

(Translation)

# **Notice of the 123rd 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 123rd Ordinary General Meeting of Shareholders to be held on Thursday, June 27, 2019. Please see the attachments for details.



Shinji Shimomura  
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 5, 2019

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

## **Notice of the 123rd Ordinary General Meeting of Shareholders**

Dear Shareholders:

You are cordially invited to attend the Company's 123rd 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 26, 2019, by mail or via the Internet.**

Sincerely yours,

Shinji Shimomura  
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 26, 2019**, 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 26, 2019**.

## Details

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- 1. Date and Time:** Thursday, June 27, 2019, 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 and Financial Report and Consolidated Financial Statements for the 123rd fiscal year (from April 1, 2018 to March 31, 2019) and the results of the audit of the Consolidated Financial Statements by the Independent Auditor and Board of Corporate Auditors
2. The contents of the Company's Financial Statements for the 123rd fiscal year (from April 1, 2018 to March 31, 2019)

**Matters Requiring Shareholders' Resolutions:**

- Agenda Item 1** Disposition of Retained Earnings  
**Agenda Item 2** Election of Nine Directors  
**Agenda Item 3** Election of Two Corporate Auditors  
**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 or 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/english/index.html>



## 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 and to increase them, 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 123rd 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 123rd fiscal year be as follows:

#### Year-end dividend for the 123rd 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:** ¥62.00 per share of the Company's common stock

**Total dividends:** ¥7,596,582,736

For your reference:

Including ¥50 per share for the interim dividend, which has already been distributed, the annual dividend appropriated from retained earnings for the 123rd fiscal year is ¥112 per share, an increase of ¥27 compared to the previous fiscal year.

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

**June 28, 2019**

## Agenda Item 2: Election of Nine Directors

The terms of office of all ten Directors will expire at the close of this General Meeting. Therefore, the election of nine 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	Shunsuke Betsukawa	Representative Director and Chairman of the Board Chairperson of the Board of Directors	14/14 meetings (100%)
2	Reappointment	Shinji Shimomura	Representative Director and President & CEO	13/14 meetings (93%)
3	Reappointment	Yoshiyuki Tomita	Representative Director and Executive Vice President General Manager of Export Administration Department General Manager of Corporate Technology Operations Group	14/14 meetings (100%)
4	Reappointment	Toshiharu Tanaka	Director and Executive Vice President General Manager of Power Transmission & Controls Group	14/14 meetings (100%)
5	Reappointment	Tetsuya Okamura	Director and Executive Vice President General Manager of Industrial Equipment Division	10/10 meetings (100%)
6	Reappointment	Hideo Suzuki	Director and Executive Vice President & CFO	10/10 meetings (100%)
7	Reappointment	Eiji Kojima	Director and Senior Vice President General Manager of Energy & Environment Group	14/14 meetings (100%)
8	Reappointment Outside Independent	Susumu Takahashi	Outside Director	14/14 meetings (100%)
9	Reappointment Outside Independent	Hideo Kojima	Outside Director	14/14 meetings (100%)

Reappointment : Candidate to be reelected 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 pages 18 through 19, respectively.

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No. **1**

# Shunsuke Betsukawa

Reappointment

Nomination

Compensation

(Born on May 9, 1954)

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Number of shares of the  
Company held  
**22,107 shares**

Tenure as Director  
**10 years**

Attendance at Board of  
Directors Meetings  
**14/14 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
April 2019	<b>Representative Director and Chairman of the Board</b> , 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 was appointed as the Representative Director and President in 2013 after serving as the person in charge of the Finance, Accounting, and Corporate Planning divisions. He formulated two medium-term management plans titled “Medium-Term Management Plan 2016” and “Medium-Term Management Plan 2019,” and promoted the building of a robust business structure. Since being appointed as the Representative Director and Chairman of the Board in April 2019, he, 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.

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No. 2

## Shinji Shimomura

Reappointment

Nomination

Compensation

(Born on February 3, 1957)

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Number of shares of the Company held  
**4,684 shares**

Tenure as Director  
**3 years**

Attendance at Board of Directors Meetings  
**13/14 meetings (93%)**

### Career Summary, and Positions and Responsibilities at the Company

April 1982	Joined the Company
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.
April 2016	Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
June 2016	Director and Senior Vice President of the Company
April 2018	Director and Executive Vice President
April 2019	<b>Representative Director and President &amp; CEO</b> , 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

As Representative Director and President & CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd., Mr. Shinji Shimomura accomplished high business growth in the Construction Machinery segment with his strong leadership, and was responsible for the management of the Company Group. In April 2019, he was appointed as Representative Director and President of the Company. As CEO, he has directed the management of the Company Group with the aim of achieving the targets addressed in “Medium-Term Management Plan 2019,” which started in fiscal 2017.

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.

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No. 3

**Yoshiyuki  
Tomita**

Reappointment

(Born on May 2, 1956)

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Number of shares of the  
Company held  
**3,061 shares**

Tenure as Director  
**7 years**

Attendance at Board of  
Directors Meetings  
**14/14 meetings (100%)**

**Career Summary, and Positions and Responsibilities at the Company**

April 1981	Joined the Company
April 2011	Vice President, General Manager of Technology Research Center, Corporate Technology Operations Group
June 2012	Director and Vice President, General Manager of Technology Research 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	<b>Representative Director and Executive Vice President, General Manager of Export Administration Department, and General Manager of Corporate Technology Operations Group, to date</b>

**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 2018, he was appointed as Representative Director. In addition to leading the Company 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.

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No. **4**

**Toshiharu  
Tanaka**

Reappointment

(Born on January 30, 1959)

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Number of shares of the  
Company held  
**8,716 shares**

Tenure as Director  
**6 years**

Attendance at Board of  
Directors Meetings  
**14/14 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	<b>Director and Executive Vice President, General Manager of Power Transmission &amp; Controls Group, to date</b>

**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.

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No. **5**

**Tetsuya  
Okamura**

Reappointment

(Born on May 5, 1956)

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Number of shares of the  
Company held  
**2,478 shares**

Tenure as Director  
**1 year**

Attendance at Board of  
Directors Meetings  
**10/10 meetings (100%)**

**Career Summary, and Positions and Responsibilities at the Company**

April 1980	Joined the Company
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
June 2018	<b>Director and Executive Vice President, General Manager of Industrial Equipment Division, to date</b>

**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 contributed to strengthening the competitiveness of the Company Group's plastic machinery business. After his appointment as the General Manager of the Industrial Equipment Division in 2017, he was appointed as a Director and Executive Vice President in 2018. As the head of this business segment, he is advancing initiatives to stabilize earnings and enhance the strengths of products.

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

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No. **6**

**Hideo Suzuki**

Reappointment

(Born on January 7, 1960)

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Number of shares of the  
Company held  
**6,861 shares**

Tenure as Director  
**1 year**

Attendance at Board of  
Directors Meetings  
**10/10 meetings (100%)**

**Career Summary, and Positions and Responsibilities at the Company**

April 1982	Joined the Company
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
June 2018	Director and Executive Vice President, General Manager of Corporate Finance, Accounting & Administration Group
April 2019	<b>Director and Executive Vice President &amp; CFO, to date</b>

**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, and a Director and Executive Vice President in 2018. As CFO since April 2019, he has been 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 reappointment.

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No. **7**

**Eiji Kojima**

Reappointment

(Born on January 3, 1960)

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Number of shares of the Company held  
**1,561 shares**

Tenure as Director  
**2 years**

Attendance at Board of Directors Meetings  
**14/14 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 Electromechanical Systems Engineering Dept., 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	<b>Director and Senior Vice President, General Manager of Energy &amp; Environment Group</b> , 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 performed his duties as the person in charge of the business driving 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.

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No. **8**

**Susumu  
Takahashi**

Reappointment

Outside

Independent

Nomination

Compensation

(Born on January 28, 1953)

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Number of shares of the  
Company held

**0 shares**

Tenure as Director

**5 years**

Attendance at Board of  
Directors Meetings

**14/14 meetings (100%)**

**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

**Significant Positions Held at Other Companies**

Chairman Emeritus of The Japan Research Institute, Limited

**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 economy 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. **9**

## 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  
**4 years**

Attendance at Board of Directors Meetings  
**14/14 meetings (100%)**

### Career Summary, and Positions and Responsibilities at the Company

March 1980	Registered as a <b>certified public accountant</b> , to date
May 1995	Representative Partner of Showa Ota & Co.
May 2000	Vice Chairman of Century Ota Showa & Co.
May 2004	General Manager of International Division, Tokyo office, Ernst & Young ShinNihon
May 2006	Deputy Chief Executive Officer of Ernst & Young ShinNihon
September 2010	Senior Advisor of Ernst & Young ShinNihon LLC
June 2011	Outside Corporate Auditor of Alpine Electronics, Inc.
June 2011	Outside Corporate Auditor of the Company
June 2011	Established <b>Hideo Kojima CPA Office</b> , to date
June 2013	Outside Corporate Auditor of Mitsubishi UFJ Financial Group, Inc.
June 2015	<b>Outside Director of the Company</b> , to date
June 2016	Outside Director (Audit and Supervisory Committee Member) of Alpine Electronics, Inc. (resigned in January 2019)

### Significant Positions Held at Other Companies

Certified Public Accountant of Hideo Kojima 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 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 Nomination Committee and Chair of 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. 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.

**Agenda Item 3: Election of Two Corporate Auditors**

The terms of office of Corporate Auditors Jun Nogusa and Masaichi Nakamura will expire at the close of this General Meeting. Therefore, the election of two Corporate Auditors is requested.

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

The candidates for Corporate Auditors are as follows:

**No. 1**

**Jun Nogusa**

Reappointment

(Born on October 25, 1956)



Number of shares of the Company held  
**1,440 shares**

Tenure as Corporate Auditor  
**1 year**

Attendance at Board of Directors Meetings  
**10/10 meetings (100%)**

Attendance at Board of Corporate Auditors Meetings  
**8/8 meetings (100%)**

**Career Summary and Positions at the Company**

- April 1979    Joined the Company
- April 2005    General Manager of Planning & Control Department, Laser Business Center, Precision Machinery Group
- April 2006    General Manager of Planning & Control Department, Electromechanical 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 and Development Department
- April 2014    General Manager of Internal Control Group
- April 2018    Senior General Manager of Internal Control Group
- June 2018    **Corporate Auditor**, 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 control in operational divisions, in 2014, Mr. Jun Nogusa was appointed as General Manager of the Internal Control Group. Since then, he has been advancing initiatives to build the Company Group’s internal control systems along with compliance efforts. In 2018, he was appointed as Corporate Auditor of the Company. As Corporate Auditor, he is working on effective audit activities of the Company’s management. The Company has determined that through his extensive experience and broad insight, he is capable of working with other Corporate Auditors to continue fulfilling his responsibilities as a Corporate Auditor, and hereby requests his reappointment.

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

No. **2**

## Masaichi Nakamura

Reappointment

Outside

Independent

Compensation

(Born on January 9, 1957)



Number of shares of the  
Company held  
**0 shares**

Tenure as Corporate Auditor  
**2 years**

Attendance at Board of  
Directors Meetings  
**13/14 meetings (93%)**

Attendance at Board of  
Corporate Auditors Meetings  
**11/12 meetings (92%)**

### Career Summary and Positions at the Company

March 1987	Registered as a <b>certified public accountant</b> , to date
August 2008	Managing Director of Ernst & Young ShinNihon LLC
July 2014	Representative Partner and Vice President of Ernst & Young ShinNihon LLC
July 2014	Representative Director of Ernst & Young Business Initiative Co., Ltd.
September 2016	Established <b>Masaichi Nakamura CPA Office</b> , to date
June 2017	<b>Outside Director (Audit and Supervisory Committee Member) of SCSK Corporation</b> , to date
June 2017	<b>Outside Corporate Auditor of the Company</b> , to date

### Significant Positions Held at Other Companies

Certified Public Accountant of Masaichi Nakamura CPA Office  
Outside Director (Audit and Supervisory Committee Member) of SCSK Corporation

### 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

Mr. Masaichi Nakamura, as a certified public accountant, is an expert in finance and accounting and has long experience of actual professional practice. He was involved in the management of a company as a representative director in the past. His extensive experience and ample knowledge will be extremely useful for the Company.

The Company has determined that Mr. Nakamura will be able to continue conducting effective audits of the Company's management from objective and independent standpoints as an Outside Corporate Auditor, and hereby requests his reappointment.

- Mr. Masaichi Nakamura will be appointed as an Independent Director (Audit/Supervisory Committee Member) of Terumo Corporation in June 2019.
- The Company has designated Mr. Masaichi Nakamura as an independent officer and notified the Tokyo Stock Exchange to that effect.
- The Company has entered into a contract with Mr. Masaichi Nakamura 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. Nakamura.

(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 pages 18 through 19, respectively.

#### Agenda Item 4: Election of One Alternative Corporate Auditor

The election of Mr. Tomoyuki Kato, Alternative Corporate Auditor, made at the 122nd Ordinary General Meeting of Shareholders held on June 28, 2018, 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:

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## Tomoyuki Kato

Outside

Independent

(Born on August 14, 1944)

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Number of shares of the  
Company held  
**0 shares**

### Career Summary and Positions at the Company

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

### Significant Positions Held at Other Companies

Certified Public Accountant

### Special Interest between Candidate and the Company

The candidate has no special interest in the Company.

### Reasons for Selection as Candidate for Alternative 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 pages 18 through 19, 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 alternative 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 of 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 independent auditor or a certified public accountant who belongs to the audit firm that is the Company's independent 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 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

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

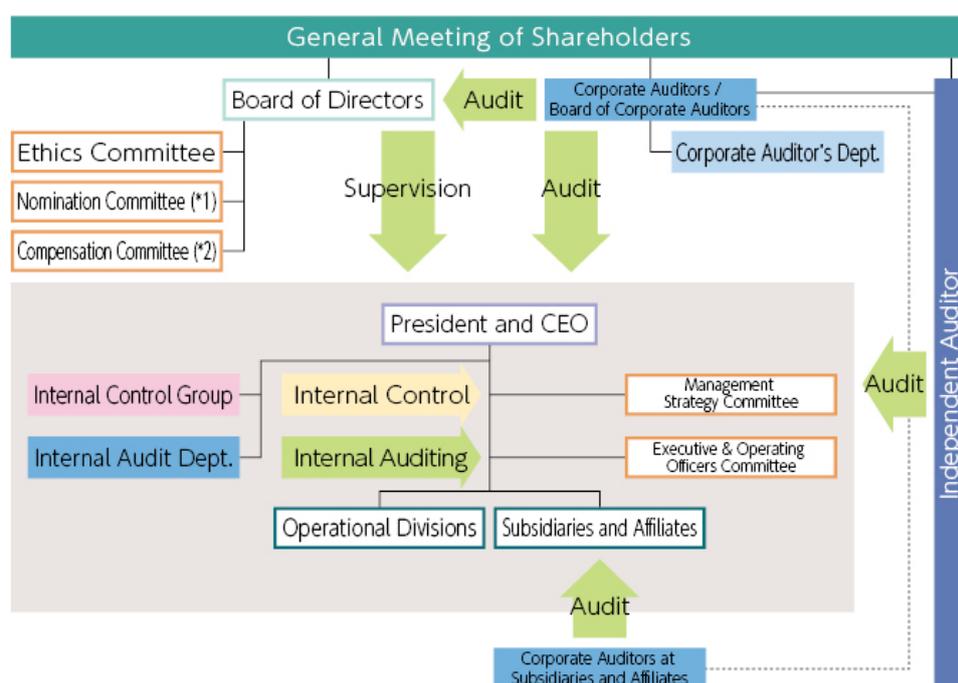


### Corporate Governance System

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 ten directors (the fixed number is 12), of whom two are outside directors whose role is to supervise management from an independent standpoint and are in charge of appropriately reflecting the stakeholders' perspective.

The Board of Corporate Auditors is comprised of four corporate auditors (the fixed number is five), including two outside corporate auditors. The outside 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, 2018 through March 31, 2019)

### I. CURRENT STATUS OF THE COMPANY GROUP

#### Financial Highlights

- **Orders, net sales and net income attributed to shareholders of the parent company hit record levels**
- **Operating income of ¥75.2 billion attained target set in the Medium-Term Management Plan 2019, as it did the previous fiscal year**
- **Significant contribution to results from strong overseas hydraulic excavator business and from M&A**

#### Orders

**¥952.2 billion**

a 10% increase from  
the previous fiscal year

#### Operating income

**¥75.2 billion**

a 8% increase from  
the previous fiscal year

#### Net income attributable to shareholders of the parent company

**¥45.7 billion**

a 32% increase from  
the previous fiscal year

#### Net sales

**¥903.1 billion**

a 14% increase from  
the previous fiscal year

#### Ordinary income

**¥72.6 billion**

a 8% increase from  
the previous fiscal year

#### ROIC

**10.5%**

(The previous fiscal year: 10.3%)

## 1. PERFORMANCE AND RESULTS OF OPERATIONS

In the fiscal year under review, the business environment in which the Company Group operated was characterized by improvements in corporate earnings driving strong domestic capital investment. Overseas, US manufacturing industry continued to see a recovery in production due to recovery in domestic and foreign demand, and although the economic rebound in China faded in the second half, industrial production there was generally robust, leading to global demand for machinery trending higher. On the other hand, concerns about intensifying trade friction between the US and China, continued geopolitical risks and the appearance of currency and financial system instability in some emerging countries contributed to the ongoing sense of uncertainty.

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

As a result, during the fiscal year under review, total orders received by the Company Group were ¥952.2 billion, reaching a historic high, and net sales on a consolidated basis were ¥903.1 billion, also reaching a historic high.

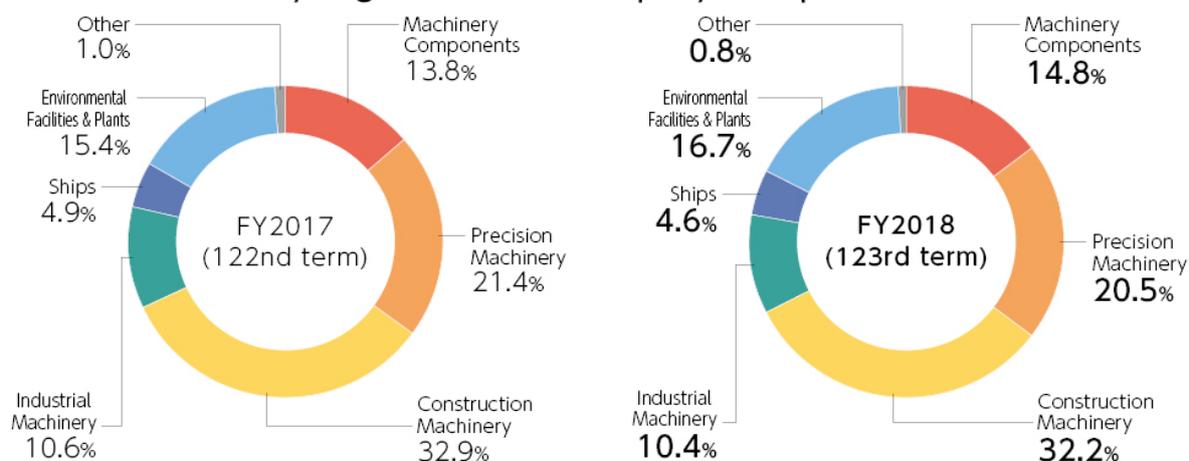
As for profits and losses, operating income was ¥75.2 billion, ordinary income was ¥72.6 billion, and net income attributable to shareholders of the parent company was ¥45.7 billion, reaching a historic high. In addition, the after-tax ROIC\* was 10.5%.

With regard to the issue of inappropriate inspections being made in relation to products and services at the Company and at Group companies, we offer our heartfelt apologies for the considerable trouble and concern caused to our shareholders. The Company has treated these events with the utmost sincerity and seriousness, setting up a special investigation committee, chaired by an outside director, with a remit to bring to light the background and factors leading to these inappropriate inspections. Based on the findings of this committee, the Company Group has taken steps to put in place measures to prevent a recurrence. The employees involved have been disciplined rigorously in accordance with the rules of employment, and certain officers have foregone part of their compensation.

\* 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.

## 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)

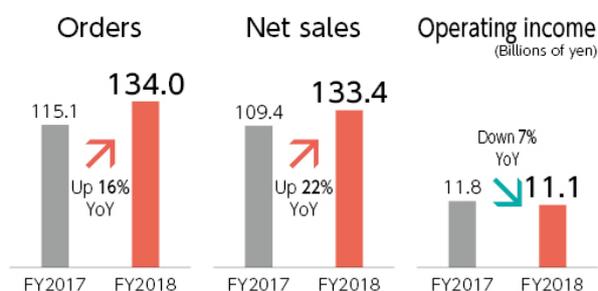
Segment	Orders		Sales		Year-end Backlog of Orders as of March 31,	
	FY2017	<b>FY2018</b>	FY2017	<b>FY2018</b>	2018	<b>2019</b>
Machinery Components	115.1	<b>134.0</b>	109.4	<b>133.4</b>	36.6	<b>37.2</b>
Precision Machinery	190.5	<b>191.5</b>	169.4	<b>185.7</b>	77.4	<b>83.2</b>
Construction Machinery	265.2	<b>305.3</b>	260.5	<b>290.5</b>	58.1	<b>72.9</b>
Industrial Machinery	87.7	<b>90.8</b>	83.8	<b>93.7</b>	98.9	<b>96.0</b>
Ships	34.9	<b>32.0</b>	38.3	<b>41.4</b>	49.6	<b>40.1</b>
Environmental Facilities & Plants	162.7	<b>191.3</b>	121.9	<b>151.0</b>	231.1	<b>271.5</b>
Other	7.7	<b>7.3</b>	7.8	<b>7.3</b>	1.5	<b>1.4</b>
<b>Total</b>	<b>864.0</b>	<b>952.2</b>	<b>791.0</b>	<b>903.1</b>	<b>553.2</b>	<b>602.3</b>

## Machinery Components

### **Principal Business:**

Power Transmission and Control Equipment, Motors

Orders and sales both increased due to strength in small- to medium-sized power transmission and control equipment, and due to the acquisition of the Lafert Group (Lafert S.p.A., etc.), which became a consolidated subsidiary.



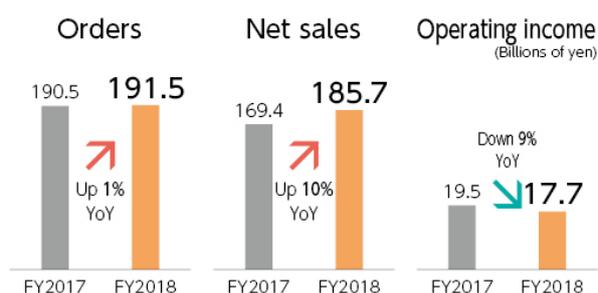
## Precision Machinery

### **Principal Business:**

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

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

In other precision machinery business, there was a fall in demand for some kinds of semiconductor-related equipment leading to a decline in orders, but sales increased as a result of the order backlog from the previous fiscal year.



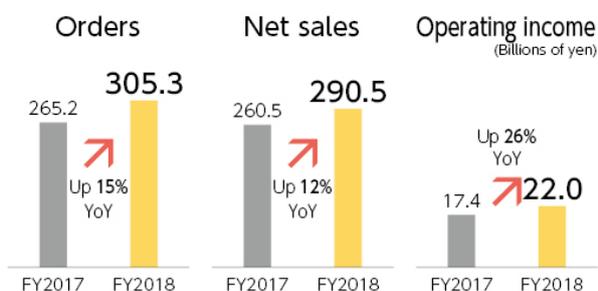
## Construction Machinery

### **Principal Business:**

Hydraulic Excavators, Construction Cranes, Road Construction Machinery

With respect to the hydraulic excavator business, demand grew in overseas markets such as China and North America. 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, robust growth in domestic demand, and other factors.



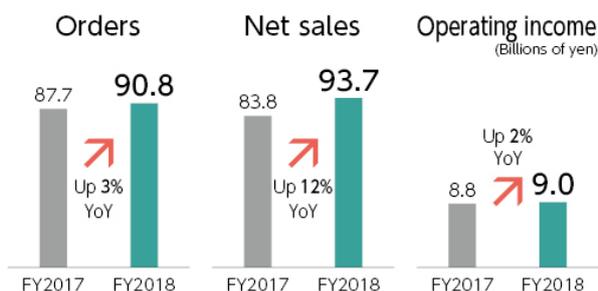
## Industrial Machinery

### **Principal Business:**

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

The material handling business recorded higher orders and sales due to robust demand from electric power and steelmaking.

In the other industrial machinery business, orders decreased due to a fall in industrial turbines, but increases in forging machines, etc. resulted in higher sales.

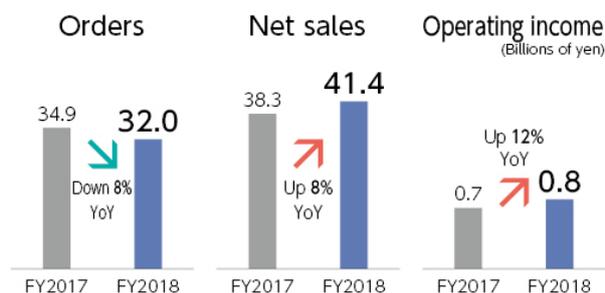


## Ships

### **Principal Business:**

Ships

As market conditions continued to flag, the Company Group received orders for three new vessels during the fiscal year under review, one vessel fewer than the previous fiscal year. In addition, although four vessels were delivered, one fewer than in the previous fiscal year, sales rose as a result of increases in ship maintenance and repair.



## 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 increased due to the increase in biomass power plant projects in Japan, and as a result of the contribution from Sumitomo SHI FW Energie B.V., which became a subsidiary during the previous fiscal year.

In the water treatment plant business, both orders and sales increased mainly due to receiving orders for a large-scale sewage treatment system project and long-term operation and maintenance projects.



## Other

### **Principal Business:**

Software, Real Estate

In other businesses, orders were ¥7.3 billion, a 6% decrease from the previous fiscal year; net sales were ¥7.3 billion, a 6% decrease from the previous fiscal year; and operating income was ¥2.2 billion, a 5% increase from the previous fiscal year.

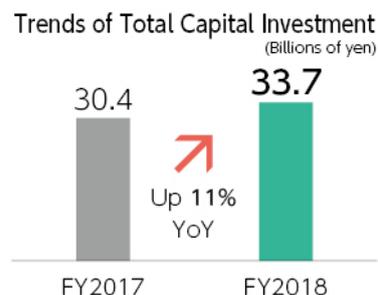
## 2. CAPITAL INVESTMENT AND OTHER INVESTMENT

### (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 ¥33.7 billion.

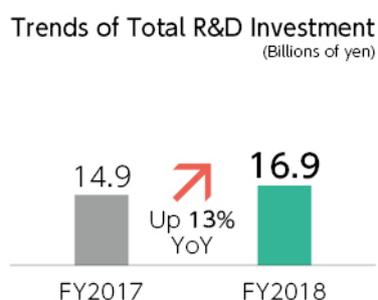


### (2) R&D investment

With the aim of providing peace of mind to customers and improving customer profitability, during the fiscal year under review we carried out investments in development, such as in malfunction detection, status monitoring and operational support functions utilizing ICT and AI.

Specifically, in the Precision Machinery segment we invested in the development of production quality management systems, etc., while in the Construction Machinery segment we made investments for developing better on-site work efficiency.

As a result, the total amount of R&D investment for the fiscal year under review was ¥16.9 billion.



## 3. FINANCING

During the fiscal year under review, the Company Group did not raise a significant amount of funds through capital increases or issuances of corporate bonds.

## 4. BUSINESS RESTRUCTURING

On June 25, 2018 (local time in Italy), the Company acquired shares, etc. of Lafert S.p.A., a manufacturer and distributor of industrial motors, and its holding companies. As a result, Lafert Group became a consolidated subsidiary of the Company.

## 5. CHALLENGES FACING THE COMPANY GROUP

In Japan, the environment in which the business operates remains stable, supported by private-sector demand in the form of personal consumption and capital investment. Improvements in employment and income have driven a recovery in personal consumption, while in the corporate sector, capital investment in labor-saving and technological innovation is rising despite stagnant growth in earnings. Overseas there are intensifying concerns about the impact on business conditions of such factors as the slowdown in the Chinese and European economies, US trade sanctions against China, and the departure of the United Kingdom from the EU.

### Priority Issues for Fiscal 2019

During fiscal 2019, which is the final implementation 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 maintaining and strengthening the competitiveness and achieving steady growth of the Company Group as a whole.

In addition, we will strengthen product capability by refining not only 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 components 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 and service quality and promotion of innovation in business process

We are working as one on initiatives to deepen and improve quality management. Going forward we will again focus on practicing "quality first" management.

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 continues to regard a rigorous regime of compliance as one of the most important issues it faces. The compliance manual will be revised and distributed to the officers and employees of the Company and of Group companies, and used for education. In addition, with regard to the compliance education being implemented in each segment, we will work to further deepen the knowledge and awareness of compliance issues in the Group as a whole, such as by adding training on examples of compliance violations.

Moreover, with regard to the inappropriate inspections, etc. carried out in the Company and in Group companies in relation to products and services, which were disclosed in fiscal 2018, we have taken robust measures to prevent a recurrence, and are doing our utmost to restore trust by reaffirming operational quality improvements and management policies that make compliance the No.1 priority.

(c) **Activities for safety**

The Company Group has formulated the Basic Health and Safety Improvement Plan in fiscal 2010, 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. We are working to achieve the targets in this implementation plan, and taking steps to realize a comfortable workplace in which all employees are healthy in mind and body, and are able to work in safety and security.

**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**

Fiscal 2019 constitutes the final year of the CSR Medium-Term Plan, and we will work on the following measures with regard to the four priority fields: “products and services,” “environment,” “society,” and “human resources.”

In “**products and services**,” we will continue the dialogue with business segments, which has been ongoing since fiscal 2017, in relation to the planning and development of products and services that contribute to the resolution of social issues, and summarize the results for the Company Group’s social responsibility issues.

In “**environment**,” we will perform evaluations of the environmental performance of products in order to reduce CO<sub>2</sub> emissions during their usage, which have a particularly high environmental impact during the products’ lifecycle, and promote enhanced environmental performance. In addition, in order to address the ESG investment movement, we will focus on proactively communicating information on the fruits of our environmental activities to the public.

In “**society**,” in order to foster the trust of society, we require our business counterparties to comply with laws and regulations, as well as social norms, and work to build sustainable relationships with them. In fiscal 2019, 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.

Our initiatives to promote active participation of female employees are structured around three pillars: “Awareness,” “Systems,” and “Environment.” We will support proactive career formation through initiatives such as a development program for female managers, support for balancing work and home responsibilities, and workshops for women.

Our wide-ranging initiatives to foster a better organizational culture include the introduction of management training on how to manage diverse personnel, encouraging male employees to take childcare leave, and e-learning courses for all employees to promote understanding of diversity.

In addition, as part of reforming our way of working, we will gradually expand eligibility for the system of working at home, which was introduced in April 2019, from head office managers, in addition to continuing to work to correct long working hours.

Furthermore, in order to promote the building of healthy workplaces, we have set up a “Conference for Building Better Health” to promote the smooth operation of the health management system, such

as by working on measures to tackle the most important issues of mental health and cardiovascular disease.

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	FY2015	FY2016	FY2017	<b>FY2018</b> <b>(this fiscal year)</b>
Orders	685.9	711.1	864.0	<b>952.2</b>
Net sales	700.8	674.3	791.0	<b>903.1</b>
Operating income	50.6	48.4	69.9	<b>75.2</b>
Ordinary income	49.1	48.3	67.5	<b>72.6</b>
Net income attributable to shareholders of the parent company	33.1	33.6	34.7	<b>45.7</b>
Net income per share (Yen)	54.06	54.85	282.83	<b>372.56</b>
Total assets	782.9	796.5	894.8	<b>954.1</b>
Net assets	382.8	409.2	445.0	<b>465.0</b>
Net assets per share (Yen)	614.51	650.47	3,517.33	<b>3,701.01</b>

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

2. The Company Group has applied the "Partial Amendments to the 'Accounting Standard for Tax Effect Accounting'" (Accounting Standards Board of Japan Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the fiscal year under review. The amount for total assets in the previous fiscal year has been restated to reflect the retrospective application of this Standard.

## 7. MAJOR SUBSIDIARIES (as of March 31, 2019)

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.
Sumitomo Heavy Industries Construction Cranes 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

Name	Stated Capital (Millions of yen)	Company's Shareholding Ratio (%)	Major Line of Business
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.	480	100	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.
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.)	51,800 (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
Lafert S.p.A. (Italy)	3,484 (Thousands of Euros)	100	Manufacturing and distribution of industrial motors
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
Sumitomo Heavy Industries (Vietnam) Co., Ltd. (Vietnam)	41,300 (Thousands of U.S. Dollars)	100	Manufacturing and distribution of power transmission and control equipment

Note: The Company's Shareholding Ratio includes the indirect holdings.

## 8. MAJOR LENDERS (as of March 31, 2019)

Name	Loans Outstanding (Millions of yen)
Sumitomo Mitsui Banking Corporation	15,666
MUFG Bank, Ltd.	4,558
Sumitomo Mitsui Trust Bank, Limited	4,386
Mizuho Bank, Ltd.	1,521

## 9. EMPLOYEES (as of March 31, 2019)

Segment	Number of Employees	Increase or Decrease from End of Last Fiscal Year
Machinery Components	6,708	1,017
Precision Machinery	4,533	164
Construction Machinery	3,859	192
Industrial Machinery	2,177	45
Ships	562	32
Environmental Facilities & Plants	3,312	26
Corporate Operations & Others	1,392	50
Total	22,543	1,526

## 10. MAJOR PLACES OF BUSINESS AND PLANTS (as of March 31, 2019)

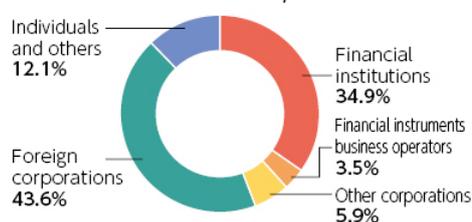
The Company	Head office	1-1, Osaki 2-chome, Shinagawa-ku, Tokyo, Japan
	Business offices	Chubu Office (Nagoya-shi), Kansai Office (Osaka-shi), Kyushu Office (Fukuoka-shi)
	Plants	Tanashi Works (Nishitokyo-shi, Tokyo), Chiba Works (Chiba-shi), Yokosuka Works (Yokosuka-shi, Kanagawa Pref.), Nagoya Works (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.) Sumitomo Heavy Industries Construction Cranes 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) Lafert S.p.A. (Italy) 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)

## II. CURRENT CONDITION OF THE COMPANY

### 1. STOCK (as of March 31, 2019)

- (1) Total number of authorized shares: 360,000,000
- (2) Total number of issued shares: 122,905,481
- (3) Number of shareholders: 34,210
- (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)	10,014	8.2
Japan Trustee Services Bank, Ltd. (trust account)	6,479	5.3
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	4,730	3.9
Sumitomo Life Insurance Company	4,333	3.5
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	2,923	2.4
Sumitomo Heavy Industries, Ltd. Kyoeikai	2,714	2.2
Japan Trustee Services Bank, Ltd. (trust account 9)	2,579	2.1
Japan Trustee Services Bank, Ltd. (trust account 5)	2,245	1.8
Sumitomo Mitsui Banking Corporation	2,000	1.6
STATE STREET BANK WEST CLIENT-TREATY 505234	1,827	1.5

Note: Shareholding ratios are calculated based on the total number of shares excluding treasury shares (380,153 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.

## 2. DIRECTORS AND CORPORATE AUDITORS OF THE COMPANY

### (1) Directors and Corporate Auditors (as of March 31, 2019)

Name	Title	Positions, Responsibilities, and Significant Positions Held at Other Companies
Yoshinobu Nakamura	Representative Director and 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
Tetsuya Okamura *	Director Executive Vice President	General Manager of Industrial Equipment Division
Hideo Suzuki *	Director Executive Vice President	General Manager of Corporate Finance, Accounting & Administration Group
Eiji Kojima	Director Senior Vice President	General Manager of Energy & Environment Group
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.
Susumu Takahashi	Director	Chairman Emeritus of The Japan Research Institute, Limited
Hideo Kojima	Director	CPA, Hideo Kojima CPA Office
Yuji Takaishi	Standing Corporate Auditor	
Jun Nogusa *	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 new Directors and a new Corporate Auditor who assumed office on June 28, 2018.
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 Directors and the Corporate Auditor who resigned during this term (resigned as of June 28, 2018):  
 Director Shinji Nishimura (expiration of term of office)  
 Director Mikio Ide (expiration of term of office)  
 Corporate Auditor Kazumi Fujita (resignation)

7. As of April 1, 2019, the positions, responsibilities, and significant positions held at other companies of the Directors, Corporate Auditors and Executive Officers are as below.

Name	Title	Positions, Responsibilities, and Significant Positions Held at Other Companies
Shunsuke Betsukawa	Representative Director Chairman of the Board	Chairperson of the Board of Directors
Shinji Shimomura	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
Tetsuya Okamura	Director Executive Vice President	General Manager of Industrial Equipment Division
Hideo Suzuki	Director Executive Vice President CFO	
Eiji Kojima	Director Senior Vice President	General Manager of Energy & Environment Group
Yoshinobu Nakamura	Director Advisor	
Susumu Takahashi	Director	Chairman Emeritus of The Japan Research Institute, Limited
Hideo Kojima	Director	CPA, Hideo Kojima CPA Office
Yuji Takaishi	Standing Corporate Auditor	
Jun Nogusa	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
Hiroo Morita	Senior Vice President	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; 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.

Name	Title	Positions, Responsibilities, and Significant Positions Held at Other Companies
Yasunobu Kazumi	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.
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
Tatsuro Araki	Vice President	General Manager of Gearbox Business Unit, 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)	11 (2)	¥365 million (¥19 million)
Corporate Auditor (of which, Outside Corporate Auditor)	5 (2)	¥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 ¥54 million (four Directors).
  3. 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	14/14 (100%)	—	Expressed opinions based on his specialized knowledge about the economy and management, and his broad experience, as needed.
Outside Director	Hideo Kojima	14/14 (100%)	—	Expressed opinions particularly from the perspective of an expert on finance and accounting as a CPA, as needed. In addition, with regard to the improper inspections, etc. of products and services, as the Chairperson of the Special Investigation Committee he also investigated the background and factors leading to this situation and gave his opinion on recurrence prevention measures. Furthermore, he acts as the Chairperson of the Nomination Committee and the Compensation Committee.
Outside Corporate Auditor	Takeo Wakae	14/14 (100%)	12/12 (100%)	Expressed opinions particularly from the perspective of an expert on legal issues as a lawyer, as needed. In addition, with regard to the improper inspections, etc. of products and services, as a member of the Special Investigation Committee he also investigated the background and factors leading to this situation and gave his opinion on recurrence prevention measures.
Outside Corporate Auditor	Masaichi Nakamura	13/14 (93%)	11/12 (92%)	Expressed opinions particularly from the perspective of an expert on finance and accounting as a CPA, as needed.

### 3. INDEPENDENT AUDITOR

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

(2) **Amount of compensation, etc., and reason that the Board of Corporate Auditors agreed to such compensation, etc.**

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(i) Amount of compensation, etc. to be paid to the Independent Auditor related to this fiscal year	¥157 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 Independent Auditor	¥252 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 Auditor and cannot be differentiated as a practical matter. Accordingly, the above-indicated amount of compensation, etc. to be paid to the Independent Auditor related to this fiscal year includes the total of such compensation amounts.
  2. Among the major 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, Lafert S.p.A., Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd. (China), Sumitomo (SHI) Cyclo Drive China, Ltd. (China) and Sumitomo Heavy Industries (Vietnam) Co., Ltd. were audited by auditing firms other than the Independent Auditor engaged by the Company.

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

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 Auditor in accordance with the Guidelines for Practices Regarding Cooperation with Independent Auditor 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 Auditor 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 Auditor the preparation support of integrated report, etc. 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 Auditor**

The Board of Corporate Auditors shall dismiss the Independent Auditor upon the consent of all Corporate Auditors in the event that it is determined that any item under Article 340, Paragraph 1 of the Companies Act applies to the Independent Auditor. In this case, a Corporate Auditor appointed by the Board of Corporate Auditors shall report the dismissal and the reason thereof at the General Meeting of Shareholders first called after such dismissal. In addition, if it is determined that it is difficult for the Independent Auditor 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 Auditor to be submitted to a General Meeting of Shareholders.

#### **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 and other relevant corporate structures on loss-risk management of the Company's subsidiaries
    - (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 considered and discussed 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 Auditor's 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 of the Company with the execution of auditing duties from the Directors**
- The personnel changes, performance appraisals to and disciplinary action against the staff of the Corporate Auditor's 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 Auditor's 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 Auditor, 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 Auditors 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.

Also, with regard to the inappropriate inspections carried out in the business section of the Company, in addition to taking measures to prevent a recurrence of these cases, the Company Group as a whole drew up preventative measures.

(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) 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.

Also, with regard to the inappropriate inspections carried out by multiple subsidiaries, etc. of the Company Group, in addition to taking measures to prevent a recurrence of these cases, the Company Group as a whole drew up preventative measures.

- (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 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 effective auditing by the Corporate Auditors of the Company

- (a) The Company established the Corporate Auditor's Department as a dedicated organization tasked with assisting the Corporate Auditors with their duties and allocates members either exclusively or concurrently in another position within the Company, and the Corporate Auditors instruct and direct the members of the Corporate Auditor's Department.
- (b) 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.
- (c) 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 Directors with regular opportunities to exchange opinions. In addition, the corporate auditors of subsidiaries or affiliates and the Internal Audit Department and the Independent Auditor 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.
- (d) 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, 2019)**

(Millions of yen)

	Fiscal year under review	Previous fiscal year (for reference)
<b>Assets</b>		
Current assets	583,568	551,584
Cash and deposits	73,589	88,233
Notes and accounts receivable	291,578	269,409
Inventories	189,045	167,400
Other	33,185	30,597
Allowance for doubtful receivables	(3,829)	(4,055)
Fixed assets	370,483	343,251
Property, plant and equipment	248,276	239,596
Buildings and structures	57,462	53,225
Machinery and delivery equipment	60,836	56,296
Land	107,720	107,826
Construction in progress	6,131	5,260
Other	16,128	16,988
Intangible fixed assets	65,071	50,349
Goodwill	24,049	18,030
Other	41,022	32,319
Investments and other assets	57,136	53,306
Investment securities	18,270	20,243
Long-term loans receivable	3,812	4,466
Deferred tax assets	26,874	22,297
Other	13,493	11,824
Allowance for doubtful receivables	(5,314)	(5,524)
Total assets	954,051	894,835

“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)
<b>Liabilities</b>		
Current liabilities	382,378	347,684
Notes and accounts payable	188,069	184,227
Short-term bank loans	23,444	33,516
Current portion of corporate bonds	10,000	–
Long-term debt due within one year	1,956	7,801
Commercial papers	17,000	–
Accrued income taxes	11,453	5,726
Advances received on contracts	52,579	42,540
Allowance for warranty	13,339	13,478
Allowance for losses on construction contracts	6,309	5,451
Allowance for losses on business	–	228
Other	58,229	54,718
Long-term liabilities	106,673	102,187
Bonds payable	10,000	20,000
Long-term debt	10,912	2,864
Allowance for losses on business transfer	115	115
Allowance for losses on product liabilities	39	40
Defined benefit liability	46,082	40,466
Deferred tax liabilities on land revaluation	20,713	20,730
Other	18,812	17,972
Total liabilities	489,051	449,871
<b>Net assets</b>		
Shareholders' equity	404,757	369,434
Common stock	30,872	30,872
Capital surplus	26,071	25,267
Retained earnings	348,863	314,296
Treasury stock	(1,048)	(1,000)
Accumulated other comprehensive income	48,711	61,574
Unrealized gains (losses) on securities	3,871	5,406
Deferred gains (losses) on hedges	(318)	925
Land revaluation difference	40,820	40,831
Foreign currency translation adjustments	8,879	17,565
Remeasurement of defined benefit plans	(4,542)	(3,153)
Non-controlling interests	11,533	13,956
Total net assets	465,001	444,964
Total liabilities and net assets	954,051	894,835

“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.

## CONSOLIDATED STATEMENT OF INCOME (From April 1, 2018 to March 31, 2019)

(Millions of yen)

	Fiscal year under review	Previous fiscal year (for reference)
Net sales	903,051	791,025
Cost of sales	693,128	598,285
Gross profit	209,923	192,740
Selling, general and administrative expenses	134,679	122,819
Operating income	75,244	69,921
Other income	5,019	5,329
Interest and dividend income	1,740	1,552
Other – net	3,279	3,777
Other expenses	7,640	7,784
Interest expenses	1,082	1,023
Foreign exchange losses	2,286	1,032
Patent expenses	765	801
Other – net	3,507	4,928
Ordinary income	72,623	67,466
Extraordinary losses	5,553	14,774
Impairment losses	3,448	294
Loss on pension buyout	2,105	–
Settlement related losses	–	14,480
Net income before income taxes and non-controlling interests	67,070	52,692
Income tax – current	21,070	13,737
Income tax – deferred	(2,637)	1,505
Net income	48,637	37,451
Net income attributable to non-controlling interests	2,987	2,791
Net income attributable to shareholders of the parent company	45,650	34,660

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

(For Reference Purposes)

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(From April 1, 2018 to March 31, 2019)

(Millions of yen)

Item	Amount
Cash flows from operating activities	55,173
Cash flows from investing activities	(54,973)
Cash flows from financing activities	(13,314)
Effect of exchange rate changes on cash and cash equivalents	(2,613)
Net increase in cash and cash equivalents	(15,728)
Cash and cash equivalents at the beginning of year	85,503
Cash and cash equivalents at the end of year	69,776

“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.

**BALANCE SHEET** (As of March 31, 2019)

(Millions of yen)

	Fiscal year under review	Previous fiscal year (for reference)
<b>Assets</b>		
Current assets	153,990	167,867
Cash and deposits	15,145	36,491
Notes receivable	7,689	6,404
Accounts receivable	63,942	62,157
Finished goods	12,862	11,766
Work in process	19,610	17,559
Raw materials and supplies	690	552
Advances	10,465	7,587
Prepaid expenses	874	753
Accounts receivable, other	15,778	17,937
Other	11,396	8,154
Allowance for doubtful receivables	(4,461)	(1,492)
Fixed assets	350,377	316,886
Property, plant and equipment	128,240	122,180
Buildings	20,545	18,149
Structures	3,063	2,831
Machinery and equipment	11,929	8,094
Ships	2	3
Vehicles and delivery equipment	67	61
Tools, furniture and fixtures	2,735	2,370
Land	88,648	88,782
Leased assets	65	68
Construction in progress	1,186	1,823
Intangible fixed assets	12,533	9,230
Software	3,568	3,258
Other	8,965	5,972
Investments and other assets	209,604	185,475
Investment securities	12,578	14,638
Stock of subsidiaries and affiliates	146,674	123,115
Investment in capital of subsidiaries and affiliates	34,383	34,427
Long-term loans to employees	6	0
Claims in bankruptcy and rehabilitation	142	139
Long-term prepaid expenses	132	76
Deferred tax assets	11,497	9,653
Other	4,575	3,805
Allowance for doubtful receivables	(382)	(379)
Total assets	504,367	484,753

“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)
<b>Liabilities</b>		
Current liabilities	235,657	219,997
Notes payable	2,644	2,582
Accounts payable	63,247	59,952
Short-term bank loans	2,700	15,500
Current portion of corporate bonds	10,000	–
Long-term debt due within one year	–	6,600
Commercial papers	17,000	–
Lease obligations	51	42
Accounts payable, other	12,499	10,151
Accrued expenses	4,062	3,650
Accrued income taxes	5,459	46
Advances received on contracts	38,428	28,182
Deposits received	75,376	89,600
Allowance for warranty	3,474	3,159
Allowance for losses on construction contracts	235	456
Other	481	77
Long-term liabilities	111,815	111,624
Bonds payable	10,000	20,000
Long-term debt	8,700	2,100
Lease obligations	94	132
Allowance for losses on business transfer	115	115
Allowance for retirement benefits	15,354	13,639
Asset retirement obligations	289	288
Deferred tax liabilities on land revaluation	20,713	20,730
Long-term deposits received	56,347	54,263
Other	203	357
Total liabilities	347,472	331,621
<b>Net assets</b>		
Shareholders' equity	113,027	106,701
Common stock	30,872	30,872
Capital surplus	27,073	27,073
Capital reserve	27,073	27,073
Other capital surplus	0	–
Retained earnings	56,131	49,756
Legal reserve of retained earnings	6,295	6,295
Other retained earnings	49,836	43,461
Retained earnings brought forward	49,836	43,461
Treasury stock	(1,048)	(999)
Valuation and translation adjustments	43,868	46,431
Unrealized gains (losses) on securities	3,329	4,670
Deferred gains (losses) on hedges	(281)	930
Land revaluation difference	40,820	40,831
Total net assets	156,895	153,132
Total liabilities and net assets	504,367	484,753

“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.

## STATEMENT OF INCOME (From April 1, 2018 to March 31, 2019)

(Millions of yen)

	Fiscal year under review	Previous fiscal year (for reference)
Net sales	218,018	195,283
Cost of sales	182,542	165,048
Gross profit	35,477	30,235
Selling, general and administrative expenses	26,187	23,883
Operating income	9,289	6,352
Other income	19,031	12,459
Interest and dividend income	16,525	9,990
Other – net	2,506	2,468
Other expenses	2,611	3,078
Interest expenses paid on loans and bonds	300	310
Foreign exchange losses	481	220
Patent expenses	618	531
Other – net	1,212	2,018
Ordinary income	25,710	15,733
Extraordinary income	219	3,090
Gain on extinguishment of tie-in shares	219	582
Gain on sales of shares of subsidiaries and affiliates	–	2,509
Extraordinary losses	6,699	14,774
Loss on valuation of stock of subsidiaries and affiliates	3,251	–
Provision of allowance for doubtful accounts for subsidiaries and affiliates	2,946	–
Impairment losses	502	294
Settlement related losses	–	14,480
Net income before income taxes	19,230	4,049
Income tax – current	1,999	(4,711)
Income tax – deferred	(775)	1,788
Net income	18,005	6,972

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