	1,565	25,773	(98)	27,241
Balance at March 31, 2016	30,872	25,354	265,588	(861)	320,953

	Accumulated other comprehensive income						**Non-controlling Interests**	**Total Net Assets**
	Unrealized Gains/Losses on Securities	Deferred Gains/Losses on Hedges	Land revaluation Difference	Foreign Currency Translation Adjustments	Re-measurement of Defined Benefit Plans	**Total Accumulated Other Comprehensive Income**		
Balance at April 1, 2015	5,437	(2,229)	40,476	26,641	(3,957)	66,367	5,022	365,101
Changes in the period								
Dividends from surplus								(8,582)
Net income attributable to shareholders of the parent company								33,133
Acquisition of treasury stock								(99)
Disposal of treasury stock								2
Reversal of land revaluation difference								169
Increase due to inclusion of consolidated subsidiaries in the scope of consolidation								1,053
Change in the parent company's								1,565

equity due to transaction with non-controlling shareholders								
Changes in items other than shareholders' equity in the period (net)	(3,081)	2,108	1,005	(5,083)	(5,649)	(10,700)	1,175	(9,525)
Total changes in the period	(3,081)	2,108	1,005	(5,083)	(5,649)	(10,700)	1,175	17,716
Balance at March 31, 2016	2,355	(121)	41,481	21,558	(9,607)	55,667	6,197	382,817

"English Translation of Financial Statements Originally Issued in the Japanese Language"

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

Notes to Consolidated Financial Statements

(Notes regarding Important Basic Matters for Preparing Consolidated Financial Statements)

1. Matters Related to Scope of Consolidation

(1) Number of consolidated subsidiaries and names of major consolidated subsidiaries

Number of consolidated subsidiaries: 116

Names of major consolidated subsidiaries:

Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.
Nihon Spindle Manufacturing Co., Ltd.
Shin Nippon Machinery Co., Ltd.
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
SEISA Gear, Ltd.
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.
Sumitomo Heavy Industries Ion Technology Co., Ltd.
Sumitomo Heavy Industries Environment Co., Ltd.
Sumitomo Heavy Industries Process Equipment Co., Ltd.
Sumitomo Heavy Industries PTC Sales Co., Ltd.
Sumiju Environmental Engineering, Inc.
LBX Company, LLC
Sumitomo Machinery Corporation of America
LBCE Holdings, Inc.
Hansen Industrial Transmissions NV
Sumitomo (SHI) Demag Plastics Machinery GmbH
Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.
Sumitomo (SHI) Cyclo Drive China, Ltd.

(2) Names, etc. of major non-consolidated subsidiaries:

Name of major non-consolidated subsidiary:

Kyokuto Seiki Co., Ltd.

Non-consolidated subsidiaries are excluded from the scope of consolidation because the scale of each non-consolidated subsidiary is small, and their total assets, sales, net income or loss (the amount proportional to the relevant equity shares) and retained earnings (the amount proportional to the relevant equity shares) have no significant influence on the consolidated financial statements.

2. Matters Related to Application of Equity Method

(1) Number of non-consolidated subsidiaries or affiliated companies to which the equity method is applied and names of major companies

Number of affiliated companies to which the equity method is applied: 3

Names of major companies:

Sumitomo Nacco Materials Handling Co., Ltd.
Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.

(2) Names, etc. of non-consolidated subsidiaries or affiliated companies to which the equity method is not applied

Name of major company:

Chubu Sumiju Kenki Co., Ltd.

Non-consolidated subsidiaries and affiliated companies excluded from the scope to which the equity method is applied are so excluded because in light of their net income or loss (the amount proportional to the relevant equity shares) and retained earnings (the amount proportional to the relevant equity shares), their exclusion has only a slight influence on the consolidated financial statements and are insignificant as a whole.

3. Matters Related to Accounting Standards

(1) Basis and method of valuation of important assets

1) Marketable securities

Held-to-maturity debt securities:	At amortized cost
Other securities:	
Those with fair market value:	At fair market value on the last day of the consolidated fiscal year (Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets. Realized gain on sale of such securities is computed using the moving-average method.)
Those without fair market value:	At cost based on the moving-average method

2) Derivatives: At fair market value

3) Inventories

Work in process:	Principally at cost based on the specific identification method (The balance sheet amount is computed by applying inventory write-downs due to decrease in profitability.)
Finished goods, raw materials and supplies:	Principally at cost based on the weighted-average method (The balance sheet amount is computed by applying inventory write-downs due to decrease in profitability.)

(2) Method of depreciation of important depreciable assets

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

The straight-line method is employed.

The estimated useful lives of the tangible assets are as follows:

Buildings and Structures	10—50 years
Machinery and delivery equipment	5—12 years

2) Intangible fixed assets (excluding leased assets)

The straight-line method is employed.

Software for internal use is depreciated based on its estimated useful life in the Company (5 years).

3) Lease assets

As regards to lease assets related to the finance leases other than those by which ownership is considered to pass to the lessees (“ownership non-transfer finance leases”), the lease period is used as the useful life and the straight-line method with a residual value of zero is employed.

Of the ownership non-transfer finance leases, those which are not significant and those which began on or before March 31, 2008 are accounted for by a method in conformity with the method of accounting for ordinary lease transactions.

(3) Basis for determination of important allowances

1) Allowance for doubtful receivables

In order to provide for possible losses due to uncollectibility of receivables, such allowance is calculated based on historical collection losses incurred in the past. Such allowance for account receivables with default possibility or in bankruptcy or rehabilitation is booked based on an estimation of the uncollectible amount on a case-by-case basis.

2) Allowance for warranty

In order to provide for expenditures for repair work to be performed free of charge after delivery of products, this amount is stated based on the past experience of such repair work actually performed.

3) Allowance for losses on construction contracts

With regard to construction contracts that have not yet been delivered and have a high probability of generating losses at the end of the consolidated fiscal year under review, and where it is possible to reasonably estimate the amount of such losses, the estimated amount of losses to be incurred in the following consolidated fiscal year or thereafter is provided as an allowance for losses on construction contracts.

4) Allowance for losses on business

Allowance for losses on business is provided at an estimated amount of losses expected to be incurred in the future resulting from the continuation of contracts between subsidiaries and affiliates, and dealers.

5) Allowance for losses on business transfer

Allowance for losses on business transfer is provided at an estimated amount of losses to be incurred in the future in connection with the resort development business transferred.

6) Allowance for losses on product liabilities

Allowance for losses on product liabilities is provided at an estimated amount of losses on product liabilities to be incurred related to the crane business of overseas subsidiaries.

(4) Standard for recognition of retirement benefit liability

1) Period allocation of expected retirement benefits to be incurred

In calculating the retirement benefit obligations, the straight-line attribution is used to allocate the projected retirement benefits to the years of service up to the end of the consolidated fiscal year under review.

2) Recognition method for actuarial gains/losses and prior service cost

The prior service cost is recognized by the straight-line method over a certain period within the average remaining service years of employees at the time of recognition.

Actuarial gains/losses are recognized mainly in expenses based on the straight-line method over a period within the average remaining service years of employees at the time of recognition of each consolidated fiscal year, commencing with the year following their consolidated fiscal year.

(5) Standards for recognition of income and expenses

The percentage-of-completion method has been applied for construction work for which the completion of a certain percentage of the entire work is clearly recognizable by the end of the consolidated fiscal year under review (percentage of completion is estimated by the cost proportion method), and the completed-contract method has been applied for other contracts.

(6) Method of important hedge accounting

1) Method of hedge accounting

Deferred hedge accounting is employed.

However, with regard to interest-rate swaps that meet the requirements for exceptional accounting ("*tokurei-shori*"), exceptional accounting is employed.

With regard to forward exchange contracts that meet the requirements for deferral hedge accounting ("*furiate-shori*"), deferral hedge accounting is employed.

2) Means of hedging and hedged items

Means of hedging	Hedged items
Forward exchange contracts	Foreign currency receivables, foreign currency payables and future transactions in foreign currency
Interest-rate swaps	Loans

3) Hedging policy

The purpose of hedging activities is to reduce exchange-rate fluctuation risks and interest-rate fluctuation risks in accordance with the Market Risks Management Rules established by the Board of Directors, and the Company makes it a rule to observe the real demand principle and not to conduct speculative trading.

4) Method of evaluation of effectiveness of hedging

By comparing every six months the total of cash flow fluctuations or market fluctuations of the hedged items and the total of cash flow fluctuations or market fluctuations of the means of hedging, and based on the amount of fluctuations, etc. in both the hedged items and the means of hedging, the effectiveness of hedging activities is evaluated. However, the evaluation of effectiveness of hedging is omitted for interest-rate swaps for which exceptional accounting is employed.

(7) Accounting for consumption tax, etc.

Consumption tax and local consumption tax are accounted for by the tax-excluded method.

(8) Adoption of consolidated tax payment system

The Company and some of the consolidated subsidiaries adopt the consolidated tax payment system.

4. Amortization Method for Goodwill and the Amortization Period

Goodwill is equally amortized over 5 years. However, if the amount of goodwill is small, such amount is fully depreciated at the time of generation.

5. Changes in Important Basic Matters for Preparation of Consolidated Financial Statements

Changes in the scope of consolidation and scope of application of equity method

	Names of Companies	Reasons for Change
Companies that Were Included in the Scope of Consolidation	Sumimec Engineering Co., Ltd. and two other companies	Increased in importance
	Sumitomo (SHI) Demag Plastics Machinery Hungaria Kft.	Newly established
Companies that Were Excluded from the Scope of Consolidation	Sumiju Techno Craft Co., Ltd.	Merged with another consolidated subsidiary
	Hansen Transmissions Pty Ltd, South Africa	Sold

6. Change to Accounting Standards

(Adoption of Revised Accounting Standards for Business Combination, etc.)

The Revised Accounting Standards for Business Combination (Accounting Standards Board of Japan (ASBJ) Accounting Standard – ASBJ Statement No. 21 dated September 13, 2013; hereinafter referred to as the "Revised Business Combination Accounting Standards"), the Revised Accounting Standards for Consolidated Financial Statements (Accounting Standards Board of Japan (ASBJ) Accounting Standards – ASBJ Statement No. 22 dated September 13, 2013; hereinafter referred to as the "Revised Consolidated Financial Statements Accounting Standards"), and the Revised Accounting Standards for Business Divestitures (Accounting Standards Board of Japan (ASBJ) Accounting Standards – ASBJ Statement No. 7 dated September 13, 2013; hereinafter referred to as the "Revised Business Divestitures Accounting Standards"), etc. have been adopted in the current consolidated fiscal year under review. Where control of certain subsidiaries continues under the new accounting standards, the differential change in equity of the Company is reported as capital surplus. In addition, a change was made to account for acquisition-related costs as an expense item in the consolidated fiscal year where such costs are incurred. Further, with regard to business combinations consummated after the beginning of the current consolidated fiscal year under review, the allocated acquisition cost resulting from the provisional accounting of the item will now be reflected in the consolidated financial statements for the consolidated fiscal year in which the business combination is completed. Moreover, the way in which net income, etc. are denoted has been changed, and the term "minority interests" has been changed to "non-controlling interests."

The implementation of the Revised Business Combination Accounting Standards, etc. has been carried out in accordance with Article 58-2 (4) of the Revised Business Combination Accounting Standards, Article 44-5 (4) of the Revised Consolidated Financial Statements Accounting Standards, and Article 57-4 (4) of the Revised Business Divestitures Accounting Standards, which allow for transitional treatment. The new standards were adopted at the beginning of the current consolidated fiscal year under review.

As a result of the above, operating income and ordinary income decreased by JPY 206 million, respectively, for the current consolidated fiscal year under review. Net income before income taxes and non-controlling interests also decreased by JPY 1,771 million. The capital surplus amount at the end of the current consolidated fiscal year under review increased by JPY 1,565 million.

The fiscal year-end balance of capital surplus in the Consolidated Statement of Changes in Net Assets for the current consolidated fiscal year under review increased by JPY 1,565 million.

(Notes to Consolidated Balance Sheet)

1. Assets Pledged and Liabilities Subject to the Pledge

(1) Assets pledged

	(Millions of yen)
Cash and deposits	148
Buildings and structures	861
Land	150
Total	1,159

(2) Liabilities subject to the pledge

	(Millions of yen)
Long-term debt due within one year	20
Long-term debt	30
Guarantee obligations	29
Total	78

2. Accumulated Depreciation of Property, Plant and Equipment: ¥252,078 million

3. Guarantee Obligations, etc.

Guarantee obligations

With regard to borrowings, etc. of non-consolidated companies from financial institutions, etc. the Company guarantees the obligations.

		(Millions of yen)
Sumitomo Mitsui Finance & Leasing Company Limited	Lease contract-related guarantee for purchase	12,752
Fuyo General Lease Co., Ltd.	Lease contract-related guarantee for purchase	1,721
IBJ Leasing Company, Limited	Lease contract-related guarantee for purchase	1,444
Mitsubishi UFJ Lease & Finance Company Limited	Lease contract-related guarantee for purchase	374
Shutoken Leasing Co., Ltd.	Lease contract-related guarantee for purchase	362
Others (19 lenders)	Lease contract-related guarantee for purchase	1,101
Total		17,754

The above figures include guarantee obligations in foreign currencies of 610 million Chinese yuan (¥11,168 million) and 7 million New Taiwan dollars (¥24 million).

4. Others

Regarding the “Construction Work (specifically only for plant equipment work) for the Kyoto City Incinerated Ash Melting Facility (Provisional Name),” for which the Company had received an order from the City of Kyoto, the Company received a notice of cancellation of the contract from the City on August 5, 2013, for the reason that the Company’s delivery of said facility by the delivery deadline would be impossible. In addition, the City of Kyoto filed a lawsuit on March 20, 2014, with the Kyoto District Court, claiming compensation for damages of ¥18,454 million against the Company by reason of the cancellation of the contract.

The Company had petitioned for conciliation to the Central Construction Work Disputes Committee in accordance with the relevant provisions of the contract with the City of Kyoto that in case of any disputes, a resolution would be pursued via the mediation or conciliation of a Construction Work

Disputes Committee under the Construction Business Act. However, the City of Kyoto did not cooperate with us toward an amicable solution, thereby ending the conciliation via the Central Construction Work Disputes Committee as of July 31, 2014.

The Company was not able to perform its obligation to complete the intended work because the City refused to allow the Company to conduct the second phase trial operation which was a necessary process for the final stage of construction of the nearly completed equipment; therefore, the Company has a right to claim against the City for payment of the remaining construction costs under the contract. Therefore, the Company filed a countersuit against the City of Kyoto on August 29, 2014, with the Kyoto District Court, demanding the payment of the remaining construction costs under contract (¥1,399 million unpaid).

The Company is confident that the alleged cancellation at a stage of the near completion of the intended work is invalid and therefore that the City of Kyoto’s claim of compensation for damages based on such cancellation is groundless. The Company intends to fully demonstrate the legitimacy of its position regarding this lawsuit.

(Notes to Consolidated Statement of Changes in Net Assets)

1. Class and Number of Issued Shares as of the End of This Consolidated Fiscal Year

	Number of Shares as of the Beginning of this Consolidated Fiscal Year	Increase in the Number of Shares from Previous Consolidated Fiscal Year	Decrease in the Number of Shares from Previous Consolidated Fiscal Year	Number of Shares as of the End of this Consolidated Fiscal Year
Issued Shares				
Common Stock	614,527,405	—	—	614,527,405
Total	614,527,405	—	—	614,527,405
Treasury Stock				
Common Stock	1,495,994	154,757	2,932	1,647,819
Total	1,495,994	154,757	2,932	1,647,819

The increase in the number of shares of treasury stock was due to the buyback requests by shareholders holding odd-lot shares. The decrease in the number of shares of treasury stock was due to the top-up request for additional shares of odd-lot stock.

2. Matters Related to Dividends

(1) Amount of dividends paid

Resolution	Class of Shares	Total Dividend Amount (Millions of yen)	Dividend per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders held on June 26, 2015	Common stock	4,291	7.0	March 31, 2015	June 29, 2015
Meeting of Board of Directors held on October 29, 2015	Common stock	4,290	7.0	September 30, 2015	December 1, 2015
Total		8,582	—		

(2) Among the dividends whose record date falls within this consolidated fiscal year, those whose effective date will fall within the next consolidated fiscal year

The following proposal is scheduled to be made at the Ordinary General Meeting of Shareholders to be held on June 29, 2016.

1) Total amount of dividend ¥5,516 million

2) Dividend per share ¥9.00

3) Record date March 31, 2016

4) Effective date June 30, 2016 (Planned)

The source for the payment of dividends is planned to be retained earnings.

(Notes Regarding Amounts Per Share)

(1) Net asset per share ¥614.51

(2) Net income per share ¥54.06

(Notes Regarding Financial Instruments)

1. Matters Related to Financial Instruments

(1) Policy for handling financial instruments

The Company Group is a comprehensive heavy machinery manufacturer that engages in the manufacture and distribution of power transmission and control equipment and other machines and equipment. The necessary operating funds and funds for acquiring equipment are procured by bank loans and the issuance of bonds payable. The management of a temporary surplus fund is limited to safe and short-term financial assets. Derivatives are used to hedge risks, which are explained later. The Company Group has a principle that it does not engage in speculative trading.

(2) Components and risks of financial instruments

Trade receivables (i.e., notes and accounts receivable) and long-term loans receivable are exposed to customers' credit risk. Trade receivables denominated in foreign currencies, brought about by the global business development, are exposed to foreign exchange rate fluctuation risk. To hedge the position of net trade receivables and trade payables in foreign currencies, forward exchange contracts are used to maintain the position at a constant hedge ratio. Hedge ratios and positions that are not yet hedged are regularly reported to the Board of Directors.

Marketable securities are negotiable certificates of deposit with maturities within three months, which are easily convertible into cash with a slight risk of price fluctuations. Investment securities are mostly transaction-related corporate stocks that are exposed to market price fluctuation risk.

Most trade payables (i.e., notes and accounts payable) are due within one year. Some related to the import of raw materials are denominated in foreign currencies and exposed to foreign exchange rate fluctuation risks, and are hedged using forward exchange contracts.

The main purpose of loans and bonds payable are to procure the necessary operating funds and to supplement the capital investment fund. Among these payables, derivatives (interest-rate swaps) are used to hedge individual contracts for a portion of long-term debt. With regard to the method of evaluating the effectiveness of hedging, because the employed interest-rate swaps meet the requirements for exceptional accounting ("*tokurei-shori*"), the evaluation of effectiveness is omitted. Foreign currency denominated loan is exposed to the exchange-rate fluctuation risk.

The Company Group's derivative transactions consist of forward exchange contracts, which are aimed at hedging the exchange fluctuation risk associated with foreign currency denominated trade receivables/payables, and interest-rate swaps and currency swaps, which are aimed at hedging the interest-rate fluctuation risk associated with the interest paid on loans and the exchange-rate fluctuation risk. For the means of hedging, the hedged items, the hedging policy and the method of evaluation of effectiveness of hedging, please see "Method of important hedge accounting" stated in the aforementioned "Matters Related to Accounting Standards."

(3) Financial instrument-related risk management structure

1) Management of credit risk (risk related to customers' default of contracts)

With regard to domestic contracts and export-related contracts beyond a certain amount, the Company Group conducts a credit check before receiving orders, thereby alleviating concern about the collection of trade receivables. Each business segment conforms to the credit management regulations and manages the due dates of trade receivables and the balance for each counterparty, thereby quickly identifying a collectivity risk.

When using derivatives, the Company Group conducts transactions only with highly rated financial institutions to reduce counterparty risk. The time deposit–related credit risk is low because the Company Group has time deposits only at highly rated financial institutions with which it has loan transactions in order to reduce redemption risk.

2) Management of market risk (exchange- and interest-rate fluctuation risk)

In compliance with the market risk management regulations that stipulate hedging ratios, the exchange-rate amounts yet to be hedged, etc., the Company hedges exchange-rate fluctuations with respect to its position of net trade receivables and trade payables denominated in foreign currencies. The hedging status is reported to the Board of Directors each month. At those major consolidated subsidiaries that also hold trade receivables and payables in foreign currencies, in conformity with the exchange-rate hedging regulations that stipulate hedging ratios or exchange-rate amounts yet to be hedged, exchange-rate hedging is adopted to control exchange-rate fluctuation risk.

In addition, the Company monitors loan-related interest payable, which is reported to the Board of Directors regularly. To reduce interest-rate fluctuation risk, interest-rate swaps are used.

With regard to marketable securities and investment securities, their current fair market value and the financial position of the issuers are checked regularly. Taking the relationship with the counterparty into consideration, the appropriateness of holding such securities is continually reviewed.

Derivative transactions conducted by the Company and its major consolidated subsidiaries are solely for the purpose of hedging exchange- and interest-rate fluctuation risks as explained above. We verify the balance with the counterparty each month.

3) Management of fund procurement-related liquidity risk (risk of being unable to pay on the due date)

The Company Group introduced the cash management system to its major consolidated subsidiaries in order for the Company to comprehensively manage the Group's funds. Based on reports from business segments and major subsidiaries and affiliates, the Company timely formulates and updates the fund management plan and controls liquidity risk.

2. Matters Related to the Fair Market Value of Financial Instruments

Amounts recorded on the consolidated balance sheet, their fair market value and the difference between them as of March 31, 2016 (balance sheet date of the consolidated fiscal year under review) are as shown below. Financial instruments for which the fair market values are considered difficult to calculate are not included in the table. (See Note 2.)

(Millions of yen)

	Amount on the Consolidated Balance Sheet*	Fair Market Value*	Difference
1. Cash and Deposits	65,804	65,804	—
2. Notes and Accounts Receivable	219,929	219,062	(867)
3. Marketable Securities and Investment Securities	15,433	15,433	—
4. Long-term Loans Receivable	6,170	5,537	(633)
5. Notes and Accounts Payable	142,304(*)	142,304(*)	—
6. Short-Term Bank Loans	42,708(*)	42,708(*)	—
7. Bonds Payable	10,000(*)	10,052(*)	(52)
8. Long-term Debt	15,524(*)	15,743(*)	(219)
9. Derivatives	1,572	1,481	(91)

* Liabilities are indicated in (*) mark.

(Notes)

1. Matters related to the calculation method for the fair market value of financial instruments, marketable securities and derivatives

   (1) Cash and deposits

   Because these are settled in the short term, the fair market value is almost equal to the amount indicated in the Balance Sheet. Therefore, the Balance Sheet value has been adopted.

   (2) Notes and accounts receivable

   The fair market value of trade receivables is calculated based on their present value obtained by discounting the amount of each trade receivable divided for each period using an interest rate that reflects the period until the due date and the credit risk.

   (3) Marketable securities and investment securities

   Because marketable securities are negotiable deposits settled in the short term, their fair market values are almost equal to the amounts indicated in the Balance Sheet. Therefore, the Balance Sheet values have been adopted. Investment securities are stocks and their fair market value is based on their respective prices on the Stock Exchange.

   (4) Long-term loans receivable

   The fair market value of long-term loans receivable is calculated based on their present value obtained by discounting the future cash flow using an interest rate at which a credit spread is added to an appropriate index such as the government bond yield.

   (5) Notes and accounts payable and (6) Short-term bank loans

   Because these items are settled in the short term, their fair market values are almost equal to the amounts indicated in the Balance Sheet. Therefore, the Balance Sheet values have been adopted.

   (7) Bonds payable

   The fair market value of bonds payable issued by the Company is calculated based on their present value obtained by discounting the total of principal and interest using an interest rate that reflects the bonds payable's remaining period and the credit risk.

   (8) Long-term debt

   The fair market value of long-term debt is calculated based on the present value obtained by discounting the total of principal and interest using an interest rate that is reasonably estimated should a similar new loan be made.

   (9) Derivatives

   The fair market value of forward exchange contracts is based on forward exchange rates. The fair market values of interest rate swaps and currency swaps are based on the amounts presented by the relevant financial institutions.

2. The stock of non-consolidated subsidiaries and affiliates (¥13,075 million on the Consolidated Balance Sheet), unlisted stocks (¥2,474 million on the same) and securities invested in non-consolidated subsidiaries and affiliates (¥5 million on the same) do not have a market value because it is hard to estimate future cash flows, and it is difficult to obtain their fair market value. Therefore,

these are not included in “(3) Marketable securities and Investment securities”.

(Notes to Important Subsequent Events)

None applicable

(Other Notes)

1. Revaluation of Land

On March 31, 2002, the Company revalued its land used for business operations in accordance with the Act on Revaluation of Land (Act No. 34 promulgated on March 31, 1998) and the Act for Partial Revision of the Act on Revaluation of Land (Act No. 19 promulgated on March 31, 2001).

With respect to the revaluation difference, in accordance with the Act for Partial Revision of the Act on Revaluation of Land (Act No. 24 promulgated on March 31, 1999), the amount of tax relevant to such revaluation difference was stated in the section of liabilities as “Deferred tax liabilities on land revaluation” and the amount of revaluation difference less the amount of such deferred tax liabilities is stated in the section of net assets as “Land revaluation difference.”

Method of revaluation:

While the land value was obtained by making a reasonable adjustment to the appraised amount for purposes of property tax as provided in Article 2, Item 3 of the Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119 promulgated on March 31, 1998), the value of some of the land was obtained based on the licensed real estate appraiser’s appraised value as set forth in Article 2, Item 5 of the Order.

Date of revaluation:	March 31, 2002
Difference between the current value of the land as at the end of this consolidated fiscal year and its book value after revaluation:	¥(18,854 million)

2. Impairment Losses

(1) The Company booked the following impairment losses by asset group in the consolidated fiscal year under review.

Application	Location	Type	Amount (Millions of yen)
Business property	Nishitokyo-shi, Tokyo and other locations	Buildings, etc.	287
Idle	Saijo-shi, Ehime and other locations	Land, etc.	237

(2) Reason for recognizing the impairment losses

Mainly due to the decline in profitability, the Company can no longer expect to collect invested amounts. Accordingly, we decided to apply impairment loss to these assets.

(3) Asset grouping method

The asset grouping for the Group was made based on business segments. However, idle assets with no expected future use were categorized individually.

(4) Method to calculate collectible amounts

The collectible amounts are calculated mainly based on net sale value obtained by deducting the asset disposal cost from the asset disposal value.

3. Treatment of Fractional Amounts

Stated amounts are rounded off for fractions less than units.

4. Matters Related to Business Combination

Business Combination by Acquisition

Acceptance of business transfer by a consolidated subsidiary

Sumitomo Heavy Industries Material Handling Systems Co., Ltd., a consolidated subsidiary of the Company, and Mitsubishi Heavy Industries Machinery Technology Corporation, a consolidated subsidiary of Mitsubishi Heavy Industries, Ltd., concluded an absorption-type company split agreement dated May 8, 2015, to the effect that Sumitomo Heavy Industries Material Handling Systems Co., Ltd. would succeed to the industrial crane business of Mitsubishi Heavy Industries Machinery Technology Corporation with October 1, 2015, as the effective date.

(1) Overview of the business combination

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

Name of the acquired company:	Mitsubishi Heavy Industries Machinery Technology Corporation
Contents of the business:	Industrial crane business

(ii) Main reasons for the business combination

This business combination is aimed at strengthening the ability of Sumitomo Heavy Industries Material Handling Systems Co., Ltd. to meet the demands of the Japanese market, by enhancing the line-up of crane products and related services and by integrating both companies' technical strengths and know-how in the field to optimize the allocation of managerial resources. Furthermore, in the future, by investing growth resources in overseas markets as well as new products and businesses, it is aimed at achieving continued competitiveness of the industrial crane business.

(iii) Date of business combination

October 1, 2015

(iv) Legal form of the business combination

Absorption-type company split wherein Mitsubishi Heavy Industries Machinery Technology Corporation acted as a divesting company, and Sumitomo Heavy Industries Material Handling Systems Co., Ltd. acted as the absorbing company.

(v) Name of the company after the business combination

Sumitomo Heavy Industries Material Handling Systems Co., Ltd.

(vi) Main grounds for selection of acquiring company

In consideration of the fact that the shares to be delivered as the consideration for the business combination would be issued by Sumitomo Heavy Industries Material Handling Systems Co., Ltd., and the relative ratio of voting rights of the overall shareholders, etc., Sumitomo Heavy Industries Material Handling Systems Co., Ltd. was selected as the acquiring company.

(2) Period of performance of the acquired business that will be included in the consolidated financial statements

From October 1, 2015, to March 31, 2016

(3) Breakdown by type of acquisition cost of and consideration for the acquired business

Shares of common stock of Sumitomo Heavy Industries Material Handling Systems Co., Ltd. issued on the date of the business combination	¥5,000 million
Acquisition cost	¥5,000 million

(4) Number of shares issued

2,000 shares

(5) Contents and amount of major acquisition-related costs

Advisory costs, etc. ¥225 million

(6) Amount of goodwill incurred, cause thereof, amortization method, and amortization period

(i) Amount of goodwill incurred

¥668 million

(ii) Cause for its incurrence

Incurred due to the difference between the net amount of the acquired assets and the accepted liabilities, and the acquisition costs.

(iii) Amortization method and amortization period

Equally amortized over 5 years

(7) Amount of assets and liabilities accepted on the date of the business combination and major breakdown thereof

	(Millions of yen)
Current assets	4,806
Fixed assets	1,756
Total assets	6,562
Current liabilities	1,856
Long-term liabilities	374
Total liabilities	2,229

STATEMENT OF CHANGES IN NET ASSETS

(From April 1, 2015, to March 31, 2016)

(Millions of yen)

	Shareholders' Equity							
		Capital Surplus		Retained Earnings				
	Common Stock	Capital Reserve	**Total Capital Surplus**	Legal Reserve of Retained Earnings	Other Retained Earnings Retained Earnings Brought Forward	**Total Retained Earnings**	**Treas-ury Stock**	**Total Share-holders' Equity**
Balance at April 1, 2015	30,872	27,073	27,073	6,295	41,227	47,522	(764)	104,703
Changes in the period								
Dividends from surplus					(8,582)	(8,582)		(8,582)
Net income					18,866	18,866		18,866
Acquisition of treasury stock							(99)	(99)
Disposal of treasury stock					0	0	1	2
Reversal of land revaluation difference					169	169		169
Changes in items other than shareholders' equity in the period (net)								—
Total changes in the period	—	—	—	—	10,453	10,453	(98)	10,355
Balance at March 31, 2016	30,872	27,073	27,073	6,295	51,680	57,975	(861)	115,058

	Valuation and Translation Adjustments				
	Unrealized Gains/Losses on Securities	Deferred Gains/Losses on Hedges	Land revaluation Difference	**Total Valuation and Translation Adjustments**	**Total Net Assets**
Balance at April 1, 2015	4,582	(2,051)	40,476	43,007	147,710
Changes in the period					
Dividends from surplus					(8,582)
Net income					18,866
Acquisition of treasury stock					(99)
Disposal of treasury stock					2
Reversal of land revaluation difference					169
Changes in items other than shareholders' equity in the period (net)	(2,419)	1,846	1,005	432	432
Total changes in the period	(2,419)	1,846	1,005	432	10,788
Balance at March 31, 2016	2,163	(205)	41,481	43,439	158,497

"English Translation of Financial Statements Originally Issued in the Japanese Language"

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

Notes to Financial Statements

(Notes Regarding Matters Related to Significant Accounting Policies)

1. Basis and Method of Asset Valuation

(1) Marketable securities

Equity securities issued by subsidiaries and affiliated companies: At moving-average cost

Other securities:

Those with fair market value:	At fair market value on the last day of the fiscal year (Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets. Realized gain on sale of such securities is computed using the moving-average method.)
Those with no fair market value:	At cost based on the moving-average method

(2) Derivatives: At fair market value

(3) Inventories

Work in process:	At cost based on the specific identification method (The balance sheet amount is computed by applying inventory write-downs due to decrease in profitability.)
Finished goods, raw materials and supplies:	Principally at cost based on the weighted-average method (The balance sheet amount is computed by applying inventory write-downs due to decrease in profitability.)

2. Method of Depreciation of Fixed Assets

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

The straight-line method is employed.

The estimated useful lives of the tangible assets are as follows:

Buildings and Structures	10—50 years
Machinery and delivery equipment	5—12 years

(2) Intangible fixed assets (excluding leased assets)

The straight-line method is employed.

Software for internal use is depreciated based on its estimated useful life in the Company (5 years).

(3) Leased assets

As regards leased assets related to the finance leases other than those by which ownership is considered to pass to the lessees ("ownership non-transfer finance leases"), the lease period is used as the useful life and the straight-line method with a residual value of zero is employed.

Of the ownership non-transfer finance leases, those which are not significant or those which began on or before March 31, 2008 are accounted for by a method in conformity with the method of accounting for ordinary lease transactions.

3. Basis for Determination of Allowances

(1) Allowance for doubtful receivables

In order to provide for possible losses due to uncollectibility of receivables, such allowance is calculated based on historical collection losses incurred in the past. Such allowance for account receivables with default possibility or in bankruptcy or rehabilitation is booked based on an estimation of the uncollectible amount on a case-by-case basis.

(2) Allowance for warranty

In order to provide for expenditures for repair work to be performed free of charge after delivery of products, this amount is stated based on the past experience of such repair work actually performed.

(3) Allowance for losses on construction contracts

With regard to construction contracts that have not yet been delivered and have a high probability of generating losses at the end of the current fiscal year, and where it is possible to reasonably estimate the amount of such losses, the estimated amount of losses to be incurred in the following fiscal year or thereafter is provided as an allowance for losses on construction contracts.

(4) Allowance for losses on business transfer

Allowance for losses on business transfer is provided at an estimated amount of losses to be incurred in the future in connection with the resort development business transferred.

(5) Allowance for retirement benefits

In order to provide for retirement benefits to be paid to employees, the amount considered to have accrued at the end of this fiscal year is stated based on the estimated amount of retirement benefit obligations and pension plan assets at the end of this fiscal year.

The prior service costs are recognized as expenses in the fiscal year in which they arose.

The actuarial gains (losses) are recognized as expenses based on the straight-line method over a period within the average remaining service years of the employees (12 years) commencing with the year following their accrual.

4. Accounting Procedures Regarding Retirement Benefits

The accounting procedures for unrecognized actuarial gains or losses on retirement benefits are different from the accounting procedures for the consolidated financial statements.

5. Standards for Recognition of Income and Expenses

The percentage-of-completion method has been applied for construction work for which the completion of a certain percentage of the entire work is clearly recognizable by the end of this fiscal year (percentage of completion is estimated by the cost proportion method), and the completed-contract method has been applied for other contracts.

6. Method of Hedge Accounting

(1) Method of hedge accounting

Deferred hedge accounting is employed.

However, with regard to interest-rate swaps that meet the requirements for exceptional accounting (“*tokurei-shori*”), exceptional accounting is employed.

With regard to forward exchange contracts and currency swaps that meet the requirements for deferral hedge accounting (“*furiate-shori*”), deferral hedge accounting is employed.

(2) Means of hedging and hedged items

Means of hedging	Hedged items
Forward exchange contracts	Foreign currency receivables, foreign currency payables, and future transactions in foreign currency
Interest-rate swaps	Loans

(3) Hedging policy

The purpose of hedging activities is to reduce exchange-rate fluctuation risks and interest-rate fluctuation risks in accordance with the Market Risks Management Rules established by the Board of Directors, and the Company makes it a rule to observe the real demand principle and not to conduct speculative trading.

(4) Method of evaluation of effectiveness of hedging

By comparing every six months the total of cash flow fluctuations or market fluctuations of the hedged items and the total of cash flow fluctuations or market fluctuations of the means of hedging, and based on the amount of fluctuations, etc. in both the hedged items and the means of hedging, the effectiveness of hedging activities is evaluated. However, the evaluation of effectiveness of hedging is omitted for interest-rate swaps for which exceptional accounting is employed.

7. Accounting for Consumption Tax, etc.

Consumption tax and local consumption tax are accounted for by the tax excluded method.

8. Adoption of Consolidated Tax Payment System

The consolidated tax payment system is adopted.

(Notes to Balance Sheet)

1. **Accumulated Depreciation of Property, Plant and Equipment:** ¥124,598 million

2. **Guarantee Obligations, etc.**

   Guarantee obligations

   With regard to borrowings, etc. of other companies from financial institutions, etc. the Company guarantees the obligations.

	(Millions of yen)
Sumitomo (S.H.I.) Construction Machinery Co., Ltd.	10,104
Sumiju SCE (Xiamen) Construction Machinery Co., Ltd.	10,075
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.	5,020
Sumitomo Heavy Industries (USA), Inc.	4,821
Sumitomo Heavy Industries (China) Financial Leasing, Ltd.	3,436
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.	1,495
Sumitomo Heavy Industries Environment Co., Ltd.	1,412
Sumitomo Heavy Industries Process Equipment Co., Ltd.	837
Others (10 lenders)	3,729
Total	40,928

   The above figures include guarantee obligations in foreign currencies of 816 million Chinese yuan (¥14,171 million), 49 million U.S. dollars (¥5,547 million), 6 million Euro (¥808 million), 7 million New Taiwan dollars (¥24 million) and 0 million Brazilian real (¥6 million).

3. **Money Claims against and Debt Owed to Affiliated Companies**

Short-term receivables due from affiliated companies	¥48,108 million
Long-term receivables due from affiliated companies	¥0 million
Short-term payable due to affiliated companies	¥80,743 million
Long-term payable due to affiliated companies	¥59,369 million

4. **Others**

   Regarding the "Construction Work (specifically only for plant equipment work) for the Kyoto City Incinerated Ash Melting Facility (Provisional Name)," for which the Company had received an order from the City of Kyoto, the Company received a notice of cancellation of the contract from the City on August 5, 2013, for the reason that the Company's delivery of said facility by the delivery deadline would be impossible. In addition, the City of Kyoto filed a lawsuit on March 20, 2014, with the Kyoto District Court, claiming compensation for damages of ¥18,454 million against the Company by reason of the cancellation of the contract.

   The Company had petitioned for conciliation to the Central Construction Work Disputes Committee in accordance with the relevant provisions of the contract with the City of Kyoto that in case of any disputes, a resolution would be pursued via the mediation or conciliation of a Construction Work Disputes Committee under the Construction Business Act. However, the City of Kyoto did not cooperate with us toward an amicable solution, thereby ending the conciliation via the Central Construction Work Disputes Committee as of July 31, 2014.

   The Company was not able to perform its obligation to complete the intended work because the City refused to allow the Company to conduct the second phase trial operation which was a necessary process for the final stage of construction of the nearly completed equipment; therefore, the Company has a right to claim against the City for payment of the remaining construction costs under the contract. Therefore, the Company filed a countersuit against the City of Kyoto on August 29, 2014, with the Kyoto District Court, demanding the payment of the remaining construction costs under contract (¥1,399 million unpaid).

The Company is confident that the alleged cancellation at a stage of the near completion of the intended work is invalid and therefore that the City of Kyoto’s claim of compensation for damages based on such cancellation is groundless. The Company intends to fully demonstrate the legitimacy of its position regarding this lawsuit.

(Notes to Income Statement)

Sales to affiliated companies	¥66,413 million
Purchases from affiliated companies	¥53,738 million
Non-operating transactions with affiliated companies	¥17,809 million

(Notes to Statement of Changes in Net Assets)

Class and number of treasury stock held as of the end of this fiscal year:

Common stock	1,647,819 shares

(Notes Regarding Tax Effect Accounting)

The principal reasons for the accrual of deferred tax assets are the disallowance of an allowance for retirement benefits, impairment loss, and an allowance for warranty, etc. The principal reason for the accrual of deferred tax liabilities is land revaluation.

(Notes Regarding Transactions with Related Parties)

Attribution	Name of Company, etc.	Percentage of Voting Rights Held		Relationship with the Related Party	Content of Transactions	Transaction Amount (Millions of yen)	Account Item	Balance at the End of Fiscal Year (Millions of yen)
Subsidiary	Sumitomo (S.H.I.) Construction Machinery Co., Ltd.	directly held	100%	Interlocking officers	Guarantee obligation	10,104	—	—
Subsidiary	Sumiju SCE (Xiamen) Construction Machinery Co., Ltd.	indirectly held	51%	Interlocking officers of subsidiary	Guarantee obligation	10,075	—	—
Subsidiary	Sumitomo Heavy Industries Material Handling Systems Co., Ltd.	directly held	82.8%	Interlocking officers of subsidiary	Guarantee obligation	5,020	—	—
Subsidiary	Sumitomo Heavy Industries (USA), Inc.	directly held	100%	Interlocking officers	Guarantee obligation	4,821	—	—

(Notes) The above transaction amounts do not include consumption tax, etc.

(Notes Regarding Amounts Per Share)

(1) Net asset per share ¥258.61

(2) Net income per share ¥30.78

(Notes to Important Subsequent Events)

None applicable

(Other Notes)

1. Revaluation of Land

On March 31, 2002, the Company revalued its land used for business operations in accordance with the Act on Revaluation of Land (Act No. 34 promulgated on March 31, 1998) and the Act for Partial Revision of the Act on Revaluation of Land (Act No. 19 promulgated on March 31, 2001).

With respect to the revaluation difference, in accordance with the Act for Partial Revision of the Act on Revaluation of Land (Act No. 24 promulgated on March 31, 1999), the amount of tax relevant to such revaluation difference was stated in the section of liabilities as "Deferred tax liabilities on land revaluation" and the amount of revaluation difference less the amount of such deferred tax liabilities is stated in the section of net assets as "Land revaluation difference."

Method of revaluation:

While the land value was obtained by making a reasonable adjustment to the appraised amount for purposes of property tax as provided in Article 2, Item 3 of the Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119 promulgated on March 31, 1998), the value of some of the land was obtained based on the licensed real estate appraiser's appraised value as set forth in Article 2, Item 5 of the Order.

Date of revaluation:	March 31, 2002
Difference between the current value of the land at the end of this fiscal year and its book value after revaluation:	¥(18,854) million

Appropriation of the land revaluation difference to payment of dividends is restricted in accordance with the provisions of Article 158, Item 3 of the Ordinance on Company Accounting.

2. Impairment Losses

(1) The Company booked the following impairment losses by asset group in the fiscal year under review.

Application	Location	Type	Amount (Millions of yen)
Business property	Nishitokyo-shi, Tokyo and other locations	Buildings, etc.	274
Idle	Saijo-shi, Ehime and other locations	Land, etc.	237

(2) Reason for recognizing the impairment losses

Mainly due to the decline in profitability, the Company can no longer expect to collect invested amounts. Accordingly, we decided to apply impairment loss to these assets.

(3) Asset grouping method

The asset grouping for the Company was made based on business segments. However, idle assets with no expected future use were categorized individually.

(4) Method to calculate collectible amounts

The collectible amounts are calculated mainly based on net sale value obtained by deducting the asset disposal cost from the asset disposal value.

3. Treatment of Fractional Amounts

Stated amounts are rounded off for fractions less than units.