(Translation)

Sumitomo Heavy Industries, Ltd.

122nd Ordinary General Meeting of Shareholders
Information Disclosed on the Website

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

Among the documents provided to the shareholders at the time of the notice of the 122nd Ordinary General Meeting of Shareholders, 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 the Consolidated Financial Statements, the Statement of Changes in Net Assets and the Notes to Financial Statements are only published on our website (http://www.shi.co.jp) in accordance with the applicable laws and regulations and Article 16 of the Articles of Incorporation.

Basic Policy on Position of the Person Controlling Decisions on Financial and Business Policies of the Company

(1) Contents of the Basic Policy

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

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

(2) Special Measures to Pursue the Basic Policy

Under the Corporate Mission Statement, "We will aim to become a machinery manufacturer that continues to provide excellent products and services to the world, and with integrity being a key principle in the Group, we will contribute towards society by gaining high respect and confidence from all stakeholders.," in order to realize the above Basic Policy, the Company is working to formulate and implement the medium-term management plans, and enhance its corporate governance as follows.

The Company has established the Corporate Governance Basic Policy of Sumitomo Heavy Industries, Ltd. in order to increase the corporate value of the Company Group and to enhance the evaluations by and trust of stakeholders, for the purpose of establishing an efficient and highly-transparent management structure. In addition, the Company has been striving to invigorate the Board of Directors and maintain the transparency of management; for instance, through the adoption of the system of Executive Officers in 1999, the election of Outside Directors since 2002, the adoption of a shortened term of Directors from two years to one year in 2007, the election of more than one Outside Director since 2015, etc.

Specifically, Outside Directors are responsible for overseeing management from a standpoint independent from management and appropriately reflecting the viewpoints of stakeholders. In addition, by introducing an executive officer system, while establishing an environment that enables prompt and decisive business execution, important management issues and high-risk management issues are reported as appropriate by management at Board of Directors meetings. Based on this, the Board of Directors carries out highly-effective supervision of management and Directors. Furthermore, the Board of Directors appropriately develops the internal control system and risk management system based on the Companies Act and other relevant laws and regulations, receives reports from the internal control division about fiscal year plans and the situation, and gives necessary instructions. By doing so, the Board of Directors properly oversees its operation.

Outside Corporate Auditors utilize their high level of expertise and abundant experience in their respective fields, while Standing Corporate Auditors utilize their expertise concerning the Company's management along with their extensive experience, to conduct highly effective audits, as well as to actively state their opinions to management at Board of Directors meetings, and Executive & Operating Officers Committee meetings, etc. In addition, the Company has established the

Corporate Auditors' Department as a department supporting Corporate Auditors and staffs the department with full-time employees, thereby supporting the Corporate Auditors' work and providing information to the Corporate Auditors in a smooth manner. Moreover, in order to enhance auditing functions across the Company Group, the Corporate Auditors of the Company hold Corporate Auditor meetings across the Company's subsidiaries and affiliates on a regular basis. In addition, the Corporate Auditors conduct on-site audits annually at overseas subsidiaries in response to the increasingly globalized business conditions within the Company Group.

In addition, the Company has established the Nomination Committee, Compensation Committee and Ethics Committee as voluntary committees. The Nomination Committee 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 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 reports the progress to the Board of Directors. The Compensation Committee 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. The Ethics Committee supervises and provides guidance for group management from an ethical point of view, and fulfills the role of strengthening and supplementing the Board of Directors' supervisory function with respect to corporate ethics.

(3) Plan to Prevent Any Inappropriate Party, in Light of the Company's Basic Policy, from Controlling Decisions on the Financial and Business Policies of the Company

The Company's proposal regarding the introduction of a plan for responding to large-scale acquisitions of the Company's shares (anti-takeover measures) was approved at the 112th Ordinary General Meeting of Shareholders of the Company held on June 27, 2008. Thereafter, at the 115th Ordinary General Meeting of Shareholders of the Company held on June 29, 2011, and the 118th Ordinary General Meeting of Shareholders of the Company held on June 27, 2014, necessary changes thereto were made, and it was approved by a majority vote of the shareholders to continue the plan for responding to large-scale acquisitions of the Company's shares (hereinafter such continued plan is referred to as the "Plan").

However, as a result of consideration of the Plan, the implementation period of which was expired at the conclusion of the 121st Ordinary General Shareholders Meeting held on June 29, 2017, in the current operating environment, the Company felt that to ensure common interests of shareholders and to increase corporate value, the focus had to be on the steady implementation of measures aimed at achieving the objectives set forth in the Medium Term Management Plan as well as further improvements and enhancements to corporate governance. Through such actions, the Company will not only be able to ensure sustainable growth, but also gain the trust of all stakeholders including shareholders, capital markets and the broader society. With this in mind, the Company decided that the continuation of the Plan was no longer necessary and the board members passed a resolution to discontinue such Plan after the expiry of the current implementation period at the Board of Directors' meeting held on May 26, 2017.

Moreover, after the expiry of the current implementation period of the Plan, there may be a situation where an entity or person attempts to take a large-scale acquisition action on the Company's shares. If such event occurs, from the standpoint of ensuring corporate value and common interests of shareholders, the Company will adhere to any relevant laws, and take the necessary steps to allow shareholders to have enough time and information to deliberate on the action. Such steps will include the disclosure of necessary and sufficient information regarding the pros and cons of the large-scale acquisition action to enable shareholders to make an appropriate judgment, and the release of the opinions of the Company's board members.

(4) The Board of Directors' Opinion on Measures to Pursue the Basic Policy

The Company believes that advancing the aforementioned measures (2) and (3) as an effort to realize the basic policy above will lead to ensuring and increasing the Company's corporate value and the common interests of shareholders. In addition, the Company believes that it will be difficult to conduct a large-scale acquisition that does not contribute to the corporate value of the Company and the common interests of shareholders. In addition, if a person conducting a large-scale purchase emerges, the Company will take appropriate measures, such as striving to ensure necessary and sufficient information and time for shareholders to properly judge the pros and cons. Therefore, the Company has determined that measures (2) and (3) above are consistent with the above basic policy and are not intended to maintain Company's officers' positions.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

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

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at April 1, 2017	30,872	25,267	289,587	(915)	344,810
Changes in the period					
Dividends from surplus			(10,417)		(10,417)
Net income attributable to shareholders of the parent company			34,660		34,660
Acquisition of treasury stock				(86)	(86)
Disposal of treasury stock			1	1	2
Reversal of land revaluation difference			465		465
Changes in items other than shareholders' equity in the period (net)					
Total changes in the period	—	—	24,709	(84)	24,624
Balance at March 31, 2018	30,872	25,267	314,296	(1,000)	369,434

	Accumulated other comprehensive income						Non-controlling Interests	Total Net Assets
	Unrealized Gains/ Losses on Securities	Deferred Gains/ Losses on Hedges	Land Revaluation Difference	Foreign Currency Translation Adjustments	Re-measurement of Defined Benefit Plans	Total Accumulated Other Comprehen-sive Income		
Balance at April 1, 2017	4,128	320	41,289	13,824	(5,770)	53,791	10,570	409,171
Changes in the period								
Dividends from surplus								(10,417)
Net income attributable to shareholders of the parent company								34,660
Acquisition of treasury stock								(86)
Disposal of treasury stock								2
Reversal of land revaluation difference								465
Changes in items other than shareholders' equity in the period (net)	1,278	605	(458)	3,742	2,616	7,783	3,386	11,168
Total changes in the period	1,278	605	(458)	3,742	2,616	7,783	3,386	35,792
Balance at March 31, 2018	5,406	925	40,831	17,565	(3,153)	61,574	13,956	444,964

"English Translation of Financial Statements Originally Issued in the Japanese Language"
(Note) Amounts shown in this financial statement have been rounded to the nearest million yen.

Notes to Consolidated Financial Statements

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

1. Matters Related to Scope of Consolidation

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

Number of consolidated subsidiaries: 130

Names of major consolidated subsidiaries:

Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.
Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd.
Nihon Spindle Manufacturing Co., Ltd.
Shin Nippon Machinery Co., Ltd.
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Sumitomo Heavy Industries Gearbox Co., Ltd.
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.
Sumitomo Heavy Industries Ion Technology Co., Ltd.
Sumitomo Heavy Industries Process Equipment Co., Ltd.
Sumitomo Heavy Industries Environment Co., Ltd.
Sumitomo Heavy Industries PTC Sales Co., Ltd.
LBX Company, LLC
Sumitomo Machinery Corporation of America
LBCE Holdings, Inc.
Sumitomo (SHI) Demag Plastics Machinery GmbH
Sumitomo (SHI) Cyclo Drive Germany GmbH
Sumitomo SHI FW Energie B.V.
Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.
Sumitomo (SHI) Cyclo Drive China, Ltd.

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

Name of major non-consolidated subsidiary: Kyokuto Seiki Co., Ltd.

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

2. Matters Related to Application of Equity Method

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

Number of affiliated companies to which the equity method is applied: 1

Name of company: Sumitomo Nacco Forklift Co., Ltd.

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

Name of major company: Mizukankyo Chiba Co., Ltd.

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

3. Matters Related to Accounting Standards

(1) Basis and method of valuation of important assets

1) Marketable securities

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

2) Derivatives: At fair market value

3) Inventories

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

(2) Method of depreciation of important depreciable assets

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

The straight-line method is employed.

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

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

2) Intangible fixed assets (excluding leased assets)

The straight-line method is employed.

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

3) Lease assets

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

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

(3) Basis for determination of important allowances

1) Allowance for doubtful receivables

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

2) Allowance for warranty

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

3) Allowance for losses on construction contracts

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

4) Allowance for losses on business

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

5) Allowance for losses on business transfer

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

6) Allowance for losses on product liabilities

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

(4) Standard for recognition of retirement benefit liability

1) Period allocation of expected retirement benefits to be incurred

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

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

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

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

(5) Standards for recognition of income and expenses

The percentage-of-completion method has been applied for construction work for which the completion of a certain percentage of the entire work is clearly recognizable by the end of the consolidated fiscal year under review (percentage of completion is estimated on the basis of work performed, which uses the percentage of progress that is derived by totaling the estimated number of total man-hours, the number of man-hours taken in the estimated construction period, and other factors by type of work for the project in a combined manner, or by the cost proportion method), and the completed-contract method has been applied for other contracts.

(6) Method of important hedge accounting

1) Method of hedge accounting

Deferred hedge accounting is employed.

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

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

2) Means of hedging and hedged items

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

3) Hedging policy

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

4) Method of evaluation of effectiveness of hedging

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

(7) Accounting for consumption tax, etc.

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

(8) Adoption of consolidated tax payment system

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

4. Amortization Method for Goodwill and the Amortization Period

Goodwill is equally amortized over the period during which it has an effect in 20 years or less. However, if the amount of goodwill is small, such amount is fully depreciated at the time of generation.

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

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

	Names of Companies	Reasons for Change
Companies that Were Included in the Scope of Consolidation	Sumitomo SHI FW Energie B.V. and 17 other companies	Newly acquired shares
	Persimmon Technologies Corporation and one other company	Increased in importance
Companies that Were Excluded from the Scope of Consolidation	Sumiju Environmental Engineering Inc. and three other companies	Dissolved by the merger
	Hansen Transmissions Ltd, United Kingdom	Liquidation completed
Company that Was Excluded from the Scope of Companies to which the Equity Method is Applied	JP Steel Plantech Co.	Sale of its shares

6. Change to Presentation Methods

(1) Presentation methods of goodwill (consolidated balance sheet)

"Goodwill" that was included in "Other intangible fixed assets" of "Intangible fixed assets" in the previous fiscal year has been presented in separate categories from the fiscal year under review because the significance of the amount increased. The amount of "goodwill" for the previous fiscal year was ¥1,982 million.

(2) Presentation methods of equity in net income of consolidated subsidiaries and affiliated companies (consolidated statement of income)

"Equity in net income of consolidated subsidiaries and affiliated companies" of "Other income" that was presented in separate categories in the previous fiscal year has been included in "Other" of "Other income" from the fiscal year under review because the amount became immaterial.

(3) Presentation methods of expenses relating to late deliveries and patent expenses (consolidated statement of income)

"Expenses relating to late deliveries" of "Other expenses" that was presented in separate categories in the previous fiscal year has been included in "Other" of "Other expenses" from the fiscal year under review because the amount became immaterial.

(Notes to Consolidated Balance Sheet)

1. Assets Pledged and Liabilities Subject to the Pledge

(1) Assets pledged

	(Millions of yen)
Cash and deposits	12
Buildings and structures	826
Land	154
Total	992

(2) Liabilities subject to the pledge

	(Millions of yen)
Long-term debt due within one year	10
Total	10

2. Accumulated Depreciation of Property, Plant and Equipment: ¥276,483 million

3. Guarantee Obligations, etc.

Guarantee obligations

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

		(Millions of yen)
Sumitomo Mitsui Finance & Leasing Company Limited	(Lease contract-related guarantee for purchase)	11,638
IBJ Leasing Company, Limited	(Lease contract-related guarantee for purchase)	2,235
Fuyo General Lease Co., Ltd.	(Lease contract-related guarantee for purchase)	1,624
Itochu Construction Machinery Co., Ltd.	(Lease contract-related guarantee for purchase)	275
Shutoken Leasing Co., Ltd.	(Lease contract-related guarantee for purchase)	243
Others (14 lenders)	(Lease contract-related guarantee for purchase)	410
Total		16,424

The above figures include guarantee obligations in foreign currencies of 649 million Chinese yuan (¥11,239 million) and 5 million New Taiwan dollars (¥17 million).

4. Notes maturing on balance sheet date

Notes maturing on balance sheet date are accounted for as if they are settled on the bank clearing date. Since the last day of the fiscal year under review fell on a bank holiday, the following notes maturing on balance sheet date were accounted for as if they were settled on the bank clearing date.

Notes receivable ¥4,160 million

Notes payable ¥1,870 million

(Notes to Consolidated Balance Sheet)

Settlement Related Losses

These losses represent the settlement amount and related loss resulting from a settlement reached in December 2017 with regard to a lawsuit over construction of an incinerated ash melting facility that arose between the Company and Kyoto City.

(Notes to Consolidated Statement of Changes in Net Assets)

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

	Number of Shares as of the Beginning of the Consolidated Fiscal Year Under Review	Increase in the Number of Shares from Previous Consolidated Fiscal Year	Decrease in the Number of Shares from Previous Consolidated Fiscal Year	Number of Shares as of the End of the Consolidated Fiscal Year Under Review
Issued Shares				
Common Stock	122,905,481	—	—	122,905,481
Total	122,905,481	—	—	122,905,481
Treasury Stock				
Common Stock	348,358	19,216	494	367,080
Total	348,358	19,216	494	367,080

The Company carried out a one-for-five common share consolidation as of October 1, 2017. The number of shares has been calculated as if the share consolidation had been carried out on April 1, 2017.

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

2. Matters Related to Dividends

(1) Amount of dividends paid

Resolution	Class of Shares	Total Dividend Amount (Millions of yen)	Dividend per Share (Yen)	Record Date	Effective Date
Ordinary General Meeting of Shareholders held on June 29, 2017	Common stock	5,515	9.0	March 31, 2017	June 30, 2017
Meeting of Board of Directors held on October 31, 2017	Common stock	4,902	8.0	September 30, 2017	December 1, 2017
Total		10,417	—		

(Note) The Company carried out a one-for-five common share consolidation as of October 1, 2017. The amount of dividend per share, the record date for which is March 31, 2017 and September 30, 2017, shows the actual amounts prior to the consolidation.

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

The following proposal is scheduled to be made at the Ordinary General Meeting of Shareholders to be held on June 28, 2018.

1) Total amount of dividend ¥5,514 million
2) Dividend per share ¥45.00
3) Record date March 31, 2018
4) Effective date June 29, 2018 (Planned)

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

(Notes Regarding Amounts Per Share)

1. Net assets per share ¥3,517.33
2. Net income per share ¥282.83

(Note) The Company carried out a one-for-five common share consolidation as of 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.

(Notes Regarding Financial Instruments)

1. Matters Related to Financial Instruments

(1) Policy for handling financial instruments

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

(2) Components and risks of financial instruments

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

Investment securities are mostly transaction-related corporate stocks that are exposed to market price fluctuation risk.

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

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

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

(3) Financial instrument-related risk management structure

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

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

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

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

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

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

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

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

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

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

2. Matters Related to the Fair Market Value of FinancialInstruments

Amounts recorded on the consolidated balance sheet, their fair market value and the difference between them as of March 31, 2018 (balance sheet date of the consolidated fiscal year under review) are as shown below. Financial instruments for which the fair market values are considered difficult to calculate are not included in the table. (See Note2.)

(Millions of yen)

	Amount on the Consolidated Balance Sheet*	Fair Market Value*	Difference
(1) Cash and Deposits	88,233	88,233	–
(2) Notes and Accounts Receivable	269,409	267,321	(2,089)
(3) Investment Securities	14,322	14,322	–
(4) Long-term Loans Receivable	4,466	3,877	(589)
(5) Notes and Accounts Payable	184,227(*)	184,227(*)	–
(6) Short-Term Bank Loans	33,516(*)	33,516(*)	–
(7) Bonds Payable	20,000(*)	20,069(*)	(69)
(8) Long-term Debt	10,665(*)	10,732(*)	(66)
(9) Derivatives	2,033	2,020	(14)

* Liabilities are indicated in (*) mark.

(Notes)

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

(1) Cash and deposits

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

(2) Notes and accounts receivable

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

(3) Investment securities

Investment securities are stocks and their fair market value is based on their respective prices on the Stock Exchange.

(4) Long-term loans receivable

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

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

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

(7) Bonds payable

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

(8) Long-term debt

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

(9) Derivatives

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

2. The stock of non-consolidated subsidiaries and affiliates (¥3,458 million on the Consolidated Balance Sheet), unlisted stocks (¥2,458 million on the same) and securities invested in non-consolidated subsidiaries and affiliates (¥5 million on the same) do not have a market value because it is hard to estimate future cash flows, and it is difficult to obtain their fair market value. Therefore, these are not included in "(3) Investment securities."

(Notes to Important Subsequent Events)

None applicable

(Other Notes)

1. Revaluation of Land

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

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

Method of revaluation:

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

Date of revaluation:	March 31, 2002
Difference between the current value of the land as at the end of the consolidated fiscal year under review and its book value after revaluation:	¥ (18,104 million)

2. Impairment Losses

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

Application	Location	Type	Amount (Millions of yen)
Business property	Niihama-shi, Ehime and other locations	Buildings, etc.	289
Idle property	Yokosuka-shi, Kanagawa	Buildings	5

(2) Reason for recognizing the impairment losses

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

(3) Asset grouping method

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

(4) Method to calculate collectible amounts

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

3. Treatment of Fractional Amounts

Stated amounts are rounded off for fractions less than units.

4. Matters Related to Business Combination

Business Combination by Acquisition

The Company has resolved at its Board of Directors meeting held on March 2, 2017 to enter into a stock purchase agreement to acquire the outstanding shares of FW Energie B.V. (headquartered in the Netherlands, hereinafter "FW") from Foster Wheeler LLC (headquartered in the US), a subsidiary of Amec Foster Wheeler plc. (headquartered in the UK, hereinafter "AFW"), and to make FW its subsidiary. The stock purchase was implemented as of June 23, 2017.

(1) Overview of the business combination

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

Name of the acquired company:	FW Energie B.V.
Contents of the business:	Holding company for subsidiaries engaged in the manufacturing and sale of Circulating Fluidized Bed (CFB) Boiler

(ii) Main reasons for the business combination

This business combination is aimed at providing higher technologies and developing business throughout the world by obtaining the technology and know-how of AFW in CFB boiler business.

(iii) Date of business combination

June 23, 2017

(iv) Legal form of the business combination

Acquisition of shares

(v) Name of the company after the business combination

Sumitomo SHI FW Energie B.V.

(vi) Ratio of voting rights acquired

Ratio of voting rights owned immediately before the business combination	–%
Ratio of voting rights acquired on the business combination date	100.0%
Ratio of voting rights after the acquisition	100.0%

(vii) Main grounds for selection of acquiring company

This is because the Company acquired the shares in exchange for cash.

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

From June 24, 2017, to December 31, 2017

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

Consideration for the acquisition	Cash	¥22,838 million
Acquisition cost		¥22,838 million

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

Advisory costs, etc.: ¥607 million

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

(i) Amount of goodwill incurred

¥12,645 million

(ii) Cause for its incurrence

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

(iii) Amortization method and amortization period

Equally amortized over 20 years

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

	(Millions of yen)
Current assets	22,908
Fixed assets	17,379
Total assets	40,287
Current liabilities	24,446
Long-term liabilities	4,537
Total liabilities	28,983

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

Type	(Millions of yen)	weighted average amortization period
Technology	10,091	20 years
Brands/trademarks	2,814	20 years
Customer relationships	1,036	12.5 years
Total	13,941	–

STATEMENT OF CHANGES IN NET ASSETS

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

(Millions of yen)

	Shareholders' Equity							
	Common Stock	Capital Surplus		Retained Earnings			Treasury Stock	Total Shareholders' Equity
		Capital Reserve	Total Capital Surplus	Legal Reserve of Retained Earnings	Other Retained Earnings: Retained Earnings Brought Forward	Total Retained Earnings		
Balance at April 1, 2017	30,872	27,073	27,073	6,295	47,757	54,051	(915)	111,081
Changes in the period								
Decrease by corporate division					(1,316)	(1,316)		(1,316)
Dividends from surplus					(10,417)	(10,417)		(10,417)
Net income					6,972	6,972		6,972
Acquisition of treasury stock							(86)	(86)
Disposal of treasury stock					1	1	1	2
Reversal of land revaluation difference					465	465		465
Changes in items other than shareholders' equity in the period (net)								
Total changes in the period	—	—	—	—	(4,295)	(4,295)	(84)	(4,380)
Balance at March 31, 2018	30,872	27,073	27,073	6,295	43,461	49,756	(999)	106,701

	Valuation and Translation Adjustments				Total Net Assets
	Unrealized Gains/ Losses on Securities	Deferred Gains/ Losses on Hedges	Land Revaluation Difference	Total Valuation and Translation Adjustments	
Balance at April 1, 2017	3,718	350	41,289	45,357	156,438
Changes in the period					
Decrease by corporate division					(1,316)
Dividends from surplus					(10,417)
Net income					6,972
Acquisition of treasury stock					(86)
Disposal of treasury stock					2
Reversal of land revaluation difference					465
Changes in items other than shareholders' equity in the period (net)	952	580	(458)	1,074	1,074
Total changes in the period	952	580	(458)	1,074	(3,306)
Balance at March 31, 2018	4,670	930	40,831	46,431	153,132

"English Translation of Financial Statements Originally Issued in the Japanese Language"
(Note) Amounts shown in this financial statement have been rounded to the nearest million yen.

Notes to Financial Statements

(Notes Regarding Matters Related to Significant Accounting Policies)

1. Basis and Method of Asset Valuation

(1) Marketable securities

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

Other securities:

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

(2) Derivatives: At fair market value

(3) Inventories

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

2. Method of Depreciation of Fixed Assets

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

The straight-line method is employed.

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

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

(2) Intangible fixed assets (excluding leased assets)

The straight-line method is employed.

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

(3) Leased assets

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

3. Basis for Determination of Allowances

(1) Allowance for doubtful receivables

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

(2) Allowance for warranty

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

(3) Allowance for losses on construction contracts

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

(4) Allowance for losses on business transfer

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

(5) Allowance for retirement benefits

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

In calculating the retirement benefit obligations, the benefit formula standard is used to allocate the projected retirement benefits to the years of service up to the end of the fiscal year under review.

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

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

4. Accounting Procedures Regarding Retirement Benefits

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

5. Standards for Recognition of Income and Expenses

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

6. Method of Hedge Accounting

(1) Method of hedge accounting

Deferred hedge accounting is employed.

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

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

(2) Means of hedging and hedged items

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

(3) Hedging policy

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

(4) Method of evaluation of effectiveness of hedging

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

7. Accounting for Consumption Tax, etc.

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

8. Adoption of Consolidated Tax Payment System

The consolidated tax payment system is adopted.

(Notes to Balance Sheet)

1. Accumulated Depreciation of Property, Plant and Equipment: ¥122,802 million

2. Guarantee Obligations, etc.

Guarantee obligations

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

(Millions of yen)

Sumitomo (S.H.I.) Construction Machinery Co., Ltd.	12,695
Sumitomo SHI FW Energie B.V.	12,026
Sumitomo Heavy Industries (USA), Inc.	5,738
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.	4,809
Sumitomo (SHI) Demag Plastics Machinery GmbH	2,966
Sumitomo Heavy Industries Environment Co., Ltd.	2,167
Sumitomo Heavy Industries (China) Financial Leasing, Ltd.	1,995
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.	1,863
Others (9 lenders)	3,741
Total	48,000

The above figures include guarantee obligations in foreign currencies of 102 million Euro (¥13,368 million), 56 million U.S. dollars (¥5,956 million), 118 million Chinese yuan (¥1,995 million), 49 million PLN (¥1,519 million), 7 million Brazilian real (¥235 million), 31 million THB (¥105 million), and 5 million New Taiwan dollars (¥17 million).

3. Money Claims against and Debt Owed to Affiliated Companies

Short-term receivables due from affiliated companies	¥31,177 million
Long-term receivables due from affiliated companies	¥0 million
Short-term payable due to affiliated companies	¥109,626 million
Long-term payable due to affiliated companies	¥54,134 million

4. Notes maturing on balance sheet date

Notes maturing on balance sheet date are accounted for as if they are settled on the bank clearing date. Since the last day of the business year under review fell on a bank holiday, the following notes maturing on balance sheet date were accounted for as if they were settled on the bank clearing date.

Notes receivable	¥566 million
Notes payable	¥46 million

(Notes to Income Statement)

1. Transactions with affiliated companies

Sales to affiliated companies	¥58,663 million
Purchases from affiliated companies	¥73,290 million
Non-operating transactions with affiliated companies	¥10,881 million

2. Settlement Related Losses

These losses represent the settlement amount and related loss resulting from a settlement reached in December 2017 with regard to a lawsuit over construction of an incinerated ash melting facility that arose between the Company and Kyoto City.

(Notes to Statement of Changes in Net Assets)

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

Common stock 367,080 shares

(Notes Regarding Tax Effect Accounting)

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

(Notes Regarding Transactions with Related Parties)

Attribution	Name of Company, etc.	Percentage of Voting Rights Held		Relationship with the Related Party	Content of Transactions	Transaction Amount (Millions of yen)	Account Item	Balance at the End of Fiscal Year (Millions of yen)
Subsidiary	Sumitomo (S.H.I.) Construction Machinery Co., Ltd.	directly held	100%	Interlocking officers	Guarantee obligation	12,695	—	—
Subsidiary	Sumitomo SHI FW Energie B.V.	directly held	100%	Interlocking officers	Guarantee obligation	12,026	—	—
Subsidiary	Sumitomo Heavy Industries (USA), Inc.	directly held	100%	Interlocking officers	Guarantee obligation	5,738	—	—

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

(Notes Regarding Amounts Per Share)

1. Net asset per share ¥1,249.66
2. Net income per share ¥56.89

(Note) The Company carried out a one-for-five common share consolidation as of October 1, 2017. Net asset per share and net income per share has been calculated as if the share consolidation had been carried out on April 1, 2017.

(Notes to Important Subsequent Events)

None applicable

(Other Notes)

1. Revaluation of Land

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

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

Method of revaluation:

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

Date of revaluation: March 31, 2002

Difference between the current value of the land at the end of the fiscal year under review and its book value after revaluation: ¥(18,104) million

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

2. Impairment Losses

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

Application	Location	Type	Amount (Millions of yen)
Business property	Niihama-shi, Ehime and other locations	Buildings, etc.	289
Idle property	Yokosuka-shi, Kanagawa	Buildings	5

(2) Reason for recognizing the impairment losses

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

(3) Asset grouping method

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

(4) Method to calculate collectible amounts

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

3. Treatment of Fractional Amounts

Stated amounts are rounded off for fractions less than units.