

(Translation)

Notice of the 122nd Ordinary General Meeting of Shareholders

Sumitomo Heavy Industries, Ltd.

Securities code: 6302

To our shareholders

I would like to express our sincere gratitude for your continued support and patronage. Here is the Notice of the Company's 122nd Ordinary General Meeting of Shareholders to be held on Thursday, June 28, 2018. Please see the attachments for details.

Shunsuke Betsukawa
President and CEO

Business Principles

Corporate Mission Statement

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

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

Our Values

■ **Customer First:**

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

■ **Embrace Changes:**

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

■ **Commitment to Technology and Innovation:**

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

■ **Respect People:**

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

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

June 6, 2018

Sumitomo Heavy Industries, Ltd.
1-1, Osaki 2-chome, Shinagawa-ku, Tokyo, Japan

Notice of the 122nd Ordinary General Meeting of Shareholders

Dear Shareholders:

You are cordially invited to attend the Company's 122nd Ordinary General Meeting of Shareholders which will be held on the date and at the time and place shown below for the purposes stated below.

If you are unable to attend the meeting, you may kindly review the attached reference documents indicated hereinafter and submit your vote by 6:00 p.m. on Wednesday, June 27, 2018, by mail or via the Internet.

Sincerely yours,
Shunsuke Betsukawa
President and CEO

Procedure for the Exercise of Voting Rights:

■ **Voting by Attending the Meeting**

Please submit the enclosed voting instruction card at the reception desk.

■ **Voting by Mail**

Please return to us the enclosed voting instruction card **no later than 6:00 p.m. on Wednesday, June 27, 2018**, indicating your approval or disapproval for each agenda item.

■ **Voting via the Internet**

Please input your approval or disapproval for each agenda item via the Internet **no later than 6:00 p.m. on Wednesday, June 27, 2018**.

Details

- 1. Date and Time:** Thursday, June 28, 2018, at 10:00 a.m. (Open at 9:00 a.m.)
- 2. Place:** Conference Room, 25th Floor, Head Office of the Company
ThinkPark Tower, 1-1, Osaki 2-chome, Shinagawa-ku, Tokyo, Japan
- 3. Purposes of the Meeting:**

Matters to be Reported:

1. The contents of the Company's Business Report and Consolidated Financial Statements for the 122nd fiscal year (from April 1, 2017 to March 31, 2018) and the results of the audit by the Independent Auditor and Board of Corporate Auditors of the Consolidated Financial Statements
2. The contents of the Company's Financial Statements for the 122nd fiscal year (from April 1, 2017 to March 31, 2018)

Matters Requiring Shareholders' Resolutions:

- | | |
|----------------------|---|
| Agenda Item 1 | Disposition of Retained Earnings |
| Agenda Item 2 | Election of Ten Directors |
| Agenda Item 3 | Election of One Corporate Auditor |
| Agenda Item 4 | Election of One Alternative Corporate Auditor |
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Other Matters Regarding this Notice

- Please note that among the documents that should be provided together with this Notice, the Basic Policy on Position of the Person Controlling Decisions on Financial and Business Policies of the Company, the Consolidated Statement of Changes in Net Assets, the Notes to Consolidated Financial Statements, the Statement of Changes in Net Assets and the Notes to Financial Statements are published on the Company's website in accordance with the applicable laws and regulations and Article 16 of the Articles of Incorporation.
- As part of the Business and Financial Report, the above Basic Policy on Position of the Person Controlling Decisions on Financial and Business Policies of the Company is subject to auditing by the Corporate Auditors. As part of the Consolidated Financial Statements and the Financial Statements, the Consolidated Statement of Changes in Net Assets, the Notes to Consolidated Financial Statements, the Statement of Changes in Net Assets and the Notes to Financial Statements are subject to auditing by the Independent Auditor and Corporate Auditors.
- If it becomes necessary to revise any of the matters contained in the Reference Documents for the Shareholders' Meeting, the Business and Financial Report, the Consolidated Financial Statements or the Financial Statements, such revisions will be posted on the Company's website.

The Company's website
<http://www.shi.co.jp>

Reference Documents for the Shareholders' Meeting

Agenda Item 1: Disposition of Retained Earnings

The Company's general policy for the distribution of profits is to provide shareholders with dividend payments proportionate to the fiscal year's profits, while giving due consideration to securing retained earnings necessary to achieve long-term and stable business development. The Company determines its dividend payment amounts after comprehensively considering the above factors. The payout ratio is maintained basically at 30% over the period covered by the Medium-Term Management Plan 2019.

With regard to the year-end dividend for the fiscal year under review, in line with the above dividend policy and in consideration of the Company's performance for the 122nd fiscal year, the current business environment and the need to secure retained earnings for the future growth of the Company, it is hereby proposed that the year-end dividend for the 122nd fiscal year be as follows:

Year-end dividend for the 122nd fiscal year:

(1) Type of dividend: Cash

(2) Matters related to the distribution of dividends to shareholders and the total dividend amount:

Amount of dividend: ¥45.00 per share of the Company's common stock

Total dividends: ¥5,514,228,045

For your reference:

The Company carried out a one-for-five common share consolidation as of October 1, 2017. The Company paid an interim dividend of ¥8 per share with a record date of September 30, 2017, which was prior to the share consolidation. Due to this, when calculated based on the state after the share consolidation, the annual dividend per share is ¥85 per share, comprising an interim dividend of ¥40 and a year-end dividend of ¥45.

(3) Effective date of dividend appropriated from retained earnings:

June 29, 2018

Agenda Item 2: Election of Ten Directors

The terms of office of all ten Directors will expire at the close of this General Meeting; therefore, the election of ten Directors including two Outside Directors is requested.

The candidates for Directors are as follows:

No.	Nature of Candidacy	Name	Current Positions and Responsibilities at the Company	Attendance at Board of Directors Meetings
1	Reappointment	Yoshinobu Nakamura	Representative Director and Chairman of the Board Chairperson of the Board of Directors Nomination Compensation	15/15 meetings (100%)
2	Reappointment	Shunsuke Betsukawa	Representative Director and President & CEO Nomination Compensation	15/15 meetings (100%)
3	Reappointment	Yoshiyuki Tomita	Representative Director and Executive Vice President, General Manager of Export Administration Department, General Manager of Corporate Technology Operations Group	15/15 meetings (100%)
4	Reappointment	Toshiharu Tanaka	Director and Executive Vice President General Manager of Power Transmission & Controls Group	15/15 meetings (100%)
5	New Candidate	Tetsuya Okamura	Executive Vice President General Manager of Industrial Equipment Division	—
6	New Candidate	Hideo Suzuki	Executive Vice President General Manager of Corporate Finance, Accounting & Administration Group	—
7	Reappointment	Eiji Kojima	Director and Senior Vice President General Manager of Energy & Environment Group	11/11 meetings (100%)
8	Reappointment	Shinji Shimomura	Director and Executive Vice President	15/15 meetings (100%)
9	Reappointment Outside Independent	Susumu Takahashi	Outside Director Nomination Compensation	14/15 meetings (93%)
10	Reappointment Outside Independent	Hideo Kojima	Outside Director Nomination (Chairperson) Compensation (Chairperson)	15/15 meetings (100%)

Reappointment	: Candidate to be reelected as a Director
New Candidate	: Candidate to be newly elected as a Director
Outside	: Candidate for Outside Director
Independent	: Independent Officer set forth by the Tokyo Stock Exchange
Nomination	: Member of the Nomination Committee
Compensation	: Member of the Compensation Committee

(Reference) The Policies on and Procedures for Nominating Director Candidates and the Independence Standards for Outside Officers stipulated by the Company are stated on page 17 and page 18, respectively.

No. **1**

**Yoshinobu
Nakamura**

Reappointment

Nomination

Compensation

(Born on October 30, 1949)



Number of shares of the
Company held
56,789 shares

Tenure as Director
13 years

Attendance at Board of
Directors Meetings
15/15 meetings (100%)

Career Summary, and Positions and Responsibilities at the Company

April 1975	Joined the Company
June 2002	Senior Vice President, General Manager of Laser System Division
June 2003	Senior Vice President, General Manager of Precision Machinery Group
June 2004	Executive Vice President, General Manager of Precision Machinery Group
October 2004	Executive Vice President, General Manager of Precision Machinery Group, and General Manager of Mechatronics Division
June 2005	Director and Executive Vice President, General Manager of Precision Machinery Group, and General Manager of Mechatronics Division
April 2007	Representative Director and President & CEO
April 2013	Representative Director and Chairman of the Board , to date

Significant Positions Held at Other Companies

None

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for Director

Mr. Yoshinobu Nakamura was appointed as the Representative Director and President in 2007 after serving as the person in charge of the Precision Machinery segment. He focused on globalization and innovation and formulated and implemented two medium-term management plans titled “Global 21” and “Innovation 21.” Since being appointed as the Representative Director and Chairman of the Board in 2013, he, as the Chairperson of the Board of Directors, has encouraged the enhancement of governance systems and has been responsible for the management of the Company Group.

Since he has a high-level of management knowledge and supervising ability, the Company has determined that he is qualified to serve as a Director of the Company, and hereby requests his reappointment.

No. 2

Shunsuke Betsukawa

Reappointment

Nomination

Compensation

(Born on May 9, 1954)



Number of shares of the
Company held
19,469 shares

Tenure as Director
9 years

Attendance at Board of
Directors Meetings
15/15 meetings (100%)

Career Summary, and Positions and Responsibilities at the Company

April 1978	Joined the Company
April 2007	Senior Vice President, General Manager of Corporate Finance, Accounting & Administration Group
April 2009	Senior Vice President, General Manager of Corporate Finance, Accounting & Administration Group, and General Manager of Corporate Planning and Development Department
June 2009	Director and Senior Vice President, General Manager of Corporate Finance, Accounting & Administration Group, and General Manager of Corporate Planning and Development Department
April 2010	Director and Executive Vice President, General Manager of Corporate Finance, Accounting & Administration Group
April 2011	Representative Director and Executive Vice President & CFO, General Manager of Corporate Finance, Accounting & Administration Group, and General Manager of Export Administration Department
April 2012	Representative Director and Senior Executive Vice President & CFO, General Manager of Export Administration Department
April 2013	Representative Director and President & CEO , to date

Significant Positions Held at Other Companies

None

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for Director

Mr. Shunsuke Betsukawa, as the person in charge of the Finance, Accounting, and Corporate Planning divisions, took the initiative in managing profitability across the business, enhancing the financial position, and formulating and implementing the strategies for the whole Company Group. After being appointed as the Representative Director and President in 2013, he formulated the medium-term management plan titled “Medium-Term Management Plan 2016” and promoted the building of a robust business structure. He newly started the implementation of the “Medium-Term Management Plan 2019” in fiscal year 2017, and he, as the CEO, has directed the management of the Company Group.

Since he has a high-level of management knowledge and supervising ability, the Company has determined that he is qualified to serve as a Director of the Company, and hereby requests his reappointment.

No. 3

**Yoshiyuki
Tomita**

Reappointment

(Born on May 2, 1956)



Number of shares of the
Company held
2,523 shares

Tenure as Director
6 years

Attendance at Board of
Directors Meetings
15/15 meetings (100%)

Career Summary, and Positions and Responsibilities at the Company

April 1981	Joined the Company
April 2011	Vice President, General Manager of Research & Development Center, Corporate Technology Operations Group
June 2012	Director and Vice President, General Manager of Research & Development Center, Corporate Technology Operations Group
April 2014	Director and Senior Vice President, General Manager of Corporate Technology Operations Group
April 2016	Director and Executive Vice President, General Manager of Corporate Technology Operations Group
April 2018	Representative Director and Executive Vice President, General Manager of Export Administration Department, Corporate Technology Operations Group, to date

Significant Positions Held at Other Companies

None

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for Director

Mr. Yoshiyuki Tomita has held key positions in the technology divisions, and has contributed to the technology development in the Company over a long period. He was appointed as a Vice President in 2011, a Director in 2012, and a Senior Vice President in 2014, and he was promoted to be an Executive Vice President in 2016. In April 2018, he was appointed as Representative Director. In addition to leading the Group's research and development as the head of the technology divisions, he assists the President across the business and has been responsible for the management of the Company Group.

Since he has a high-level of knowledge of the technologies which constitute the Company Group's foundation, a high-level of management knowledge, and supervising ability, the Company has determined that he is qualified to serve as a Director of the Company, and hereby requests his reappointment.

No. **4**

**Toshiharu
Tanaka**

Reappointment

(Born on January 30, 1959)



Number of shares of the
Company held
7,619 shares

Tenure as Director
5 years

Attendance at Board of
Directors Meetings
15/15 meetings (100%)

Career Summary, and Positions and Responsibilities at the Company

April 1983	Joined the Company
April 2011	General Manager of Precision Equipment Group
April 2013	Senior Vice President, General Manager of Precision Equipment Group
June 2013	Director and Senior Vice President, General Manager of Precision Equipment Group
April 2014	Director and Senior Vice President, General Manager of Overseas Sales Department, Power Transmission & Controls Group
October 2014	Director and Senior Vice President, General Manager of Power Transmission & Controls Group
April 2015	Director and Executive Vice President, General Manager of Power Transmission & Controls Group, to date

Significant Positions Held at Other Companies

None

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for Director

After being appointed as General Manager of 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 to be an Executive Vice President in 2015, and has been responsible for the management of the Company Group.

Since he has a high-level of management knowledge and supervising ability, the Company has determined that he is qualified to serve as a Director of the Company, and hereby requests his reappointment.

No. **5**

**Tetsuya
Okamura**

New Candidate

(Born on May 5, 1956)



Number of shares of the
Company held
1,869 shares

Career Summary, and Positions and Responsibilities at the Company

April 1980	Joined the Company
April 2003	Principal Engineer of Engineering Department, Plastic Machinery Division
April 2005	General Manager of Engineering Department, Plastic Machinery Division
April 2007	General Manager of Planning & Control Department, Plastic Machinery Division
March 2008	Managing Director & CEO of Demag Ergotech GmbH
April 2012	Senior Vice President of the Company
April 2017	Senior Vice President, General Manager of Industrial Equipment Division
April 2018	Executive Vice President, General Manager of Industrial Equipment Division, to date

Significant Positions Held at Other Companies

None

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for 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 has contributed to strengthening the competitiveness of the Company Group's plastic machinery business. In 2017, he was appointed as the General Manager of the Industrial Equipment segment, and in 2018, he was promoted to Executive Vice President. 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, the Company has determined that he is qualified to serve as a Director of the Company, and hereby requests his appointment.

No. **6**

Hideo Suzuki

New Candidate

(Born on January 7, 1960)



Number of shares of the
Company held
5,564 shares

Career Summary, and Positions and Responsibilities at the Company

April 1982	Joined the Company
April 2005	General Manager of SHI Accounting Service Group of SHI Financial Services Co., Ltd.
June 2005	Director of SHI Financial Services Co., Ltd.
March 2006	Representative Director and President of SHI Financial Services Co., Ltd.
April 2008	General Manager of Corporate Accounting Department, Corporate Finance, Accounting & Administration Group of the Company
April 2011	Acting General Manager of Corporate Finance, Accounting & Administration Group
April 2012	General Manager of Corporate Finance, Accounting & Administration Group
April 2014	Senior Vice President, General Manager of Corporate Finance, Accounting & Administration Group
April 2018	Executive Vice President, General Manager of Corporate Finance, Accounting & Administration Group, to date

Significant Positions Held at Other Companies

None

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for Director

After being appointed as General Manager of Corporate Finance, Accounting & Administration Group in 2012, Mr. Hideo Suzuki was appointed as a Senior Vice President in 2014. He was then promoted to be an Executive Vice President in 2018. As the head of the Corporate Finance, Accounting & Administration Group, he is working to manage the Company 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, the Company has determined that he is qualified to serve as a Director of the Company, and hereby requests his appointment.

No. **7**

Eiji Kojima

Reappointment

(Born on January 3, 1960)



Number of shares of the Company held
1,158 shares

Tenure as Director
1 year

Attendance at Board of Directors Meetings
11/11 meetings (100%)

Career Summary, and Positions and Responsibilities at the Company

April 1984	Joined the Company
April 2006	Principal Engineer of Engineering Department, Mechatronics Division
May 2009	General Manager of Engineering Department, Mechatronics Division
April 2010	General Manager of Electronic Machinery System Department, Mechatronics Division
April 2011	General Manager of Planning & Control Department, Mechatronics Division
November 2013	General Manager of Mechatronics Division
April 2016	Senior Vice President, General Manager of Mechatronics Division
July 2016	Senior Vice President, General Manager of Energy & Environment Group
June 2017	Director and Senior Vice President, General Manager of Energy & Environment Group, to date

Significant Positions Held at Other Companies

None

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for Director

After being appointed as General Manager of Mechatronics Division in 2013, Mr. Eiji Kojima has performed his duties as the person in charge of the business that has driven the control technologies across the Company Group. In 2016, he was appointed as a Senior Vice President, and the same year he was appointed as General Manager of the Energy & Environment Group. He has advanced initiatives to strengthen the business competitiveness and build the competitive advantage. In 2017, he was appointed as a Director, and in this role he has been responsible for the management of the Company Group.

Since he has a high-level of management knowledge and supervising ability, the Company has determined that he is qualified to serve as a Director of the Company, and hereby requests his reappointment.

No. 8

Shinji Shimomura

Reappointment

(Born on February 3, 1957)



Number of shares of the Company held
3,971 shares

Tenure as Director
2 years

Attendance at Board of Directors Meetings
15/15 meetings (100%)

Career Summary, and Positions and Responsibilities at the Company

April 1982	Joined the Company
April 2005	Manufacturing Manager of Steel Structure & Process Equipment Division
July 2008	General Manager of Corporate Production Engineering Department
April 2012	Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
April 2013	Executive Managing Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
April 2014	Senior Executive Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
April 2014	Vice President of the Company
April 2015	Senior Vice President
April 2015	Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd., to date
April 2016	Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd., to date
June 2016	Director and Senior Vice President of the Company
April 2018	Director and Executive Vice President, to date

Significant Positions Held at Other Companies

Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.

Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for Director

Since being appointed as a Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd. in 2012, Mr. Shinji Shimomura has accomplished highly in the Construction Machinery segment. In 2014, he was appointed as a Vice President of the Company, and in 2015, he was appointed as the Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd., to serve concurrently with his appointment as a Senior Vice President of the Company. In 2016, he was appointed as a Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd., and was appointed as a Director of the Company. In 2018, he was promoted to be an Executive Vice President. He is contributing to the business growth of the Construction Machinery segment, and based on his extensive experience, he has been responsible for the management of the Company Group.

Since he has a high-level of management knowledge and supervising ability, the Company has determined that he is qualified to serve as a Director of the Company, and hereby requests his reappointment.

No. **9**

**Susumu
Takahashi**

Reappointment

Outside

Independent

Nomination

Compensation

(Born on January 28, 1953)



Career Summary, and Positions and Responsibilities at the Company

April 1976 Joined the Sumitomo Bank, Limited (resigned in January 2004)
February 2004 Counselor of The Japan Research Institute, Limited
August 2005 Director General for Economic Research, Cabinet Office
August 2007 Vice Chairman of The Japan Research Institute, Limited
June 2011 Chairman of The Japan Research Institute, Limited
June 2014 **Outside Director of the Company**, to date
April 2018 **Chairman Emeritus of The Japan Research Institute, Limited**, to date

Number of shares of the
Company held

0 shares

Tenure as Director

4 years

Attendance at Board of
Directors Meetings

14/15 meetings (93%)

Significant Positions Held at Other Companies

Chairman Emeritus of The Japan Research Institute, Limited
Member of the Council on Economic and Fiscal Policy, Cabinet Office
Member of the Council for Designing 100-Year Life Society, Cabinet Secretariat

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for Outside Director

Although Mr. Susumu Takahashi has no experience in corporate management other than serving as Outside Director, he possesses high-level knowledge in finance and management, and has broad experience of actual professional practice in both private sector and government institutions.

The Company looks forward to Mr. Takahashi providing advice for its sustainable growth and the improvement of its corporate value, and his supervision of the Company's management. Also, he has performed his duties through his proactive comments at Board of Directors meetings and through his activities as a member of the Nomination Committee and the Compensation Committee, so the Company has determined that he is qualified to serve as an Outside Director of the Company, and hereby requests his reappointment.

- The Company has designated Mr. Susumu Takahashi as an independent officer and notified the Tokyo Stock Exchange to that effect.
 - The Company has entered into a contract with Mr. Susumu Takahashi to limit his liability for damages under Article 423, paragraph 1 of the Companies Act to 10,000,000 yen or the minimum amount of liability as provided in Article 425, paragraph 1 of the Companies Act, whichever is higher. If his reappointment is approved, the Company intends to enter anew into such a limitation of liability contract with Mr. Takahashi.
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No. **10**

Hideo Kojima

Reappointment

Outside

Independent

Nomination (Chairperson)

Compensation (Chairperson)

(Born on November 30, 1948)



Number of shares of the Company held

0 shares

Tenure as Director

3 years

Attendance at Board of Directors Meetings

15/15 meetings (100%)

Career Summary, and Positions and Responsibilities at the Company

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

Significant Positions Held at Other Companies

Certified public accountant, Hideo Kojima CPA Office

Outside Director (Audit and Supervisory Committee Member) of Alpine Electronics, Inc.

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for Outside Director

Although Mr. Hideo Kojima has no experience in corporate management other than serving as Outside Director and Outside Corporate Auditor, he, as a certified public accountant, is an expert in finance and accounting and has long experience of actual professional practice. Such extensive experience and ample knowledge will be extremely useful for the Company.

The Company looks forward to Mr. Kojima providing advice for its sustainable growth and the improvement of its corporate value, and his supervision of the Company's management. Also, he has performed his duties through his proactive comments at Board of Directors meetings and through his activities as the Chair of the Compensation Committee and Chair of the Nomination Committee, so the Company has determined that he is qualified to serve as an Outside Director, and hereby requests his reappointment.

- The Company has designated Mr. Hideo Kojima as an independent officer and notified the Tokyo Stock Exchange to that effect.
 - The Company has entered into a contract with Mr. Hideo Kojima to limit his liability for damages under Article 423, paragraph 1 of the Companies Act to 10,000,000 yen or the minimum amount of liability as provided in Article 425, paragraph 1 of the Companies Act, whichever is higher. If his reappointment is approved, the Company intends to enter anew into such a limitation of liability contract with Mr. Kojima.
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Agenda Item 3: Election of One Corporate Auditor

Corporate Auditor Kazumi Fujita will resign at the close of this General Meeting; therefore, the election of one corporate auditor as his substitute is requested.

With regard to this agenda item, the consent of the Board of Corporate Auditors has been obtained.

The candidate for Corporate Auditor is as follows:

Jun Nogusa

New Candidate

(Born on October 25, 1956)



Number of shares of the Company held
899 shares

Career Summary and Positions at the Company

- April 1979 Joined the Company
- April 2005 General Manager of Planning & Control Department, Laser System Division, Precision Machinery Group
- April 2006 General Manager of Planning & Control Department, Electro-Mechanical Systems Division
- April 2008 Chief Staff Manager of Planning & Control Department, Mechatronics Division
- May 2009 General Manager of Planning & Control Department, Mechatronics Division
- April 2011 Chief Staff Manager of Corporate Planning & Development Department
- April 2014 General Manager of Internal Control Department
- April 2018 **Senior General Manager of Internal Control Department, to date**

Significant Positions Held at Other Companies

None

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for Corporate Auditor

After being the head of planning and management in a business division, in 2014, Mr. Jun Nogusa was appointed as General Manager of the Internal Control Department. Since then, he has been advancing initiatives to build the Company Group’s internal control systems along with compliance efforts.

Since he has extensive experience in planning and control division, internal control division, and other division and has broad insight, the Company has determined that he is capable of working with other Corporate Auditors to fulfill his responsibilities as a Corporate Auditor, and hereby requests his appointment.

(Reference) The Policies on and Procedures for Nominating Corporate Auditor Candidates stipulated by the Company are stated on page 17.

Agenda Item 4: Election of One Alternative Corporate Auditor

The election of Mr. Tomoyuki Kato, Alternative Corporate Auditor, made at the 121st Ordinary General Meeting of Shareholders held on June 29, 2017, will cease to be effective at the commencement of this General Meeting. As a precautionary measure against the possibility of the Company lacking the minimum number of Outside Corporate Auditors designated by laws and regulations, the election of one Alternative Corporate Auditor is requested.

With regard to this agenda item, the consent of the Board of Corporate Auditors has been obtained.

The candidate for Alternative Corporate Auditor is as follows:

Tomoyuki Kato

Outside Independent

(Born on August 14, 1944)



Number of shares of the Company held
0 shares

Career Summary and Positions at the Company

- April 1976 Registered as a **certified public accountant**, to date
- July 1992 Representative Partner, Ota-Showa Auditors Office
- July 2006 Established **Kato CPA Office**, to date
- June 2007 Outside Corporate Auditor of Toyo Wharf & Warehouse Co., Ltd.
- June 2016 Outside Corporate Auditor of the Company
- June 2017 **Alternative Corporate Auditor of the Company**, to date

Significant Positions Held at Other Companies

Certified Public Accountant of Kato CPA Office

Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

Reasons for Selection as Candidate for Outside Corporate Auditor

Although Mr. Tomoyuki Kato has no experience in corporate management other than serving as Outside Corporate Auditor, he, as a certified public accountant, is an expert in finance and accounting and has long experience of actual professional practice. Such extensive experience and ample knowledge will be extremely useful for the Company.

The Company has determined that Mr. Kato can conduct effective audits of the Company’s management from objective and independent standpoints as an Outside Corporate Auditor, and hereby requests his appointment.

- If Mr. Tomoyuki Kato is appointed as an Outside Corporate Auditor after this agenda item is approved, the Company intends to designate him as an independent officer and notify the Tokyo Stock Exchange to that effect.
- If Mr. Tomoyuki Kato is appointed as an Outside Corporate Auditor after this agenda item is approved, the Company intends to enter into a contract with him to limit his liability for damages under Article 423, paragraph 1 of the Companies Act to 10,000,000 yen or the minimum amount of liability as provided in Article 425, paragraph 1 of the Companies Act, whichever is higher.

(Reference) The Policies on and Procedures for Nominating Corporate Auditor Candidates and the Independence Standards for Outside Officers stipulated by the Company are stated on page 17 and page 18, respectively.

(Reference) Corporate Governance of the Company

Policies on and Procedures for Nominating Director Candidates

1. The Company's director candidates shall be nominated from those who satisfy the matters specified in each of the following items:
 - (i) a person who has excellent character, insights, and abilities, as well as a great sense of ethics;
 - (ii) a person who has the capability to view the overall management system of the Company, the intrinsic sense of risks, and extensive knowledge on management; and
 - (iii) a person who may understand and embody the Sumitomo's business philosophy and the Company Group's business principles, among others.
2. In nominating director candidates, the Company shall consider the balance of the expertise and experience (including management and business experience and experience in developing global business) of each director candidate, and diversity, among other factors, to be able to realize effective corporate governance by the Board of Directors as a whole.
3. Inside director candidates shall be nominated also in consideration of their association with the Company's management strategy and business scope, and their past experience in management, business, and their specialized areas, among other fields.
4. Outside director candidates shall be nominated in consideration of not only their role to supervise the Company's management independently from the management team and appropriately reflect stakeholders' viewpoints, but also of their abundant experience as a manager or extensive knowledge on management, among other factors.
5. Director candidates shall be determined at a Board of Directors meeting following examination by and reporting of the Nomination Committee, an advisory body to the Board of Directors.

Policies on and Procedures for Nominating Corporate Auditor Candidates

1. The Company's corporate auditor candidates (including substitute corporate auditor candidates; the same will apply hereinafter) shall be nominated from those who satisfy the matters specified in each of the following items and who have the ability to make appropriate judgements from an independent and objective standpoint:
 - (i) a person who has excellent character, insights, and abilities, as well as a great sense of ethics;
 - (ii) a person who has the capability to view the overall management system of the Company, the intrinsic sense of risks, and extensive knowledge on management; and
 - (iii) a person who may understand and embody the Sumitomo's business philosophy and the Company Group's business principles, among others.
2. In nominating corporate auditor candidates, the Company shall consider the balance of the expertise and experience (including management and business experience) of each corporate auditor candidate, and diversity, among other factors, to be able to realize effective audits by the Board of Corporate Auditors. In addition, the Company shall nominate at least one candidate who has appropriate knowledge on finance and accounting.
3. Inside corporate auditor candidates shall be nominated also in consideration of their understanding about the Company's management strategy, management, and business.
4. Outside corporate auditor candidates shall be nominated also in consideration of their abundant experience as a manager and extensive knowledge on finance, accounting, and legal affairs, among other areas.
5. Corporate auditor candidates shall be determined at a Board of Directors meeting following examination by and reporting of the Nomination Committee, an advisory body to the Board of Directors, and consent from the Board of Corporate Auditors.

Independence Standards for Outside Officers

1. If none of the following items apply to an Outside Director or an Outside Corporate Auditor, the Company shall consider the Outside Director or the Outside Corporate Auditor to be independent from the Company. However, (xiv) below shall only apply to an Outside Corporate Auditor.
 - (i) A person who is or was a person performing an executive role (*1) at the Company Group (*2).
 - (ii) A person who is a certified public accountant and is the Company's accounting auditor or a certified public accountant who belongs to the audit firm that is the Company's accounting auditor.
 - (iii) A consultant, an accounting expert, or a legal expert who receives large amount of money or other property (*3) other than officer remuneration from the Company (if the person who receives such property is an organization such as a corporation, a person who belongs to such organization).
 - (iv) A shareholder who owns shares of 10% or more of the Company's total voting rights as of the last day of the last fiscal year (if such shareholder is an organization such as a corporation, a person performing an executive role therein).
 - (v) A person performing an executive role in a corporation whose shares of 10% or more of its total voting rights are owned by the Company as of the last day of the last fiscal year.
 - (vi) A person who is a principal business counterparty of the Company (*4) (if such person is an organization such as a corporation, a person performing an executive role therein).
 - (vii) A person to whom the Company is a principal business counterparty (*5) (if such person is an organization such as a corporation, a person performing an executive role therein).
 - (viii) A person who is a principal lender to the Company (*6) (if such lender is an organization such as a corporation, a person performing an executive role at such organization or its parent company).
 - (ix) A person who receives donations of over 10 million yen annually on average over the last three fiscal years from the Company (if such person is an organization such as a corporation, a person performing an executive role therein).
 - (x) A spouse or a relative within the second degree of kinship of a person to whom any of (i) through (ix) above applies (excluding an unimportant person (*7)).
 - (xi) A person to whom any of (ii) through (ix) above applies within the last three years.
 - (xii) A spouse or a relative within the second degree of kinship of a person to whom any of (i) through (ix) above applies within the last three years (excluding an unimportant person).
 - (xiii) A person performing an executive role in another company with which the Company has a mutual appointment relationship of Outside Officers (*8).
 - (xiv) A spouse or a relative within the second degree of kinship of a person to whom (a) or (b) below applies:
 - (a) a person who is a director performing a nonexecutive role in the Company's subsidiary; or
 - (b) a person who falls under (a) above or a director performing a nonexecutive role at the Company within the last one year.
- (*1) A person performing an executive role refers to an executive director, a Statutory Executive Officer, an Executive Officer, or an employee including a manager (in the case of an organization such as a corporation other than a stock company, an officer, a member, or an employee performing an executive role in such organization).
- (*2) The Company Group refers to the Company and its subsidiaries and affiliated companies.
- (*3) Large amount of money or other property refers to money or other property received by a person if such person received the same over the last three fiscal years with an average amount of (i) 10 million yen or more annually if such person is an individual, or (ii) 2% or more of

such person's average annual consolidated sales if such person is an organization such as a corporation.

- (*4) A person who is a principal business counterparty of the Company is a person to whom the Company's average annual sales over the last three fiscal years comprise 2% or more of the Company's average annual consolidated sales.
 - (*5) A person to whom the Company is a principal business counterparty is a person to whom the Company's average annual payment over the last three fiscal years comprises 2% or more of such person's average annual consolidated sales.
 - (*6) A person who is a principal lender to the Company refers to a person from whom the Company's average balance of borrowings over the last three fiscal years exceeds 2% of the Company's consolidated total assets as of the last day of the last fiscal year.
 - (*7) An unimportant person refers to (i) with regard to a person performing an executive role, a person other than a Director, a Statutory Executive Officer, or an Executive Officer, and (ii) with regard to a specialized advisory firm (an audit firm, law firm, etc.) in consulting-related matters, a person other than a member or a partner (an associate or an employee).
 - (*8) A mutual appointment relationship of Outside Officers refers to a relationship where a person performing an executive role who belongs to the Company is an Outside Officer of another company, and a person performing an executive role who belongs to such other company is an Outside Officer of the Company.
2. Even if any of the items in 1. above apply to an Outside Director or an Outside Corporate Auditor, the Company may appoint such Outside Director or Outside Corporate Auditor as an Independent Outside Director or an Independent Outside Corporate Auditor when it determines that such person is suitable for its Independent Outside Director or Independent Outside Corporate Auditor upon considering such person's character and insight, among others, provided that, it shall publically provide an explanation as to why it has determined that there is no possibility of a conflict of interest with general shareholders.

Policies on and Procedures for Determining the Remuneration of Directors and Executive Officers

1. The remuneration of the Company's directors and executive officers shall consist of basic remuneration; performance-linked remuneration, which shall reflect the performance of the Company and its divisions; and stock purchase remuneration, which shall be paid for the purpose of purchase of the Company shares.
2. For the performance-linked remuneration outlined in the preceding paragraph, various management indicators shall be established to evaluate the performance of the Company and its divisions as performance evaluation indicators, and there shall be a structure to determine remuneration based on those management indicators. The remuneration of executive directors in charge of operational divisions shall reflect the performance of the operational division of which they are in charge. The stock purchase remuneration is the remuneration which shall be paid for the purpose of purchase of the Company shares, and by this remuneration the Company's directors and executive officers shall purchase the Company shares in excess of the amounts stipulated for each position through the officers' shareholding association. the Company's directors and executive officers shall hold these the Company shares during their term of office.
3. The remuneration of outside directors shall consist only of basic remuneration as they shall assume the responsibility to supervise management independently from the business execution division.
4. The remuneration of directors and executive officers shall be determined at a Board of Directors meeting following reports on the remuneration system and standards by the Compensation Committee, an advisory body to the Board of Directors.

Corporate Governance

The Company has established the Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd. The Company is making efforts to enhance its corporate governance, aiming to establish an efficient and highly transparent management structure, in order to increase the Company Group's corporate value and further enhance its reputation among and trustfulness of all stakeholders.

Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd.

The Company's website

Japanese <http://www.shi.co.jp/ir/policy/governance/index.html>

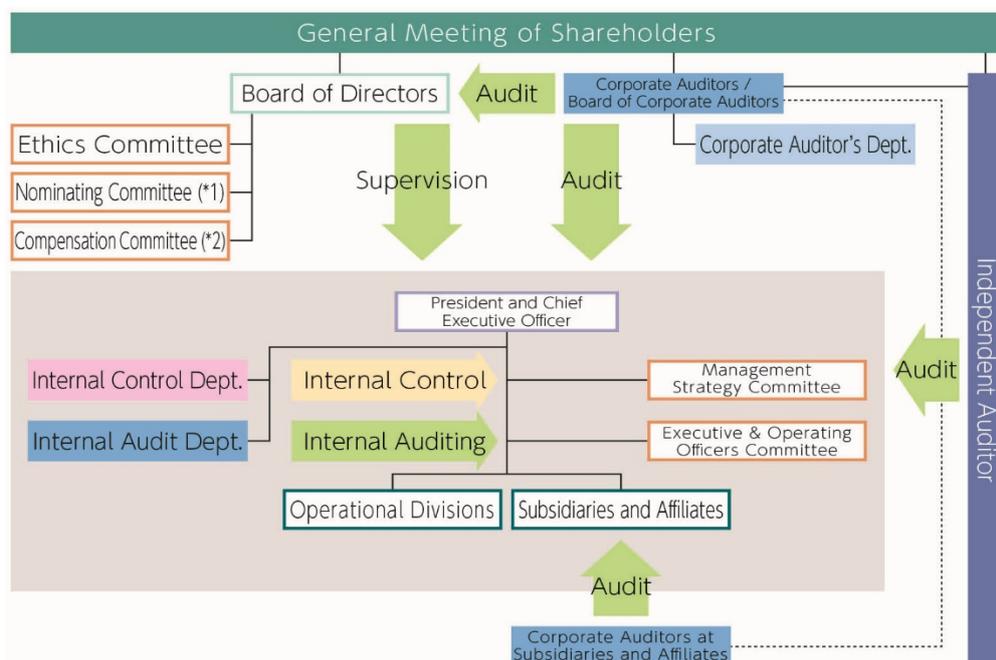
English <http://www.shi.co.jp/english/ir/policy/governance/index.html>

Corporate Governance System

The Company 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 10 directors (the fixed number is 12), of whom two are external directors whose role is to supervise management from an independent stand-point and are in charge of appropriately reflecting the stakeholders' perspective.

The Board of Corporate Auditors is comprised of four corporate auditors (the fixed number is five), 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 the Company's management. They utilize these and provide highly effective audits, as well as provide opinions to the management actively in the meetings of the Board of Directors and meetings of the Executive & Operating Officers Committee, etc.



*1 The Nomination Committee comprises members that include outside directors, and examines and reports regarding the nomination of director and corporate auditor candidates, the dismissal of directors and corporate auditors, and the appointment and removal of the directors with a managerial position and representative director, among other matters, upon an inquiry from the Board of Directors. The Nomination Committee also confirms the successor plans each year for the CEO and other key executives, and reports the progress to the Board of Directors.

*2 The Compensation Committee comprises members that include outside directors and outside corporate auditors, and deliberates and reports regarding the remuneration system and standards of directors and executive officers, among other matters, upon an inquiry from the Board of Directors.

(Attached documents)

BUSINESS AND FINANCIAL REPORT

(April 1, 2017, through March 31, 2018)

I. CURRENT STATUS OF THE COMPANY GROUP

1. PERFORMANCE AND RESULTS OF OPERATIONS

In the fiscal year under review, domestic capital investment was strong in conjunction with the improvement in corporate earnings. Overseas, the US manufacturing industry continued to see a recovery in production, and in China industrial production continued to grow at a high rate. Due to these and other factors, global demand for machinery trended higher. Meanwhile, concerns about trade friction as well as geopolitical risks and elsewhere continued to exist, leading to ongoing uncertainty.

Amid this business environment, the Company Group launched the “Medium-Term Management Plan 2019,” and advanced a number of key strategies, including M&A, capital investment and other growth investment, initiatives aimed at further improving the quality of operations, and aggressive promotion of CSR activities.

As a result, during the fiscal year under review, total orders received by the Company Group were ¥864.0 billion, reaching a historic high, and net sales on a consolidated basis were ¥791.0 billion, also reaching a historic high.

As for profits and losses, operating income was ¥69.9 billion, ordinary income was ¥67.5 billion, and net income attributable to shareholders of the parent company was ¥34.7 billion. In addition, the after-tax ROIC* was 10.3%.

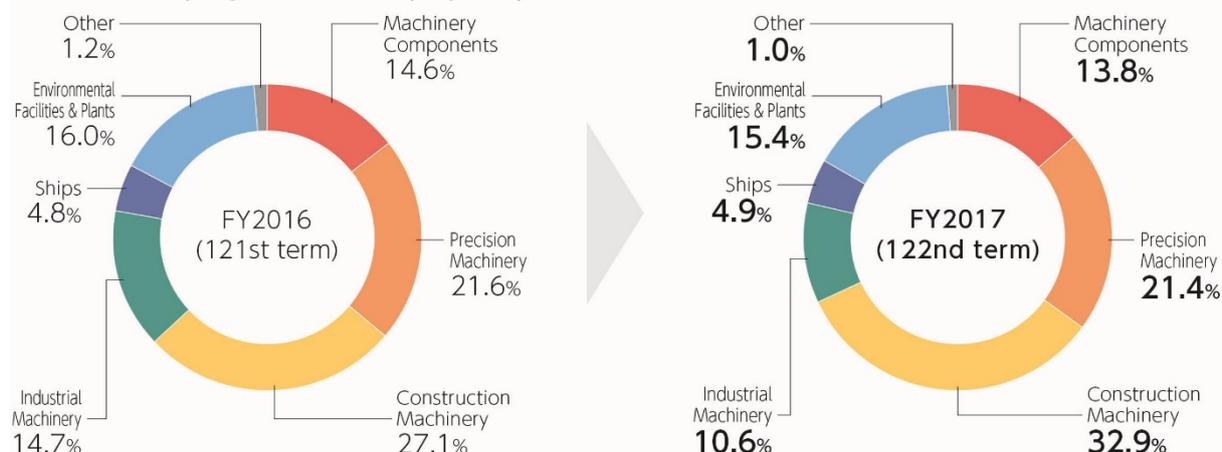
* The ROIC (Return on Invested Capital) is the ratio of after-tax profitability to invested capital, which is an indicator to show the level of profitability in light of the invested capital (a sum of shareholders’ equity and interest-bearing liabilities), thereby showing whether there was sufficient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

■ Financial Highlights

Orders ¥864.0 billion a 21% increase from the previous fiscal year	Net sales ¥791.0 billion a 17% increase from the previous fiscal year	Operating income ¥69.9 billion a 44% increase from the previous fiscal year
Ordinary income ¥67.5 billion a 40% increase from the previous fiscal year	Net income attributable to shareholders of the parent company ¥34.7 billion a 3% increase from the previous fiscal year	ROIC 10.3% (The previous fiscal year: 7.3%)

SUMMARY OF OPERATIONS AND PERFORMANCE BY SEGMENT

Net Sales Ratio by Segment of the Company Group



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

(Billions of yen)

Segment	Orders		Sales		Year-end Backlog of Orders as of March 31,	
	FY2016	FY2017	FY2016	FY2017	2017	2018
Machinery Components	97.4	115.1	98.6	109.4	26.9	32.7
Precision Machinery	154.7	190.5	145.7	169.4	57.3	78.4
Construction Machinery	190.3	265.2	182.5	260.5	53.8	58.5
Industrial Machinery	91.3	87.7	98.9	83.8	95.0	99.0
Ships	30.0	34.9	32.6	38.3	53.3	49.9
Environmental Facilities & Plants	139.4	162.7	107.6	121.9	192.8	233.6
Other	8.0	7.7	8.3	7.8	1.6	1.5
Total	711.1	864.0	674.3	791.0	480.7	553.6

Machinery Components

Principal Business:

Power Transmission and Control Equipment, Motors

The market for small- to medium-sized power transmission and control equipment showed robust growth, along with the market for precision gear reducers for use in robotics. In addition, market conditions for large-scale power transmission and control equipment showed signs of improvement. As a result, both orders and sales increased.



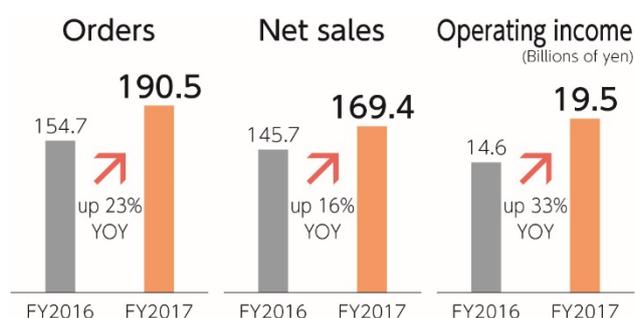
Precision Machinery

Principal Business:

Plastic Injection Molding Machines, Extrusion Laminator Machines, Semiconductor Manufacturing Equipment, Laser Processing Systems, Cryogenic Equipment, Precision-Positioning Stages, Precision Forgings, Control System Defense Equipment, Machining Tools

With respect to the plastics machinery business, strong demand in the electric and electronic sector in China continued. As a result, both orders and sales increased.

In other precision machinery business, demand for semiconductor-related equipment and cryogenic equipment was strong. As a result, both orders and sales increased.



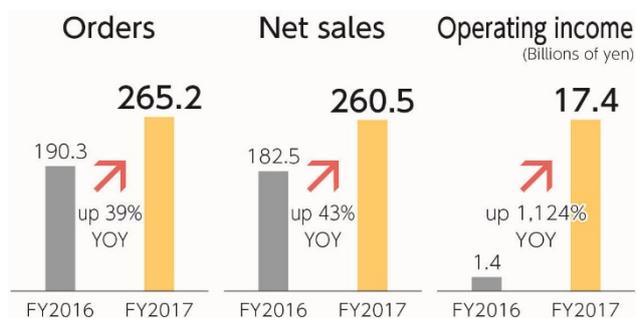
Construction Machinery

Principal Business:

Hydraulic Excavators, Construction Cranes, Road Construction Machinery

With respect to the hydraulic excavator business, demand grew in domestic and overseas markets. As a result, both orders and sales increased.

With respect to the construction crane business, both orders and sales increased due to the recovery trend in the North American market, converting Sumitomo Heavy Industries Construction Cranes Co., Ltd. into a consolidated subsidiary, and other factors.

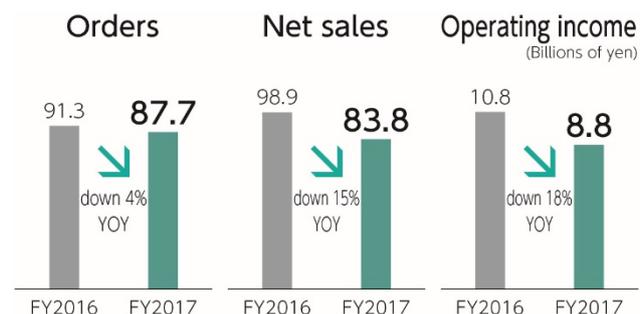


Industrial Machinery

Principal Business:

Cyclotrons, Medical Equipment, Forging Machines, Material Handling Systems, Logistics & Handling Systems, Automated Parking Systems, Turbines, Pumps

Although orders increased for forging machines in the industrial equipment business, orders in the material handling business decreased. As a result, orders in the entire segment decreased. In addition, although sales increased for medical-related equipment in the industrial equipment business, sales in the material handling and turbine businesses decreased. As a result, sales in the entire segment decreased.

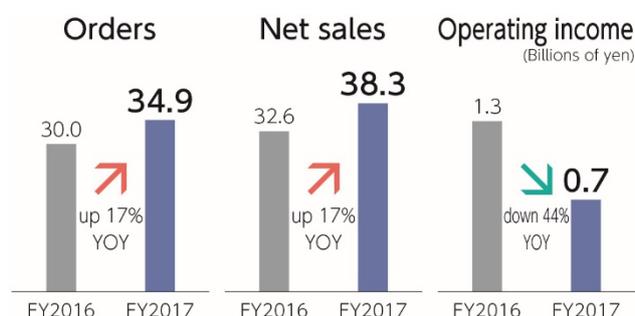


Ships

Principal Business:

Ships

Although market conditions continued to be flagging, the Company Group received orders for four new vessels during the fiscal year under review, one vessel more than the previous fiscal year. With regard to sales, five vessels were delivered during the fiscal year under review, two vessels more than the previous fiscal year.



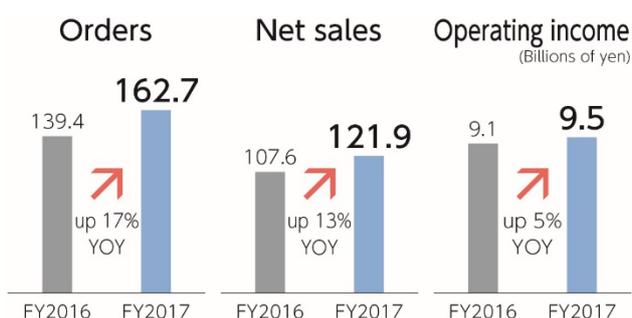
Environmental Facilities & Plants

Principal Business:

Power Generation Systems, Boiler Systems, Industrial Waste Treatment Plants, Air Pollution Prevention Equipment, Water Treatment Systems, Chemical Process Equipment & Plants, Pressure Vessels, Mixing Vessels, Air-Conditioner, Food Production Equipment

In the energy plant business, both orders and sales rose due to the increase in orders for biomass power plants and the conversion of Sumitomo SHI FW Energie B.V. into a consolidated subsidiary, despite the decline in domestic sales.

In the water treatment plant business, orders for long-term operation and maintenance projects decreased. As a result, both orders and sales declined.



Other

Principal Business:

Software, Real Estate

In other businesses, orders were ¥7.7 billion, a 3% decrease from the previous fiscal year; net sales were ¥7.8 billion, a 6% decrease from the previous fiscal year; and operating income was ¥2.1 billion, a 1% decrease from the previous fiscal year.

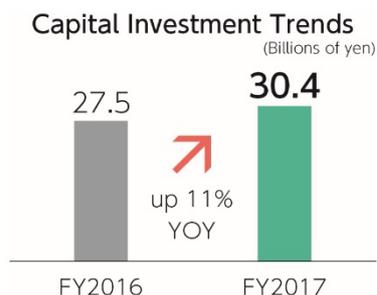
2. CAPITAL INVESTMENT AND OTHER INVESTMENT

(1) Capital investment

During the fiscal year under review, we made proactive capital investments, focusing on core businesses and investment in IT.

Specifically, in the Machinery Components, Precision Machinery, and Construction Machinery segments, we made investments to increase production capacity and update manufacturing facilities and equipment, with the aim of enhancing cost competitiveness. In addition, the Company Group as a whole made investments to renovate existing facilities mainly located in Japan and IT investments required for operational innovation.

As a result, the total amount of capital investment for the fiscal year under review was ¥30.4 billion.

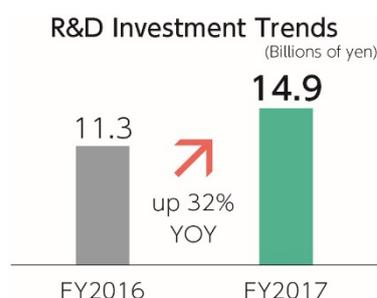


(2) R&D investment

The Company Group aims to contribute towards society through the provision of excellent products and services.

Specifically, we advanced activities to develop first-class products, and invested in the development of ICT/IoT products that will increase customers' profitability, including malfunction detection and remote monitoring.

As a result, the total amount of R&D investment for the fiscal year under review was ¥14.9 billion.



3. FINANCING

During the fiscal year under review, we issued ¥10 billion in unsecured domestic straight bonds and otherwise raised funds to allocate to working capital and funds for equipment.

4. BUSINESS RESTRUCTURING

On June 23, 2017 (local time in the Netherlands), in order to acquire Amec Foster Wheeler plc.'s circulating fluidized bed boiler business, the Company acquired shares of FW Energie B.V. As a result, FW Energie B.V. (currently Sumitomo SHI FW Energie B.V.) became a consolidated subsidiary of the Company.

5. CHALLENGES FACING THE COMPANY GROUP

With respect to the economic environment surrounding our business, in Japan, the moderate recovery is continuing due to the underpinning of private demand by personal consumption and capital investment, as well as the pickup in exports. Personal consumption has picked up as the employment environment has improved, despite sluggish wage growth. In the corporate sector, capital investment has increased modestly in conjunction with the improvement in earnings. Overseas, despite a moderate recovery trend in the global economy overall, concerns about an economic slowdown are growing due to trade sanctions against China and interest rate hikes ahead of schedule in the US.

Priority Issues for Fiscal 2018

During fiscal 2018, which is the middle year of the Medium-Term Management Plan 2019, the Company Group will focus on the following measures to achieve the targets:

1) Achievement of steady growth

As measures for business expansion, focused and timely investments will be made in accordance with the roles of each business, with the aim of achieving steady growth of the Company Group as a whole.

In addition, we will strengthen product capability by not only refining our proprietary technologies nurtured within each product category but also our technologies related to materials and control systems, which are common across our product categories. To this end, we will make the necessary capital investments, investments in development, and secure the necessary personnel ahead of our initial plan.

2) Conversion into a high profit company

We will continue portfolio management and, under the roles within the Company Group, will clarify the target levels of profits and the priority issues based on the growth stage and external environment of each business, and we will promote reallocation of management resources and innovation of the business structure. In the Company Group's leading business segments, including the machinery component and precision machinery businesses, we will set a high target to achieve high growth and high profitability of the entire Group. At the same time, we will set goals to be achieved in all business segments, product categories, and regions, and through such achievements, we will aim to transform the Company Group into a highly profitable company with strong business units at its core.

3) Creation of first-class products and services through persistent efforts for operational quality improvements

(a) Improvement in product quality and promotion of innovation in business process

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

(b) Rigorous compliance

The Company Group considers rigorous compliance as one of its highest priorities and has continued to provide compliance training sessions to officers and employees of the Company and our Group companies to ensure further heightened compliance awareness throughout the Group.

(c) Activities for safety

The Company Group has formulated the Basic Health and Safety Improvement Plan, and the Company is working on the activities related to health and safety as the third phase of implementation of the plan, from fiscal 2017 to fiscal 2019. Based on the Basic Policy for Health and Safety Activities, we will strive to eradicate occupational accidents, and will promote creation of workplace that makes employees healthy in mind and body towards achieving the plan's targets.

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

To realize the effect of synergies between businesses within the Company Group, we will seek corporate integrations and alliances between corporations as necessary. In addition, we will also actively take opportunities for the growth of each business, conduct M&A and business alliances and collaborate with other companies.

5) Active pursuit of CSR

Regarding the four priority fields: "products and services," "environment," "society," and "human resources" stipulated in the CSR Medium-Term Plan, the Company will work on the following measures in fiscal 2018.

In "**products and services**," since fiscal 2017 we have been talking with employees in each business segment about how the Company Group's business contributes to solving social problems, and we have been working to link what we glean from such dialogues with the planning and development of products and services that will contribute to the creation of a sustainable society. In fiscal 2018, we will continue the initiatives and study product planning with a view to solving social issues.

In "**environment**," we will work to reduce the environmental impact of our products throughout their entire lifecycles, and will focus on proactively communicating the results of such efforts to the public. Also, we will work to improve our external evaluation in order to address the ESG investment movement, which has become increasingly dynamic in recent years.

In "**society**," in order to gain the trust of society, we are working with our business counterparties to comply with the CSR procurement guidelines, laws and regulations, as well as social norms, and building sustainable relationships with business counterparties. In fiscal 2018, in order to further advance these efforts, we will continue to provide seminars about CSR procurement guidelines to even more business partners in a wider scale.

In "**human resources**," our activities center on diversity promotion, and we are working to create workplaces where a diverse range of personnel can be utilized. In addition, aiming to help employees achieve a better work-life balance, we will reduce working hours and fully introduce a work-from-home system, as well as introduce a health management system which aims to create healthy workplaces both in terms of mind and body.

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

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

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

(Billions of yen, unless otherwise indicated)

Items	FY2014	FY2015	FY2016	FY2017 (this fiscal year)
Orders	740.8	685.9	711.1	864.0
Net sales	667.1	700.8	674.3	791.0
Operating income	46.0	50.6	48.4	69.9
Ordinary income	45.1	49.1	48.3	67.5
Net income attributable to shareholders of the parent company	24.3	33.1	33.6	34.7
Net income per share of common stock (Yen)	39.71	54.06	54.85	282.83
Total assets	786.0	782.9	796.5	895.6
Shareholders' equity	365.1	382.8	409.2	445.0
Shareholders' equity per share of common stock (Yen)	587.37	614.51	650.47	3,517.33

Note: The Company carried out a one-for-five common share consolidation effective on October 1, 2017. Net assets per share and net income per share have been calculated as if the share consolidation had been carried out on April 1, 2017.

7. MAJOR SUBSIDIARIES (as of March 31, 2018)

Name	Stated Capital (Millions of yen)	Company's Shareholding Ratio (%)	Major Line of Business
Sumitomo (S.H.I.) Construction Machinery Co., Ltd.	16,000	100	Manufacturing and distribution of hydraulic excavators, road construction machinery, etc.
Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.	4,000	100	Domestic distribution of hydraulic excavators, road construction machinery, etc.
Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.	4,000	66	Manufacturing and distribution, and repair of crawler cranes, etc.
Nihon Spindle Manufacturing Co., Ltd.	3,276	100	Manufacturing and distribution of environmental equipment, air conditioner and industrial equipment, etc.
Shin Nippon Machinery Co., Ltd.	2,408	100	Manufacturing and distribution of turbines, pumps, etc.
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.	2,000	100	Manufacturing and distribution of ships, etc.
Sumitomo Heavy Industries Gearbox Co., Ltd.	841	100	Manufacturing and distribution of gears and power transmission and control equipment
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.	480	82.8	Manufacturing and distribution of material handling machines, logistics & handling systems, automated parking systems, etc.
Sumitomo Heavy Industries Environment Co., Ltd.	480	100	Manufacturing and distribution, and maintenance and management of water and sewerage treatment systems, etc.
Sumitomo Heavy Industries Ion Technology Co., Ltd.	480	100	Manufacturing and distribution of ion implanters
Sumitomo Heavy Industries Process Equipment Co., Ltd.	480	100	Manufacturing and distribution of mixing vessels, pressure vessels, coke oven machinery, etc.

Name	Stated Capital (Millions of yen)	Company's Shareholding Ratio (%)	Major Line of Business
Sumitomo Heavy Industries PTC Sales Co., Ltd.	400	100	Distribution of power transmission and control equipment, etc., and provision of related services
LBX Company, LLC (U.S.A.)	49,770 (Thousands of U.S. Dollars)	100	Distribution of hydraulic excavators and provision of related services
Sumitomo Machinery Corporation of America (U.S.A.)	12,423 (Thousands of U.S. Dollars)	100	Manufacturing and distribution of power transmission and control equipment, etc.
LBCE Holdings, Inc. (U.S.A.)	10,618 (Thousands of U.S. Dollars)	100	Control of overall business of construction cranes, etc.
Sumitomo SHI FW Energie B.V. (Netherlands)	19 (Thousands of Euros)	100	Control of circulating fluidized bed boiler business
Sumitomo (SHI) Demag Plastics Machinery GmbH (Germany)	20,025 (Thousands of Euros)	100	Manufacturing and distribution of plastic injection molding machines
Sumitomo (SHI) Cyclo Drive Germany GmbH (Germany)	6,136 (Thousands of Euros)	100	Manufacturing and distribution of power transmission and control equipment
Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd. (China)	798,938 (Thousands of Yuan)	100	Manufacturing and distribution of hydraulic excavators
Sumitomo (SHI) Cyclo Drive China, Ltd. (China)	87,000 (Thousands of Yuan)	100	Manufacturing and distribution of power transmission and control equipment

- Notes:
1. The Company's Shareholding Ratio includes the indirect holdings.
 2. On April 1, 2018, Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. changed its legal name to Sumitomo Heavy Industries Construction Crane Co., Ltd.

8. MAJOR LENDERS (as of March 31, 2018)

Name	Loans Outstanding (Millions of yen)
Sumitomo Mitsui Banking Corporation	19,398
Sumitomo Mitsui Trust Bank, Limited	8,724
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	4,218
The Iyo Bank, Ltd.	2,900

Note: On April 1, 2018, The Bank of Tokyo-Mitsubishi UFJ, Ltd. changed its legal name to MUFG Bank, Ltd.

9. EMPLOYEES (as of March 31, 2018)

Segment	Number of Employees	Increase or Decrease from End of Last Fiscal Year
Machinery Components	5,691	198
Precision Machinery	4,369	254
Construction Machinery	3,667	213
Industrial Machinery	2,132	15
Ships	530	8
Environmental Facilities & Plants	3,286	1,009
Corporate Operations & Others	1,342	(1)
Total	21,017	1,696

10. MAJOR PLACES OF BUSINESS AND PLANTS (as of March 31, 2018)

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

Note: On April 1, 2018, Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. changed its legal name to Sumitomo Heavy Industries Construction Crane Co., Ltd.

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

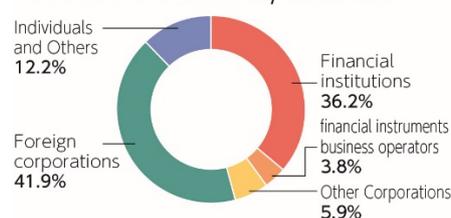
The city of Kyoto had filed a suit against the Company demanding compensation for damages, etc., regarding the effectiveness of cancellation of a contract for construction of an incinerated ash melting facility. However, both the Company and the city of Kyoto accepted the settlement proposal offered by the court at the appeal hearing, and with the execution of the settlement on December 19, 2017, the lawsuit was ended.

II. CURRENT CONDITION OF THE COMPANY

1. STOCK (as of March 31, 2018)

- (1) Total number of authorized shares: 360,000,000
- (2) Total number of issued shares: 122,905,481
- (3) Number of shareholders: 35,284
- (4) Major shareholders:

Breakdown of Shares Held by Shareholders



Name of Shareholders	Number of Shares in Thousands	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	9,336	7.6
Japan Trustee Services Bank, Ltd. (trust account)	6,655	5.4
Sumitomo Life Insurance Company	4,333	3.5
Japan Trustee Services Bank, Ltd. (trust account 9)	3,561	2.9
Sumitomo Heavy Industries, Ltd. Kyoeikai	2,645	2.2
Sumitomo Mitsui Banking Corporation	2,474	2.0
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	2,389	1.9
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	2,202	1.8
Japan Trustee Services Bank, Ltd. (trust account 5)	2,187	1.8
STATE STREET BANK WEST CLIENT-TREATY 505234	2,177	1.8

Note: Shareholding ratios are calculated based on the total number of shares excluding treasury shares (367,280 shares). The treasury shares include 200 shares registered in the name of the Company in the Register of Shareholders but not substantially owned by the Company.

(5) Other important matters regarding shares

The Company carried out a one-for-five common share consolidation and changed its number of shares per unit from 1,000 shares to 100 shares effective on October 1, 2017.

2. DIRECTORS AND CORPORATE AUDITORS OF THE COMPANY

(1) Directors and Corporate Auditors (as of March 31, 2018)

Name	Title	Position, Responsibilities, and Significant Positions Held at Other Companies
Yoshinobu Nakamura	Representative Director Chairman of the Board	Chairperson of the Board of Directors
Shunsuke Betsukawa	Representative Director President (CEO)	
Shinji Nishimura	Representative Director Senior Executive Vice President	Assistant to the President across the business; General Manager of Export Administration Department
Yoshiyuki Tomita	Director Executive Vice President	General Manager of Corporate Technology Operations Group
Toshiharu Tanaka	Director Executive Vice President	General Manager of Power Transmission & Controls Group
Eiji Kojima *	Director Senior Vice President	General Manager of Energy & Environment Group
Mikio Ide	Director	Representative Director and Chairman of the Board of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Shinji Shimomura	Director Senior Vice President	Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.; Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.
Susumu Takahashi	Director	Chairman of The Japan Research Institute, Limited; Member of Council on Economic and Fiscal Policy, Cabinet Office; Member of the Council for Designing 100-Year Life Society, Cabinet Secretariat
Hideo Kojima	Director	CPA, Hideo Kojima CPA Office; Outside Director (Audit and Supervisory Committee Member) of Alpine Electronics, Inc.
Yuji Takaishi	Standing Corporate Auditor	
Kazumi Fujita	Standing Corporate Auditor	
Takeo Wakae	Corporate Auditor	Lawyer, Kumagai & Wakae Law Firm
Masaichi Nakamura *	Corporate Auditor	CPA, Masaichi Nakamura CPA Office; Outside Director (Audit and Supervisory Committee Member) of SCSK Corporation

Notes:

1. The persons marked with * are a new Director and a new Corporate Auditor who assumed office on June 29, 2017.
2. Directors Susumu Takahashi and Hideo Kojima are Outside Directors.
3. Corporate Auditors Takeo Wakae and Masaichi Nakamura are Outside Corporate Auditors.
4. The Company reported the appointments of Directors Susumu Takahashi and Hideo Kojima and Corporate Auditors Takeo Wakae and Masaichi Nakamura to the Tokyo Stock Exchange as independent officers.
5. Corporate Auditor Masaichi Nakamura has adequate expertise with regard to finance and accounting as a CPA.
6. The Director and the Corporate Auditors who resigned during this term (resigned as of June 29, 2017):
 Director Kazuto Kaneshige (expiration of term of office)
 Corporate Auditor Tomoyuki Kato (resignation)

7. As of April 1, 2018, the positions, responsibilities, and significant positions held at other companies of the Directors, Corporate Auditors and Executive Officers are as below.

Name	Title	Position, Responsibilities, and Significant Positions Held at Other Companies
Yoshinobu Nakamura	Representative Director Chairman of the Board	Chairperson of the Board of Directors
Shunsuke Betsukawa	Representative Director President (CEO)	
Yoshiyuki Tomita	Representative Director Executive Vice President	General Manager of Export Administration Department; General Manager of Corporate Technology Operations Group
Toshiharu Tanaka	Director Executive Vice President	General Manager of Power Transmission & Controls Group
Eiji Kojima	Director Senior Vice President	General Manager of Energy & Environment Group
Shinji Nishimura	Director	Representative Director and Chairman of the Board of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Shinji Shimomura	Director Executive Vice President	Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.; Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.
Mikio Ide	Director	
Susumu Takahashi	Director	Chairman Emeritus of The Japan Research Institute, Limited; Member of Council on Economic and Fiscal Policy, Cabinet Office; Member of the Council for Designing 100-Year Life Society, Cabinet Secretariat
Hideo Kojima	Director	CPA, Hideo Kojima CPA Office; Outside Director (Audit and Supervisory Committee Member) of Alpine Electronics, Inc.
Yuji Takaishi	Standing Corporate Auditor	
Kazumi Fujita	Standing Corporate Auditor	
Takeo Wakae	Corporate Auditor	Lawyer, Kumagai & Wakae Law Firm
Masaichi Nakamura	Corporate Auditor	CPA, Masaichi Nakamura CPA Office; Outside Director (Audit and Supervisory Committee Member) of SCSK Corporation
Tetsuya Okamura	Executive Vice President	General Manager of Industrial Equipment Division
Hideo Suzuki	Executive Vice President	General Manager of Corporate Finance, Accounting & Administration Group
Hiroo Morita	Senior Vice President	General Manager of Human Resources Group; Chairman of the Board of Sumitomo Heavy Industries (China), Ltd.
Kazuo Hiraoka	Senior Vice President	General Manager of Plastics Machinery Division
Tatsuya Endo	Senior Vice President	Representative Director and President & CEO of Sumitomo Heavy Industries Material Handling Systems Co., Ltd.; General Manager of Ehime Works
Taiji Tsuchiya	Senior Vice President	General Manager of Precision Equipment Group
Hiroshi Arito	Senior Vice President	Representative Director, President and CEO of Nihon Spindle Manufacturing Co., Ltd.
Hideshi Shimamoto	Senior Vice President	General Manager of Ship & Marine Division;

Name	Title	Position, Responsibilities, and Significant Positions Held at Other Companies
		Representative Director, President and CEO of Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Morihiro Kondo	Senior Vice President	General Manager of Corporate Planning Group
Junichi Murakami	Senior Vice President	Representative Director and President of Sumitomo Heavy Industries Ion Technology Co., Ltd.
Kyoichi Manabe	Senior Vice President	Representative Director and President of Sumitomo Heavy Industries Environment Co., Ltd.
Toshihiko Chijiwa	Vice President	General Manager of Technology Research Center, Corporate Technology Operations Group
Shaun Dean	Vice President	General Manager of Global HQ, Power Transmission & Controls Group; Managing Director and CEO of Sumitomo (SHI) Cyclo Drive Germany GmbH
Yasunobu Kazumi	Vice President	Executive Managing Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Tatsuro Araki	Vice President	General Manager of Gearboxes Department, Power Transmission & Controls Group; Representative Director and President of Sumitomo Heavy Industries Gearbox Co., Ltd.

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

(2) Outline of Agreement for Limited Liability

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

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

Category	Number of recipients	Amount paid
Director (of which, Outside Director)	9 (2)	¥339 million (¥19 million)
Corporate Auditor (of which, Outside Corporate Auditor)	5 (3)	¥88 million (¥19 million)

- Notes: 1. The maximum compensation per month is ¥40 million in total for all Directors as a group (under the resolution of the 110th Ordinary General Meeting of Shareholders held on June 29, 2006), and ¥7.5 million in total for Corporate Auditors (under the resolution of the 109th Ordinary General Meeting of Shareholders held on June 29, 2005).
2. In addition to the above, the Directors who concurrently serve as directors of the Company's subsidiaries received compensation, etc. from these subsidiaries, and the total amount of such compensation, etc. was ¥81 million (two Directors).

(Reference) The Policies on and Procedures for Determining the Remuneration of Directors and Executive Officers stipulated by the Company are stated on page 19.

(4) Primary activities by Outside Officers

Category	Name	Attendance at Board of Directors Meetings	Attendance at Board of Corporate Auditors Meetings	Primary Activities
Outside Director	Susumu Takahashi	14/15 (93%)	—	Expressed opinions based on his specialized knowledge about the economy and management, and his broad experience, as needed.
Outside Director	Hideo Kojima	15/15 (100%)	—	Expressed opinions particularly from the perspective of an expert on finance and accounting as a CPA, as needed. In addition, he acts as a Chairperson of the Nomination Committee and the Compensation Committee.
Outside Corporate Auditor	Takeo Wakae	15/15 (100%)	13/13 (100%)	Expressed opinions particularly from the perspective of an expert on legal issues as a lawyer, as needed.
Outside Corporate Auditor	Masaichi Nakamura	11/11 (100%)	9/9 (100%)	Expressed opinions particularly from the perspective of an expert on finance and accounting as a CPA, as needed.

Note: The number shown and the primary activities for Outside Corporate Auditor Masaichi Nakamura indicate his attendance at the meetings and his primary activities after his inauguration as Corporate Auditor on June 29, 2017.

3. INDEPENDENT CORPORATE AUDITORS

(1) **Name:** KPMG AZSA LLC.

(2) **Amount of Compensation, etc., and Reason that the Board of Corporate Auditors Agreed to Such Compensation, etc.**

(i) Amount of compensation, etc. to be paid to the Independent Corporate Auditors related to this fiscal year	¥150 million
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(ii) Total amount of money and other economic benefits to be paid by the Company and its subsidiaries to the accounting auditor	¥261 million
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Notes: 1. The compensation for auditing under the Companies Act and auditing under the Financial Instruments and Exchange Act is not clearly differentiated in the Audit Agreement between the Company and the Independent Corporate Auditors and cannot be differentiated as a practical matter. Accordingly, the above-indicated amount of compensation, etc. to be paid to the Independent Corporate Auditors related to this fiscal year includes the total of such compensation amounts.

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

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

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

(3) **Details of Non-Audit Duties**

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

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

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

4. OPERATIONAL STRUCTURE FOR ENSURING THE APPROPRIATE CONDUCT OF OPERATIONS

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

Basic Policies for Establishment of an Internal Control System

I. Purpose

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

II. Basic Policies

(1) Establishment of a structure necessary to ensure the appropriate conduct of business by the Company

1) Structure for ensuring that the execution of duties by the Directors of the Company is in compliance with laws and regulations and the Articles of Incorporation

- (a) The Board of Directors of the Company shall determine the basic policies for the establishment of an internal control system, verify its effectiveness as necessary, and strive toward the continuous enhancement and improvement of the Company's internal control system as well as the internal control system of the Group.
- (b) The Company shall elect Outside Director(s), who are independent of management, to improve the supervisory function of the Board of Directors.
- (c) The Corporate Auditors of the Company shall audit the appropriateness of the execution of duties by the Directors concerning the establishment and operation of the Company's internal control system as well as the internal control system of the Group.

2) Structure for maintenance and administration of information relating to the execution of duties by the Directors of the Company

- (a) The information related to the execution of duties by the Directors of the Company shall be recorded and maintained under the related rules of the Company, and such records shall be made available to the Directors and the Corporate Auditors of the Company for inspection at any time.
- (b) The Company shall make efforts to disclose material information related to the execution of duties by the Directors of the Company pursuant to related laws and regulations in an appropriate and timely manner.

3) Rules and other relevant corporate structures on loss-risk management of the Company

- (a) The Company shall establish an internal control promotion structure that consists of the persons responsible for the promotion of internal control deployed in each section. The Company's Internal Control Group shall supervise the internal control promotion structure and promote risk management.
- (b) The section(s) responsible for specific types of risks shall stipulate the rules relevant to risk management, and shall strive to reduce risk through education, training, auditing, etc. based on such rules.
- (c) The Company shall deploy persons responsible for being a liaison for emergencies in each section. At the occurrence of an emergency situation, the persons responsible for being a

liaison for emergencies shall report such emergency situation promptly to the top management in accordance with the related rules. The management who receive such a report shall take appropriate actions in a timely manner.

4) Structure for ensuring the reliability of the financial reporting of the Company

- (a) The Company shall develop a necessary structure to ensure the appropriateness of financial information and to prepare and disclose reliable financial reports.
- (b) The Company's internal audit department shall audit the operational status of the internal control system related to financial reporting to ensure the reliability of the Company's financial reporting.

5) Structure for ensuring the efficient execution of duties by the Directors of the Company

- (a) To conduct the efficient execution of duties, the Company shall adopt a system of Executive Officers wherein the Directors delegate authority to Executive Officers within an appropriate range under the Company's rules such as rules on approval authority.
- (b) The Company shall adopt a structure to monitor the status of the execution of duties by having the responsible Executive and Operating Officers report the status of the execution of medium-term management plans and annual budgets that are determined by resolution of the Board of Directors of the Company at the monthly meetings of the Executive & Operating Officers Committee, etc.
- (c) To make decisions on material managerial matters based on a multi-dimensional review, the Management Strategy Committee, etc. shall be established as an advisory organ to the President to consider and discuss such matters.

6) Structure for ensuring that the execution of duties by the Company's Executive Officers and employees is in compliance with laws and regulations and the Articles of Incorporation

- (a) The basic policies on compliance shall be determined at the Ethics Committee chaired by the President of the Company, and the Internal Control Group shall promote rigorous observance of such policies through the internal control promotion structure.
- (b) The Company shall continue to provide training related to compliance. The Company shall also make the Directors, the Executive Officers and all managerial staff submit a pledge to observe specific compliance requirements, as necessary.
- (c) The Company shall take a resolute position against entities or individuals that threaten the order and safety of civil society and shall sever any relations with such entities or individuals.
- (d) The Company shall set up an in-house whistleblower system through which actual or suspected violations of laws and regulations or corporate ethics should be reported, and the use of this system shall be encouraged so that problems can be detected at an early stage.
- (e) The execution of duties by the Executive Officers and employees of the Company shall be audited by the responsible section(s) to ensure that such execution of duties is in compliance with laws and regulations and the Articles of Incorporation.

- (2) Establishment of a structure necessary to ensure the appropriate conduct of business by the entire Group comprising the Company and its subsidiaries**
- 1) Structure for reporting to the Company on matters regarding the execution of duties by directors, etc. of the Company's subsidiaries
 - (a) The Company shall pursue strengthened governance and the efficient execution of duties of its subsidiaries based on the rules concerning the management of the business of the Group.
 - (b) The Company shall have its major subsidiaries formulate basic policies for the establishment of an internal control system, and the status of operation of the system shall be reported to the Company's Board of Directors through the Company's Internal Control Group.
 - 2) Rules on loss-risk management of the Company's subsidiaries and other relevant corporate structures
 - (a) The Company's Internal Control Group shall promote group-wide risk management through the internal control promotion structure that has been established at major subsidiaries of the Company.
 - (b) The Company shall have its subsidiaries stipulate the rules to manage specific types of risks. The Company shall strive for group-wide risk reduction through education, training, auditing, etc. by the Company's responsible section for each risk.
 - (c) The Company shall deploy persons responsible for being a liaison for emergencies at its major subsidiaries. At the occurrence of an emergency situation, the persons responsible for being a liaison for emergencies shall report such emergency situation promptly to the directors of the subsidiary and the top management of the Company in accordance with the related rules. The management who receive such a report shall take appropriate actions in a timely manner.
 - 3) Structure for ensuring the efficient execution of duties by the directors, etc. of the Company's subsidiaries
 - (a) Pursuant to the rules concerning the management of the business of the Group, the Company's subsidiaries shall formulate rules on approval authority and execute their duties efficiently.
 - (b) The medium-term management plans and annual budgets of the Company's major subsidiaries shall be executed after the Company's Board of Directors approves them. The Company shall adopt a structure to monitor the status of the execution of the businesses of the entire Group by having the subsidiaries' directors, etc. report the status of the execution of duties at the meetings of the Executive & Operating Officers Committee, etc. of the Company.
 - (c) To make decisions on the material managerial matters of the Company's major subsidiaries based on a multi-dimensional review, such matters shall be discussed and deliberated at the Company's Management Strategy Committee, etc.
 - 4) Structure for ensuring that the execution of duties by the directors, etc. and employees of the Company's subsidiaries is in compliance with laws and regulations and the Articles of Incorporation
 - (a) The Company's Internal Control Group shall promote rigorous compliance throughout the Group through the internal control promotion structure that has been installed at major subsidiaries of the Company.
 - (b) The Company shall have its subsidiaries continue to provide training related to compliance. The Company shall also make the directors and all managerial staff of the subsidiaries submit a pledge to observe specific compliance requirements, as necessary.
 - (c) The Company shall cooperate with its subsidiaries, ensuring that the subsidiaries shall also

take a resolute position against entities or individuals that threaten the order and safety of civil society and shall sever any relations with such entities or individuals.

- (d) The Company shall have its subsidiaries set up an in-house whistleblower system, of which the contact persons shall include the subsidiary's corporate auditor(s). Contact persons of the in-house whistleblower system of major subsidiaries of the Company shall include the Company's Internal Control Group.
- (e) The Company shall send Director(s) or Corporate Auditor(s) to its major subsidiaries to reinforce the internal control of the Group. The execution of duties by directors of the subsidiaries of the Company shall be audited by the responsible section(s) of the Company to ensure that such execution of duties is in compliance with laws and regulations and the Articles of Incorporation.

5) Structure for ensuring the reliability of financial reporting of the subsidiaries of the Company

- (a) To ensure the appropriateness of financial information of the subsidiaries of the Company and prepare and disclose reliable financial reports, the Company shall require its major subsidiaries to establish the internal control system related to financial reporting.
- (b) The Company's internal audit department shall audit the operational status of the internal control system related to financial reporting at major subsidiaries of the Company to ensure the reliability of the financial reporting by subsidiaries of the Company.

(3) Necessary matters for the execution of auditing duties by the Corporate Auditors of the Company

1) Matters related to the staff who assist the Corporate Auditors when the Corporate Auditors request to place such assistant staff

As a department under the direct control of the Board of Corporate Auditors, the Corporate Audit Department, which includes dedicated staff who assist the Corporate Auditors of the Company with the execution of auditing duties, shall be established.

2) Matters related to independence of the staff who assist the Corporate Auditors with the execution of auditing duties from the Directors

The personnel changes, performance appraisals to and disciplinary action against the staff of the Corporate Audit Department shall require approval of the Corporate Auditors of the Company.

3) Matters for ensuring the effectiveness of instructions given to staff who assist the Corporate Auditors of the Company with the execution of auditing duties

Concerning the duties of staff who assist the Corporate Auditors of the Company with the execution of auditing duties, instructions and commands to the staff of the Corporate Audit Department shall be given by the Corporate Auditors of the Company.

4) Structure for reporting to the Corporate Auditors of the Company

- (a) Structure for Directors, Executive Officers and employees of the Company reporting to the Corporate Auditors of the Company
 - (i) To audit the execution of duties by the Directors and the Executive Officers, the Corporate Auditors of the Company shall attend the meetings of the Board of Directors, the Executive & Operating Officers Committee and other important meetings of the Company and shall inspect major *ringisho* (documents for approval) and other important documents relating to the execution of duties.
 - (ii) If any actual or potential violation of laws and regulations, the Articles of Incorporation or compliance obligations exists, the Directors, the Executive Officers and employees of the Company shall report to the Corporate Auditors of the Company promptly.
 - (iii) The contact persons for the Company's in-house whistleblower system shall include the Company's Corporate Auditors.

- (b) Structure for directors or employees of subsidiaries of the Company or those who received a report from them reporting to the Corporate Auditors of the Company
 - (i) If any actual or potential violation of laws and regulations, the Articles of Incorporation or compliance obligations exists, directors, corporate auditors or employees of the subsidiaries of the Company shall promptly report to the Corporate Auditors of the Company through the responsible section(s) of the Company.
 - (ii) From among the issues reported to the in-house whistleblower system of the major subsidiaries of the Company, important issues shall be reported, as necessary, by the Company's Internal Control Group to the Company's Corporate Auditors as to the content of the report and how the issue has been addressed.
 - (iii) Results of audits of the Company's subsidiaries conducted by the Company's internal audit department shall be reported to the Company's Corporate Auditors without delay.
- (c) Structure for ensuring that reporters in the preceding section will not receive detrimental treatment because of the reporting

The Company and its major subsidiaries shall stipulate in their internal rules that whistleblowers or persons who report to the Company's Corporate Auditors shall not receive detrimental treatment because of such reporting, and their employees shall be well informed of this stipulation.

5) Policies related to the treatment of expenses or liabilities incurred in connection with the execution of duties by the Company's Corporate Auditors

Expenses, etc. incurred in connection with the execution of duties by the Company's Corporate Auditors shall be included in the budget. In the case where legally prescribed prepayments, etc. are billed, the Company shall make such payments except in the case where it is determined that such payments are unnecessary for the execution of duties by such Corporate Auditors.

6) Other structures for ensuring effective auditing by the Company's Corporate Auditors

- (a) The Company's Directors and Executive Officers and the directors of the Company's subsidiaries shall establish a structure for effective auditing by the Company's Corporate Auditors through liaisons and cooperation with the Company's internal audit department and internal control department, as well as the corporate auditors of subsidiaries and the Independent Corporate Auditors, etc.
- (b) To exchange information related to auditing and to enhance the auditing functions across the Company Group, the Company shall hold a group-wide Corporate Auditor meeting on a regular basis, attended by the Corporate Auditors of the Company and the corporate auditors of its subsidiaries.
- (c) Corporate Auditors elected by the Company shall include those who have an appropriate level of knowledge of finance and accounting.

III. Revision and Abolition of these Policies

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

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

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

1) **Structure for ensuring that the execution of duties by the Directors of the Company is in compliance with laws and regulations and the Articles of Incorporation**

The Company established the Basic Policies for Establishment of an Internal Control System, evaluated the operational status thereof, and confirmed their effectiveness.

2) **Structure for maintenance and administration of information relating to the execution of duties by the Directors of the Company**

The Company appropriately maintains and administers the minutes of Shareholders' Meetings and Board of Directors meetings, etc. in accordance with the internal rules.

3) **Rules and other relevant corporate structures on loss-risk management of the Company**

(a) In accordance with the internal rules of the Company, each section conducts self-risk assessment each fiscal year, sets categories to prioritize risk management, and reports the status of the improvement of risks to the Company on a quarterly basis.

(b) Each section has a system in place for reporting the occurrence and status of emergency situations to top management in accordance with the internal rules of the Company and taking action in a timely manner.

4) **Structure for ensuring the reliability of the financial reporting of the Company**

The Company established the Internal Control Group to develop an internal control system regarding reliable financial reporting and deploys persons responsible for internal control and the promotion thereof to each business section. The Internal Audit Department audits the establishment and operational status of the internal control system regarding financial reporting.

5) **Structure for ensuring the efficient execution of duties by the Directors of the Company**

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

6) **Structure for ensuring that the execution of duties by the Company's Executive Officers and employees is in compliance with laws and regulations and the Articles of Incorporation**

(a) The Ethics Committee confirms the basic policies on compliance and reports the status of general compliance for this fiscal year, such as the operational status of the in-house whistleblower system and the implementation status of training related to compliance.

(b) The Company provides training to and familiarizes all employees with the compliance necessary for their positions. In addition, the Company monitors the status of employee awareness of compliance through an annual compliance awareness investigation and implements improvement plans when necessary.

(c) The Company makes all managerial staff submit a pledge to observe compliance requirements every year.

7) Establishment of a structure necessary to ensure the appropriate conduct of business by the entire Group comprising the Company and its subsidiaries

- (a) To ensure the appropriate and efficient operation of the Company Group's business, the Company established the Regulations of Prior Consultation and Reporting and keeps the domestic and overseas subsidiaries informed of those rules. In addition, major subsidiaries each formulated the Basic Policies for Establishment of an Internal Control System and report the operational status thereof to the Company.
- (b) Major subsidiaries conduct self-risk assessment each fiscal year in accordance with the internal rules, set categories to prioritize risk management, and report the status of improvements to the Company on a quarterly basis.
- (c) Domestic and overseas subsidiaries provide training regarding compliance and keep their employees informed of compliance issues. Also, domestic subsidiaries monitor employee awareness of compliance through compliance awareness investigations annually and report the results thereof and the status of improvements to the Company.
- (d) In June 2017, the internal whistleblower systems that each Group company had been using individually up until that point were consolidated into a Group-wide system using a contact point operated by an outside contractor. When a report is made to the contact point, the contact point then makes a report to both the Company's Ethics Committee secretariat as well as to the Company's standing corporate auditors.
- (e) For the establishment of internal control systems regarding reliable financial reporting, major domestic and overseas subsidiaries deploy persons responsible for internal control and the promotion thereof. In addition, the Company's Internal Audit Department audits the establishment and the operational status of the internal control systems regarding the financial reporting of major domestic and overseas subsidiaries.

8) Structure for ensuring efficient auditing by the Corporate Auditors of the Company

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

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

Consolidated Financial Statements
Consolidated Balance Sheet (As of March 31, 2018)

(Millions of yen)

	Fiscal year under review	Previous fiscal year (for reference)
Assets		
Current assets	564,837	507,648
Cash and deposits	88,233	63,820
Notes and accounts receivable	269,409	242,459
Inventories	167,400	162,737
Deferred tax assets	13,253	15,321
Other	30,597	27,045
Allowance for doubtful receivables	(4,055)	(3,735)
Fixed assets	330,731	288,837
Property, plant and equipment	239,596	227,741
Buildings and structures	53,225	50,209
Machinery and delivery equipment	56,296	51,499
Land	107,826	107,762
Construction in progress	5,260	3,098
Other	16,988	15,173
Intangible fixed assets	50,349	15,243
Goodwill	18,030	1,982
Other	32,319	13,261
Investments and other assets	40,786	45,853
Investment securities	20,243	24,168
Long-term loans receivable	4,466	5,143
Deferred tax assets	9,777	11,407
Other	11,824	10,300
Allowance for doubtful receivables	(5,524)	(5,164)
Total assets	895,569	796,484

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

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

(Millions of yen)

	Fiscal year under review	Previous fiscal year (for reference)
Liabilities		
Current liabilities	347,720	290,585
Notes and accounts payable	184,227	147,318
Short-term bank loans	33,516	36,711
Long-term debt due within one year	7,801	1,481
Commercial papers	–	5,000
Accrued income taxes	5,726	8,904
Advances received on contracts	42,540	32,182
Allowance for warranty	13,478	9,609
Allowance for losses on construction contracts	5,451	2,732
Allowance for losses on business	228	979
Other	54,754	45,669
Long-term liabilities	102,885	96,728
Bonds payable	20,000	10,000
Long-term debt	2,864	7,268
Allowance for losses on business transfer	115	115
Allowance for losses on product liabilities	40	44
Defined benefit liability	40,466	44,853
Deferred tax liabilities on land revaluation	20,730	20,942
Other	18,670	13,505
Total liabilities	450,605	387,313
Net assets		
Stockholders' equity	369,434	344,810
Common stock	30,872	30,872
Capital surplus	25,267	25,267
Retained earnings	314,296	289,587
Treasury stock	(1,000)	(915)
Accumulated other comprehensive income	61,574	53,791
Unrealized gains (losses) on securities, net of income taxes	5,406	4,128
Deferred gains (losses) on hedges, net of income taxes	925	320
Land revaluation difference	40,831	41,289
Foreign currency translation adjustments	17,565	13,824
Foreign currency translation adjustments	(3,153)	(5,770)
Non-controlling interests	13,956	10,570
Total net assets	444,964	409,171
Total liabilities and net assets	895,569	796,484

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

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CONSOLIDATED STATEMENT OF INCOME (From April 1, 2017, to March 31, 2018)

(Millions of yen)

	Fiscal year under review	Previous fiscal year (for reference)
Net sales	791,025	674,328
Cost of sales	598,285	518,046
Gross profit	192,740	156,282
Selling, general and administrative expenses	122,819	107,852
Operating income	69,921	48,431
Other income	5,329	7,315
Interest and dividend income	1,552	2,098
Other - net	3,777	5,217
Other expenses	7,784	7,472
Interest expenses	1,023	1,320
Foreign exchange losses	1,032	753
Patent expenses	801	794
Other - net	4,928	4,605
Ordinary income	67,466	48,274
Extraordinary income	-	1,979
Gain from amortization of prior service cost	-	1,038
Gain on step acquisitions	-	941
Extraordinary losses	14,774	2,955
Settlement related losses	14,480	-
Impairment losses	294	2,955
Net income before income taxes and non-controlling interests	52,692	47,298
Income tax - current	13,737	13,835
Income tax - deferred	1,505	(434)
Net income	37,451	33,897
Non-controlling interest in net loss	2,791	284
Net income attributable to shareholders of the parent company	34,660	33,613

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(For Reference Purposes)

CONSOLIDATED STATEMENT OF CASH FLOWS

(From April 1, 2017, to March 31, 2018)

(Millions of yen)

Item	Amount
Cash flows from operating activities	71,111
Cash flows from investing activities	(37,810)
Cash flows from financing activities	(10,146)
Effect of exchange rate changes on cash and cash equivalents	1,260
Net increase in cash and cash equivalents	24,414
Cash and cash equivalents at beginning of year	61,017
Other	72
Cash and cash equivalents at the end of year	85,503

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BALANCE SHEET (As of March 31, 2018)

(Millions of yen)

	Fiscal year under review	Previous fiscal year (for reference)
Assets		
Current assets	171,030	160,659
Cash and deposits	36,491	27,386
Notes receivable	6,404	3,629
Accounts receivable	62,157	64,417
Finished goods	11,766	10,929
Work in process	17,559	17,193
Raw materials and supplies	552	550
Advances	7,587	10,052
Prepaid expenses	753	484
Deferred tax assets	3,162	5,585
Accounts receivable, other	17,937	14,993
Other	8,154	7,004
Allowance for doubtful receivables	(1,492)	(1,564)
Fixed assets	313,723	282,770
Property, plant and equipment	122,180	119,212
Buildings	18,149	17,033
Structures	2,831	2,576
Machinery and equipment	8,094	6,897
Ships	0	0
Vehicles and delivery equipment	64	52
Tools, furniture and fixtures	2,370	2,274
Land	88,782	89,453
Leased assets	68	82
Construction in progress	1,823	843
Intangible fixed assets	9,230	5,269
Software	3,258	2,988
Other	5,972	2,282
Investments and other assets	182,313	158,289
Investment securities	14,638	13,234
Stock of subsidiaries and affiliates	123,115	100,655
Investment in capital of subsidiaries and affiliates	34,427	34,427
Long-term loans to employees	0	1
Claims in bankruptcy and rehabilitation	139	143
Long-term prepaid expenses	76	176
Deferred tax assets	6,491	6,754
Other	3,805	3,284
Allowance for doubtful receivables	(379)	(383)
Total assets	484,753	443,429

(Millions of yen)

	Fiscal year under review	Previous fiscal year (for reference)
Liabilities		
Current liabilities	219,997	173,967
Notes payable	2,582	3,012
Accounts payable	59,952	55,783
Short-term bank loans	15,500	5,600
Long-term debt due within one year	6,600	–
Commercial papers	–	5,000
Lease obligations	42	46
Accounts payable, other	10,151	9,189
Accrued expenses	3,650	3,456
Accrued income taxes	46	3,681
Advances received on contracts	28,182	21,644
Deposits received	89,600	62,042
Allowance for warranty	3,159	3,213
Allowance for losses on construction contracts	456	1,294
Other	77	5
Long-term liabilities	111,624	113,024
Bonds payable	20,000	10,000
Long-term debt	2,100	6,600
Lease obligations	132	66
Allowance for losses on business transfer	115	115
Allowance for retirement benefits	13,639	13,822
Asset retirement obligations	288	297
Deferred tax liabilities on land revaluation	20,730	20,942
Long-term deposits received	54,263	60,898
Other	357	284
Total liabilities	331,621	286,991
Net assets		
Stockholders' equity	106,701	111,081
Common stock	30,872	30,872
Capital surplus	27,073	27,073
Capital reserve	27,073	27,073
Retained earnings	49,756	54,051
Legal reserve of retained earnings	6,295	6,295
Other retained earnings	43,461	47,757
Retained earnings brought forward	43,461	47,757
Treasury stock	(999)	(915)
Valuation and translation adjustments	46,431	45,357
Unrealized gains (losses) on securities, net of income taxes	4,670	3,718
Deferred gains (losses) on hedges, net of income taxes	930	350
Land revaluation difference	40,831	41,289
Total net assets	153,132	156,438
Total liabilities and net assets	484,753	443,429

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STATEMENT OF INCOME (From April 1, 2017, to March 31, 2018)

(Millions of yen)

	Fiscal year under review	Previous fiscal year (for reference)
Net sales	195,283	189,332
Cost of sales	165,048	164,027
Gross profit	30,235	25,305
Selling, general and administrative expenses	23,883	21,746
Operating income	6,352	3,559
Other income	12,459	13,440
Interest and dividend income	9,990	11,448
Other – net	2,468	1,991
Other expenses	3,078	3,659
Interest expenses paid on loans and bonds	310	304
Foreign exchange losses	220	556
Patent expenses	531	551
Other – net	2,018	2,248
Ordinary income	15,733	13,339
Extraordinary income	3,090	1,038
Gain on sales of shares of subsidiaries and affiliates	2,509	–
Gain on extinguishment of tie-in shares	582	–
Gain from amortization of prior service cost	–	1,038
Extraordinary losses	14,774	8,398
Settlement related losses	14,480	–
Impairment loss	294	1,575
Loss from stock of subsidiaries and affiliates	–	6,824
Net income before income taxes	4,049	5,978
Income tax – current	(4,711)	(629)
Income tax – deferred	1,788	917
Net income	6,972	5,690

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