

# Sumitomo Heavy Industries, Ltd.

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THIRD QUARTER CONSOLIDATED FINANCIAL REPORT

For the Nine-Month Period from April 1 to December 31, 2013

*All financial information has been prepared in accordance with generally accepted accounting principles in Japan. This document has been translated from the Japanese original as a guide to non-Japanese investors and contains forward-looking statements that are based on management's estimates, assumptions, and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. Amounts shown in this financial statement have been rounded to the nearest million yen.*

**Summary of Consolidated Financial Results**  
**For the Third Quarter Ended December 31, 2013**  
 Presented January 31, 2014

## Sumitomo Heavy Industries, Ltd.

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Scheduled reporting date for quarterly report	February 6, 2014
Scheduled date of payment of cash dividends	—
Availability of supplementary explanations for quarterly financial statement	None
Holding of meeting to explain quarterly financial statement	None

### 1. FY 2013 Third Quarter Consolidated Results (April 1, 2013, to December 31, 2013)

#### (1) Business Results

(Units: millions of yen)

	Third Quarter April 1 to December 31, 2013		Previous Third Quarter April 1 to December 31, 2012	
		% change		% change
Net sales	424,007	1.4	418,188	(3.9)
Operating income	18,635	(15.4)	22,027	(31.6)
Ordinary income	18,843	(10.8)	21,130	(30.3)
Net income	11,175	7.9	10,361	(27.3)
Net income per share (yen)	18.22		16.88	
Fully diluted net income per share (yen)	—		—	

Note: Comprehensive income

Fiscal quarter ended December 31, 2013: 26,365 million yen (178.7%)

Fiscal quarter ended December 31, 2012: 9,460 million yen (-27.6%)

**(2) Financial Position**

(Units: millions of yen)

	End of Third Quarter As of December 31, 2013	End of Previous Full Year As of March 31, 2013
Total assets	693,577	647,724
Total net assets	314,693	292,826
Equity ratio (%)	44.8	44.6

Reference: Equity

Fiscal quarter ended December 31, 2013: 310,467 million yen

Fiscal year ended March 31, 2013: 288,849 million yen

**2. Dividends**

(Units: yen)

	Year Ended March 31, 2013	Year Ended March 31, 2014	Year Ended March 31, 2014 (forecast)
Annual dividends per share			
First quarter	—	—	
Second quarter	4.00	3.00	
Third quarter	—	—	
End of term	4.00		3.00
Annual dividends	8.00		6.00

Note: Changes from the most recent dividend forecast: None

**3. FY 2013 Consolidated Forecasts (April 1, 2013, to March 31, 2014)**

(Units: millions of yen)

	Full Year April 1, 2013, to March 31, 2014	
		% change
Net sales	600,000	2.4
Operating income	30,000	(4.1)
Ordinary income	26,000	(16.1)
Net income	14,000	138.7
Projected net income per share (yen)	22.81	

Note: Changes from the most recent consolidated forecast: None

## Additional Notes

- (1) Transfers of important subsidiaries during the fiscal period (moves of specific subsidiaries due to change in scope of consolidation): None  
 Newly consolidated: None  
 Excluded from consolidation: None
- (2) Special accounting measures applied in the quarterly consolidated financial report: None
- (3) Changes to accounting policies, changes to accounting estimates, and restatements
- (i) Changes to accounting policies resulting from revisions to accounting standards, etc.: None
  - (ii) Changes other than (i): None
  - (iii) Changes to accounting estimates: None
  - (iv) Restatements: None
- (4) Number of shares issued (common shares)
- (i) Number of shares issued at end of fiscal period (including treasury stock):
 

As of December 31, 2013	614,527,405 shares
As of March 31, 2013	614,527,405 shares
  - (ii) Amount of treasury stock at end of fiscal period
 

As of December 31, 2013	1,228,749 shares
As of March 31, 2013	857,899 shares
  - (iii) Average number of shares during fiscal period (cumulative quarterly period)
 

As of December 31, 2013	613,452,697 shares
As of December 31, 2012	613,704,085 shares

### Recording of Implementation Conditions regarding Quarterly Review Procedures

This quarterly financial summary does not fall within the scope of the Quarterly Review Procedures referenced in the Financial Instruments and Exchange Act. At the time of disclosure of the quarterly financial summary, the Group was in the process of implementing the quarterly review procedures for its quarterly financial statements.

### Explanations and Other Special Items regarding the Pertinent Reasons for the Earnings Forecast

Earnings forecasts and outlooks concerning future financial results are believed to be reasonable based on information available at the time of publication. Actual financial results may vary from the above forecast and outlook because of a variety of factors. For information on the assumptions that form the basis of the earnings forecast and items to note concerning the use of earnings forecasts, please see the *Explanation of the Consolidated Earnings Forecast and Other Forward-Looking Estimates* in the *Supplementary Materials* on page 8.

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## **1. Qualitative Information regarding Current Quarterly Consolidated Business Performance**

### **(1) Explanation of Business Performance**

The Japanese economy in the third quarter of the fiscal year under review showed signs of recovery as corrections to the strong Japanese yen and gradual improvements to the level of capital investment buoyed optimism. Outside of Japan, overall conditions remained uncertain, as any signs of economic recovery seen in portions of the U.S. market were dragged down by continuing stagnation in the eurozone, as well as the slumping economies of emerging markets, including China.

Set against this economic backdrop, the Group focused on implementing structural reforms that aimed to improve profitability, and executed strategies to increase competitiveness. As a result, orders increased across all segments of the Group with the sole exception of the Industrial Machinery segment, to end at JPY472.3 billion, an 18% gain compared to the same period last year (hereinafter referred to as the "previous term"). In terms of sales, the Group posted increases in the Machinery Components, Precision Machinery, Construction Machinery, and Other segments, resulting in a 1% rise compared to the previous term to finish at JPY424.0 billion.

Turning to income, the Group posted an operating income figure of JPY18.6 billion, a 15% decline compared to the previous term, and ordinary income of JPY18.8 billion, an 11% decline compared to the previous term. Quarterly net income, however, increased by 8% compared to the previous term to finish at JPY11.2 billion.

The Group also discovered that certain test results relating to the supply of defense equipment were inappropriately handled, and in some cases were falsified. The results of the internal investigation carried out regarding this matter was subsequently submitted to the Ministry of Defense (MOD) on November 22, 2013. As a result of this unfortunate incident, the MOD issued an order to suspend any future supply agreements from the Group for a specified timeframe. The Group has fully accepted the gravity of the situation and will be making every effort to further enhance the compliance system across the entire organization and prevent future recurrences.

Conditions in each business segment of the Group were as follows:

#### **1. Machinery Components**

In addition to positive movements in the Japanese market, strong market conditions, particularly in Southeast Asia, resulted in improvements to both orders and sales compared to the previous term. In actual figures, the segment received orders worth JPY72.1 billion, a 5% gain compared to the previous term, and posted sales of JPY72.8 billion, an 8% gain compared to the previous term. Further, the segment posted operating income of JPY4.6 billion.

#### **2. Precision Machinery**

With respect to plastics machinery, strong demand from the IT industry resulted in increases in both orders and sales. In other product areas, orders increased but sales decreased compared to the previous term. In actual figures, the segment received orders worth JPY98.6 billion, a gain of 15% compared to the previous term, and posted sales of JPY95.1 billion, a gain of 2% compared to the previous term. Further, the segment posted operating income of JPY5.9 billion.

#### **3. Construction Machinery**

Market conditions in Japan for hydraulic excavators remained strong, resulting in an increase in both orders and sales compared to the previous term. The mobile crane business also posted gains in both orders and sales as North American markets remained robust. As a result, the segment as a whole received orders worth JPY142.2 billion, a gain of 22% compared to the previous term, and posted sales of JPY140.3 billion, a gain of 24% compared to the previous term. Further, the segment posted operating income of JPY6.8 billion.

#### **4. Industrial Machinery**

Order levels for turbines and pumps, as well as for material handling products, increased compared to the previous term, mainly because of a rise in exports due to the weaker Japanese yen. Unfortunately, this did not translate to an increase in overall order levels, partly as a consequence of a reduction in the number of pressing machine types. Sales fell compared to the previous term because of the low balance of orders carried over from previous years. In actual figures, the segment received orders worth JPY54.8 billion, a decrease of 12% compared to the previous term, and posted sales of JPY49.9 billion, a decrease of 18% from the previous term. Further, the segment posted operating income of JPY1.0 billion.

#### **5. Ships**

The segment received orders for four new vessels during the period under review, an improvement compared to the previous term, during which no orders were received. With regard to sales, one vessel was handed over during the period under review, which is one vessel fewer compared to the previous term. In actual figures, the segment received orders worth JPY24.1 billion, a gain of 302% compared to the previous term, and posted sales of JPY10.4 billion, a decrease of 62% compared to the previous term. Further, the segment posted an operating loss of JPY2.2 billion.

#### **6. Environmental Facilities & Plants**

The energy plant business saw strong order levels for biomass-fueled power generation plants. In addition, other business areas within the segment also posted figures for orders that were better than those for the previous term. Sales, on the other hand, fell compared to the previous term because of the low balance of orders carried over from the previous year. In actual figures, the segment received orders worth JPY71.6 billion, a gain of 29% compared to the previous term, and posted sales of JPY48.8 billion, a decrease of 2% compared to the previous term. Further, the segment posted operating income of JPY800 million.

#### **7. Other**

In this segment, both orders and sales figures rose compared to the previous term. In actual figures, the segment received orders worth JPY8.8 billion, a gain of 36% compared to the previous term, and posted sales of JPY6.8 billion, a gain of 9% compared to the previous term. Further, the segment posted operating income of JPY1.5 billion.

### **(2) Explanation of the Group's Consolidated Financial Position**

#### **1. Condition of Assets, Liabilities, and Net Assets**

Total assets at the end of the third quarter under review (ended December 31, 2013) amounted to JPY693.6 billion, an increase of JPY45.9 billion compared to the end of the previous consolidated fiscal year. This was mainly due to increases of JPY23.4 billion in inventory assets, offsetting the JPY14.9 billion decrease in trade notes and accounts receivable.

Total liabilities rose to JPY378.9 billion, an increase of JPY24.0 billion compared to the end of the previous consolidated fiscal year. This was mainly due to the JPY4.4 billion increase in trade notes and accounts payable, and the JPY10.2 billion increase in the balance of interest-bearing liabilities.

Net assets amounted to JPY314.7 billion, an increase of JPY21.9 billion compared to the end of the previous consolidated fiscal year under review. This was mainly due to the JPY13.1 billion increase in the foreign currency translation adjustment.

As a result of the above, the equity ratio improved by 0.2% from the end of the previous consolidated fiscal year to finish at 44.8%.

#### **2. Cash Flow Condition**

Cash flow from operating activities totaled JPY28.2 billion, compared to an outflow of JPY15.3 billion in the previous term, mainly because of a decrease in accounts receivables.

Cash flow used for investing activities totaled JPY22.6 billion, an increase of JPY6.6 billion compared to the previous term. This was mainly due to a increase in cash outflow for loans during the period.

Cash used for financing activities totaled JPY2.6 billion, compared to an inflow of JPY2.8 billion in the previous term. The cash was mainly used to pay cash dividends.

As a result of the foregoing, the balance of cash and cash equivalents at the end of the third quarter of the current consolidated fiscal year totaled JPY53.6 billion, an increase of JPY7.2 billion compared to the end of the previous consolidated fiscal year.

### **(3) Explanation of the Consolidated Earnings Forecast and Other Forward-Looking Estimates**

No revisions have been made to the consolidated earnings forecast for the fiscal year ending March 31, 2014, which was published along with the second quarter earnings summary on October 31, 2013.

From the fourth quarter of the current consolidated fiscal year, the following currency exchange rates are being assumed: USD1 = JPY100; EUR1 = JPY135.

## **2. Notes regarding Summarized Information (Other)**

### **(1) Changes Involving Important Subsidiaries during the Current Consolidated Year-to-Date Quarterly Period**

There are no applicable items.

### **(2) Special Accounting Procedures Adopted during the Development of the Quarterly Consolidated Financial Report**

There are no applicable items.

### **(3) Changes to Accounting Policies, Changes to Accounting Estimates, and Restatements**

There are no applicable items.



### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2013	End of Third Quarter As of December 31, 2013
	Amount	Amount
<b>Assets</b>		
Cash and deposits	47,814	54,901
Notes and accounts receivable	173,300	158,377
Inventory assets	139,217	162,651
Other	27,414	29,436
Allowance for doubtful accounts	(1,117)	(1,006)
<b>Current assets</b>	<b>386,628</b>	<b>404,358</b>
Land	108,033	108,323
Other (net)	102,619	108,414
Total tangible assets	210,652	216,736
Other	7,765	8,437
Total intangible assets	7,765	8,437
Other	44,497	65,680
Allowance for doubtful accounts	(1,817)	(1,634)
Investments and other assets	42,679	64,046
<b>Fixed assets</b>	<b>261,096</b>	<b>289,219</b>
<b>Total assets</b>	<b>647,724</b>	<b>693,577</b>

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2013	End of Third Quarter As of December 31, 2013
	Amount	Amount
<b>Liabilities</b>		
Notes and accounts payable	113,575	117,964
Short-term bank loans	48,032	56,683
Long-term loans due within one year	1,245	7,624
Corporate bonds redeemable within one year	—	10,000
Commercial paper	10,000	—
Allowance	7,294	8,328
Other	62,870	67,603
<b>Current liabilities</b>	<b>243,014</b>	<b>268,202</b>
Bonds	10,000	—
Long-term debt due after one year	29,270	34,402
Employees' severance and retirement benefits	39,169	41,714
Allowance	48	254
Deferred income taxes on revaluation	24,608	24,608
Other	8,789	9,704
<b>Long-term liabilities</b>	<b>111,883</b>	<b>110,682</b>
<b>Total liabilities</b>	<b>354,898</b>	<b>378,884</b>
<b>Net assets</b>		
Common stock	30,872	30,872
Capital surplus	23,789	23,789
Retained earnings	207,580	214,461
Treasury stock	(455)	(622)
<b>Stockholders' equity</b>	<b>261,786</b>	<b>268,499</b>
Unrealized gains on securities	2,694	5,594
Profit (loss) on deferred hedge	(562)	(831)
Adjustment regarding pension obligations of consolidated overseas subsidiaries	(3,808)	(4,612)
Revaluation reserve for land	38,197	38,197
Foreign currency translation adjustments	(9,458)	3,620
<b>Total accumulated other comprehensive income</b>	<b>27,064</b>	<b>41,968</b>
<b>Minority interests</b>	<b>3,977</b>	<b>4,227</b>
<b>Total net assets</b>	<b>292,826</b>	<b>314,693</b>
<b>Liabilities and net assets</b>	<b>647,724</b>	<b>693,577</b>

**(2) Consolidated Income Statements and Consolidated Statement of Comprehensive Income**
**Consolidated Income Statements**

(Units: millions of yen)

	Previous Third Quarter April 1, 2012, to December 31, 2012	Present Third Quarter April 1, 2013, to December 31, 2013
	Amount	Amount
Net sales	418,188	424,007
Cost of sales	330,115	332,612
Gross income	88,073	91,395
Selling, general & administrative expenses	66,046	72,761
Operating income	22,027	18,635
Non-operating income		
Interest income	191	210
Dividend income	835	850
Gain on foreign currency exchange	678	1,078
Other	1,603	2,933
Total non-operating income	3,306	5,070
Non-operating expenses		
Interest expense	1,559	1,823
Other	2,645	3,039
Total non-operating expenses	4,203	4,862
Ordinary income	21,130	18,843
Extraordinary gains		
Reversal of reserve for litigation losses	812	—
Total extraordinary gains	812	—
Extraordinary losses		
Loss on impaired assets	—	244
Losses relating to the defense equipment business	5,021	—
Loss on devaluation of marketable securities	39	—
Total extraordinary losses	5,060	244
Income before income taxes	16,882	18,599
Corporate income taxes	6,280	7,658
Quarterly net income before income or loss adjustments on minority interests	10,602	10,941
Minority interests (loss)	242	(234)
Net income	10,361	11,175

**Consolidated Statement of Comprehensive Income**

(Units: millions of yen)

	Previous Third Quarter April 1, 2012, to December 31, 2012	Present Third Quarter April 1, 2013, to December 31, 2013
	Amount	Amount
Net income before adjusting for profit (loss) from minority interests	10,602	10,941
Other comprehensive income		
Unrealized gains on securities	(342)	2,900
Profit (loss) on deferred hedge	(467)	(273)
Adjustment regarding pension obligations of consolidated overseas subsidiaries	18	(805)
Foreign currency translation adjustments	(337)	13,598
Amount applied for equity method accounting of affiliates	(14)	4
Total other comprehensive income	(1,143)	15,424
Comprehensive income	9,460	26,365
(Breakdown)		
Comprehensive income relating to parent company shareholdings	9,217	26,080
Comprehensive income relating to minority interests	243	286

**(3) Notes regarding Consolidated Quarterly Financial Statements**
**(Notes on Premise of a Going Concern)**

There are no applicable items.

**(Notes regarding Significant Fluctuations to Shareholders' Equity)**

There are no applicable items.

**(Subsequent Events of Significant Importance)**

There are no applicable items.

## 4. Supplementary Information

### (1) Orders, Sales and Operational Profit, and Balance of Orders by Segment

#### Orders Received

(Units: millions of yen)

Segment	April 1, 2012, to December 31, 2012	April 1, 2013, to December 31, 2013	Y/Y Change	
	Amount	Amount	Amount	%
Machinery Components	68,400	72,128	3,728	5.5
Precision Machinery	85,811	98,647	12,837	15.0
Construction Machinery	116,456	142,236	25,780	22.1
Industrial Machinery	62,438	54,762	(7,676)	(12.3)
Ships	6,006	24,127	18,120	301.7
Environmental Facilities & Plants	55,400	71,610	16,210	29.3
Other	6,497	8,839	2,341	36.0
Total	401,008	472,348	71,340	17.8

#### Sales and Operational Profit

(Units: millions of yen)

Segment	April 1, 2012, to December 31, 2012		April 1, 2013, to December 31, 2013		Y/Y Change	
	Sales	Operational Profit	Sales	Operational Profit	Sales	Operational Profit
Machinery Components	67,682	1,637	72,810	4,628	5,128	2,991
Precision Machinery	93,297	7,772	95,129	5,899	1,832	(1,873)
Construction Machinery	113,237	3,866	140,277	6,812	27,039	2,945
Industrial Machinery	60,789	3,026	49,878	1,030	(10,912)	(1,996)
Ships	27,412	2,702	10,356	(2,236)	(17,056)	(4,938)
Environmental Facilities & Plants	49,515	2,113	48,764	832	(751)	(1,281)
Other	6,256	995	6,794	1,548	537	553
Adjustments	—	(85)	—	120	—	205
Total	418,188	22,027	424,007	18,635	5,819	(3,392)

**Balance of Orders Received**

(Units: millions of yen)

Segment	End of Previous Fiscal Year As of March 31, 2013	End of Third Quarter As of December 31, 2013	Change	
	Amount	Amount	Amount	%
Machinery Components	30,980	30,298	(682)	(2.2)
Precision Machinery	41,363	44,881	3,518	8.5
Construction Machinery	25,901	27,860	1,959	7.6
Industrial Machinery	77,153	82,037	4,884	6.3
Ships	10,947	24,718	13,771	125.8
Environmental Facilities & Plants	87,472	110,318	22,846	26.1
Other	1,840	3,885	2,045	111.1
<b>Total</b>	<b>275,657</b>	<b>323,998</b>	<b>48,341</b>	<b>17.5</b>

The Group's operating segments are categorized as follows:

Please note that on April 1, 2013, Sumitomo Heavy Industries Techno-Fort Co., Ltd. was merged into the Group by absorption and integrated into the Group's quantum equipment business. As a result, ion accelerators, medical machines and equipment, and plasma coating systems for FPDs, which were previously categorized under the Precision Machinery segment, will now be categorized under the Industrial Machinery segment as of the beginning of the current consolidated fiscal year. Any segment information published during the current consolidated fiscal year will therefore reflect these new product classifications.

Businesses	Main Products
Machinery Components	Power transmission and control
Precision Machinery	Plastic injection molding machines, film forming machines, semiconductor production equipment, laser processing systems, cryocoolers, precision positioning equipment, precision forgings, control components, defense equipment, machining tools
Construction Machinery	Hydraulic excavators, mobile cranes, road machinery
Industrial Machinery	Ion accelerators, medical machines and equipment, plasma coating systems for FPDs, forging machines, material handling systems, logistics systems, automated parking systems, turbines, pumps
Ships	Ships
Environmental Facilities & Plants	Private power generation facilities, boilers, industrial waste treatment facilities, air pollution control equipment, water and sewage treatment systems, process equipment, pressure vessels, agitation tanks, air-conditioning equipment, food processing machinery

**(2) (Summary) Consolidated Cash Flows Statement**

(Units: millions of yen)

	Previous Third Quarter April 1, 2012, to December 31, 2012	Present Third Quarter April 1, 2013, to December 31, 2013	Y/Y Change
Income before income taxes	16,882	18,599	1,717
Depreciation	13,102	13,614	512
(Increase) decrease in notes and accounts receivable	22,187	25,829	3,642
(Increase) decrease in inventories	(14,236)	(14,260)	(24)
Increase (decrease) in notes and accounts payable	(38,042)	(4,401)	33,641
Payments for income taxes	(15,563)	(8,079)	7,484
Other	332	(3,088)	(3,421)
<b>Net cash provided by operating activities</b>	<b>(15,337)</b>	<b>28,214</b>	<b>43,551</b>
Payments for fixed assets	(16,246)	(12,440)	3,806
Proceeds from sale of fixed assets	1,169	1,114	(55)
Proceeds from sale of securities	286	1,679	1,393
Cash outflow for loans	(5)	(13,440)	(13,435)
Other	(1,232)	502	1,734
<b>Net cash used in investing activities</b>	<b>(16,028)</b>	<b>(22,585)</b>	<b>(6,557)</b>
Net increase (decrease) in short-term loans	10,583	3,175	(7,408)
Cash dividends paid	(5,988)	(4,219)	1,769
Other	(1,824)	(1,543)	281
<b>Net cash used in financing activities</b>	<b>2,770</b>	<b>(2,587)</b>	<b>(5,358)</b>
Other	569	4,110	3,540
Cash and cash equivalents at beginning of period	72,376	46,476	(25,900)
Cash and cash equivalents at end of period	44,351	53,627	9,276