Sumitomo Heavy Industries, Ltd.

SECOND QUARTER CONSOLIDATED FINANCIAL REPORT

For the Six-Month Period from April 1 to September 30, 2014

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 Second Quarter Ended September 30, 2014
Presented October 30, 2014

Sumitomo Heavy Industries, Ltd.

Listed exchanges	Tokyo Stock Exchange
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Scheduled reporting date for quarterly report	November 6, 2014
Scheduled date of payment of cash dividends	December 1, 2014
Availability of supplementary explanations for quarterly financial statement	Yes
Holding of meeting to explain quarterly financial statement	Yes (for analysts)

1. FY 2014 Second Quarter Consolidated Results *(April 1, 2014, to September 30, 2014)*

(1) Business Results

(Units: millions of yen)

	Second Quarter April 1 to September 30, 2014		Previous Second Quarter April 1 to September 30, 2013	
		% change		% change
Net sales	360,329	12.2	273,003	(6.9)
Operating income	19,946	138.3	8,370	(51.9)
Ordinary income	20,001	155.4	7,832	(52.8)
Net income	12,279	263.7	3,376	(65.7)
Net income per share (yen)	20.03		5.50	
Fully diluted net income per share (yen)	—		—	

Note: Comprehensive income
Fiscal quarter ended September 30, 2014: 6,509 million yen (-65.1%)
Fiscal quarter ended September 30, 2013: 18,629 million yen (115.3%)

(2) Financial Position

(Units: millions of yen)

	End of Second Quarter As of September 30, 2014	End of Previous Full Year As of March 31, 2014
Total assets	725,803	724,182
Shareholders' equity	334,791	331,059
Equity ratio (%)	45.5	45.1

Reference: Equity
Fiscal quarter ended September 30, 2014: 330,110 million yen
Fiscal year ended March 31, 2014: 326,433 million yen

2. Dividends

(Units: yen)

	Year Ended March 31, 2014	Year Ended March 31, 2015	Year Ended March 31, 2015 (forecast)
Annual dividends per share			
First quarter	–	–	
Second quarter	3.00	5.00	
Third quarter	–		–
End of term	4.00		5.00
Annual dividends	7.00		10.00

Note: Changes from the most recent dividend forecast: Yes

3. FY 2014 Consolidated Forecasts *(April 1, 2014, to March 31, 2015)*

(Units: millions of yen)

	Full Year April 1, 2014, to March 31, 2015	
		% change
Net sales	650,000	5.6
Operating income	42,000	22.3
Ordinary income	38,500	16.7
Net income	21,000	17.4
Projected net income per share (yen)	34.25	

Note: Changes from the most recent consolidated forecast: Yes

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.: Yes

(ii) Changes other than (i): Yes

(iii) Changes to accounting estimates: Yes

(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 September 30, 2014	614,527,405 shares
As of March 31, 2014	614,527,405 shares

(ii) Amount of treasury stock at end of fiscal period

As of September 30, 2014	1,437,859 shares
As of March 31, 2014	1,248,184 shares

(iii) Average number of shares during fiscal period (cumulative quarterly period)

As of September 30, 2014	613,189,548 shares
As of September 30, 2013	613,519,261 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.

Supplementary Materials – Table of Contents

1. Qualitative Information regarding Current Quarterly Consolidated Business Performance

(1) Explanation of Business Performance

The Japanese economy in the second quarter of the current consolidated fiscal year under review saw a delayed recovery from the slowdown in demand after the spike caused by the increase in sales tax (i.e. a rush to put in order prior to the increase in sales tax). On the other hand, capital investment levels remained relatively strong as increased overseas demand for automobiles and the weaker Japanese yen pushed up exports. Outside Japan, there were clear signs of economic recovery in the United States. On the other hand, the Eurozone started showing signs of a slowdown while the Chinese economy remained stagnant, and a heightened level of geopolitical risk engulfed the Middle East and Russia. As a result, the overall outlook of the global economy continued to remain unclear.

Set against this economic backdrop, the Group continued to implement the Medium-Term Management Plan 2016 during the second quarter of the current consolidated fiscal year, and executed business operations with a focus on achieving steady growth and increased competitiveness. As a result, orders increased across all segments of the Group, with the exception of the Industrial Machinery and Other segments. In specific figures, the Group posted order figures of JPY365.5 billion, a 19% gain as compared to the same period last year (hereinafter referred to as the “previous term”). In terms of sales, the Group posted figures better than the previous term across all segments, with the exception of the Other segment. In specific figures, sales totaled JPY306.3 billion, a 12% gain as compared to the previous term.

Turning to income, operating income was JPY19.9 billion, a 138% increase as compared to the previous term, and ordinary income was JPY20.0 billion, a 155% increase as compared to the previous term. Quarterly net income also increased by 264% as compared to the previous term to finish at JPY12.3 billion. The improvements in profitability were mainly as a result of an increase in sales as well as improvements made to profit margins.

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

1. Machinery Components

Conditions in the domestic market were strong as demand recovered. Outside Japan, although conditions in the Eurozone and China remained weak, other markets, including North America, showed positive signs of growth, and as a result there was a rise in both orders and sales as compared to the previous term. In actual figures, the segment received orders worth JPY51.4 billion, a 5% gain as compared to the previous term, and posted sales of JPY48.4 billion, a 2% gain as compared to the previous term. Further, the segment posted operating income of JPY3.4 billion.

2. Precision Machinery

With respect to plastics machinery, there was an increase in IT-related demand from Asian markets, while a gentle recovery of market conditions was seen in the Eurozone. As a result, both orders and sales figures for this product line showed improvements as compared to the previous term. In other product lines, the recovery in demand for the segment’s semiconductor-related products contributed to an increase in orders and sales for the entire segment. In actual figures, the segment received orders worth JPY71.9 billion, a gain of 10% as compared to the previous term, and posted sales of JPY70.8 billion, a gain of 12% as compared to the previous term. Further, the segment posted operating income of JPY6.6 billion.

3. Construction Machinery

Domestically, the hydraulic excavator business saw a slowdown mainly due to the rush to place orders at the end of FY 2013 (prior to the rise in sales tax), while outside Japan, the market in China continued to remain stagnant. Thankfully, a round of inventory adjustments resulted in improved performance in the North American and the Eurozone markets, resulting in an increase in orders and sales for the entire product line as compared to the previous term. The mobile crane business posted figures below the previous term in sales, but improved as compared to the previous term in orders as the North American market started to recover from the slowdown at the beginning of the fiscal year caused by the cold spell that gripped the region. As a result, the segment as a whole received orders worth JPY101.6 billion, a gain of 1% as compared to the previous term, and posted sales of JPY97.7 billion, a gain of 5% as compared to the previous term. Further, the segment posted operating income of JPY7.4 billion.

4. Industrial Machinery

The material handling business posted strong results as demand from the domestic shipbuilding sector showed signs of recovery. At the same time, the turbine business also posted strong results. On the other hand, market conditions for presses in the Industrial Machinery business worsened. As a result, orders for the entire segment fell as compared to the previous term. Sales, however, improved as compared to the previous term, boosted by increases seen in the turbine and pump business. In actual figures, the segment received orders worth JPY37.0 billion, a fall of 1% as compared to the previous term, and posted sales of JPY33.7 billion, a gain of 7% from the previous term. Further, the segment posted operating income of JPY1.9 billion.

5. Ships

The segment received orders for five new vessels during the current period under review, an improvement of three vessels as compared to the previous term. With regard to sales, one vessel was handed over during the current period under review, which is the same figure as the previous term. In actual figures, the segment received orders worth JPY32.1 billion, a gain of 171% as compared to the previous term, and posted sales of JPY11.5 billion, a gain of 86% as compared to the previous term. Further, the segment posted an operating loss of JPY1.1 billion.

6. Environmental Facilities & Plants

Orders for the energy plant business were better than the previous term as the number of biomass-fueled electricity generation boiler projects in Japan continued to rise. In addition, orders for chemical plant equipment also rose as compared to the previous term, contributing to an overall rise in orders for the entire segment. Sales also increased as compared to the previous term as progress was made in the construction of electricity generation boiler projects. In actual figures, the segment received orders worth JPY66.2 billion, a gain of 83% as compared to the previous term, and posted sales of JPY40.3 billion, a gain of 45% as compared to the previous term. Further, the segment posted operating income of JPY800 million.

7. Other

In this segment, both orders and sales figures fell as compared to the previous term. In actual figures, the segment received orders worth JPY5.4 billion, a fall of 18% as compared to the previous term, and posted sales of JPY3.8 billion, a fall of 16% as compared to the previous term. Further, the segment posted operating income of JPY1.0 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 current second quarter under review (ended September 30, 2014) amounted to JPY725.8 billion, an increase of JPY1.6 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to inventory assets increasing by JPY10.2 billion, while trade notes and accounts receivable decreased by JPY15.6 billion.

Total liabilities fell to JPY391.0 billion, a decrease of JPY2.1 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to the balance of interest-bearing liabilities decreasing by JPY17.1 billion, while trade notes and accounts payable increased by JPY5.5 billion.

Net assets amounted to JPY334.8 billion, an increase JPY3.7 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to the JPY5.3 billion fall in the foreign currency translation adjustment and the JPY9.7 billion increase in retained earnings.

As a result of the above, the shareholders' equity ratio improved by 0.4% from the end of the previous consolidated fiscal year to finish at 45.5%

2. Cash Flow Condition

Cash flow from operating activities totaled JPY31.9 billion, as compared to JPY13.9 billion in the previous term. When broken down, the main components of the proceeds were JPY19.7 billion in quarterly net income before tax and other adjustments, and the JPY24.7 billion reduction in trade receivables. The main sources of the outflow of cash were the JPY14.5 billion increase in inventory assets and the JPY11.3 billion payment of corporate tax.

Cash flow used for investing activities totaled JPY5.1 billion, as compared to an outflow of JPY5.9 billion during the previous term. The outflow was mainly as a result of the JPY7.4 billion used to acquire fixed assets.

Cash flow used for financing activities totaled JPY17.5 billion, as compared to an outflow of JPY6.2 billion in the previous term. The outflow of cash was mainly used to reduce outstanding debts (JPY14.1 billion) and to make dividend payments (JPY2.5 billion).

As a result of the foregoing, the balance of cash and cash equivalents at the end of the second quarter of the current consolidated fiscal year under review totaled JPY84.8 billion, an increase of JPY8.4 billion as compared to the end of the previous consolidated fiscal year.

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

Based on recent financial results, revisions have been made to the previous consolidated earnings forecast for the fiscal year ending March 31, 2015, which was published along with the earnings summary on Juy 30, 2014.

For further details, please refer to the “Notice Regarding Difference Between the Second Quarter Financial Results and Previous Forecast as well as Revisions to the Full-Year Financial Forecast and a Payment of a Dividend (Interim Dividend) from Retained Earnings”, published on October 30, 2014.

2. Notes regarding Summarized Information (Explanatory Notes)

(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

(Changes to Accounting Policies)

From the first quarter of the current consolidated fiscal year under review, the “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (ASBJ) Accounting Standard – ASBJ Statement No. 26 dated May 17, 2012; hereinafter referred to as the “Accounting Standards for Retirement Benefits”) and the “Implementation Guidance on the Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 dated May 17, 2012; hereinafter referred to as the “Implementation Guidance for the Retirement Benefit Accounting Standard”) has been adopted in accordance with Item 35 of the Accounting Standards for Retirement Benefits and Item 67 of the Implementation Guidance for the Retirement Benefit Accounting Standard. As a result of this, the methods used to calculate retirement benefit obligations and service costs have changed. More specifically, the attribution method for projected retirement benefits has been changed from a service-period basis to a projected-benefit basis. Further, the method to determine the discount rate has been changed to a single weighted-average discount rate to reflect the projected payment period for retirement benefits and the individual amounts associated with each projected payment period.

The transitional adoption of the Accounting Standards for Retirement Benefits has been done in accordance with Item 37 of the Accounting Standards for Retirement Benefits. In line with this move, the amount generated by using the new method to calculate retirement benefit obligations and service costs has been subtracted from retained earnings from the beginning of the first quarter of the current consolidated fiscal year under review.

As a result, retirement benefit obligations increased by JPY1,861 million from the beginning of the first quarter of the current consolidated fiscal year under review while retained earnings fell by JPY1,475 million. Please note that the impact on operating income, ordinary income, and quarterly net income before taxes and other adjustments for the second quarter of the current consolidated fiscal year under review is considered to be minimal.

(Changes to Accounting Policies That are Difficult to Distinguish from Changes in Accounting-Based Estimates)

In the past, the Company’s domestic subsidiaries have been using the declining balance method to depreciate tangible fixed assets. From the first quarter of the current consolidated fiscal year under review, the straight-line method has been used. Please note that the Company has already been using the straight-line method to depreciate any buildings acquired after April 1, 1998 (excluding building fixtures).

This change was made based on a review of the depreciation method after taking into account the strategies set forth in the new Medium-Term Management Plan, which was initiated from the beginning of the current consolidated fiscal year under review. According to the plan, the Company will look to increase the distribution of resources to overseas locations in response to anticipated growth from overseas markets, and shift investment domestically to ensure that stable production output can be achieved. As a result of the review, and the Company’s projection that its domestic production facilities will operate in a stable manner for the foreseeable future, it was determined that the straight-line method of depreciating assets more appropriately reflected the operating conditions of such assets. In addition, this new depreciation method would also allow for the rational distribution of expenses.

As a result of this change, operating income, ordinary income, and quarterly net income before taxes and other adjustments for the second quarter of the current consolidated fiscal year under review have gone up by JPY961 million, respectively, as compared to the previous calculation methodology.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2014	End of Second Quarter As of September 30, 2014
	Amount	Amount
Assets		
Cash and deposits	67,826	53,388
Notes and accounts receivable	181,961	166,408
Marketable securities	10,000	27,999
Inventory assets	144,249	154,413
Other	32,135	43,634
Allowance for doubtful accounts	(1,217)	(1,117)
Current assets	**434,954**	**444,725**
Land	109,265	108,970
Other (net)	111,019	108,526
Total tangible assets	220,284	217,496
Other	8,648	8,500
Total intangible assets	8,648	8,500
Other	61,782	56,764
Allowance for doubtful accounts	(1,486)	(1,682)
Investments and other assets	60,296	55,083
Fixed assets	**289,228**	**281,078**
Total assets	**724,182**	**725,803**

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2014	End of Second Quarter As of September 30, 2014
	Amount	Amount
Liabilities		
Notes and accounts payable	124,211	129,665
Short-term bank loans	52,817	42,596
Long-term loans due within one year	16,855	16,739
Corporate bonds redeemable within one year	10,000	10,000
Allowance	10,406	9,978
Other	74,841	82,967
Current liabilities	**289,130**	**291,946**
Long-term debt due after one year	27,761	21,004
Allowance	497	886
Defined benefit liability	40,037	40,918
Deferred income taxes on revaluation	24,608	24,568
Other	11,090	11,689
Total fixed liabilities	**103,993**	**99,066**
Total liabilities	**393,123**	**391,011**
Net assets		
Common stock	30,872	30,872
Capital surplus	23,789	23,789
Retained earnings	221,101	230,811
Treasury stock	(632)	(725)
Total shareholders' equity	275,130	284,747
Unrealized gains on securities	3,753	4,002
Profit (loss) on deferred hedge	(379)	(1,241)
Revaluation reserve for land	38,272	38,201
Foreign currency translation adjustments	11,993	6,655
Re-measurement of defined benefit plans	(2,336)	(2,254)
Total accumulated other comprehensive income	51,304	45,363
Minority interests	4,626	4,681
Total net assets	**331,059**	**334,791**
Total liabilities and net assets	**724,182**	**725,803**

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

Consolidated Income Statements

(Units: millions of yen)

	Previous Second Quarter April 1, 2013, to September 30, 2013	Present Second Quarter April 1, 2014, to September 30, 2014
	Amount	Amount
Net sales	273,003	306,329
Cost of sales	215,155	236,766
Gross income	57,848	69,563
Selling, general & administrative expenses	49,478	49,616
Operating income	8,370	19,946
Non-operating income		
Interest income	116	212
Dividend income	586	448
Investment gain on equity method	441	963
Other	1,499	1,612
Total non-operating income	2,642	3,235
Non-operating expenses		
Interest expense	1,097	1,127
Other	2,083	2,054
Total non-operating expenses	3,180	3,181
Ordinary income	7,832	20,001
Extraordinary losses		
Loss on impaired assets	183	257
Total extraordinary losses	183	257
Income before income taxes	7,649	19,744
Corporate income taxes	4,036	7,117
Quarterly net income before income or loss adjustments on minority interests	3,613	12,627
Minority interests	237	348
Net income	3,376	12,279

Consolidated Statement of Comprehensive Income

(Units: millions of yen)

	Previous Second Quarter April 1, 2013, to September 30, 2013	Present Second Quarter April 1, 2014, to September 30, 2014
	Amount	Amount
Net income before adjusting for profit (loss) from minority interests	3,613	12,627
Other comprehensive income		
Unrealized gains on securities	2,194	243
Profit (loss) on deferred hedge	400	(852)
Foreign currency translation adjustments	13,270	(5,588)
Adjustment to retirement benefits	—	82
Adjustment regarding pension obligations of consolidated overseas subsidiaries	(847)	—
Amount applied for equity method accounting of affiliates	(1)	(4)
Total other comprehensive income	15,016	(6,118)
Comprehensive income	18,629	6,509
(Breakdown)		
Comprehensive income relating to parent company shareholdings	17,847	6,410
Comprehensive income relating to minority interests	782	98

(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)

On October 28, 2014, the Group issued the following unsecured bonds as per the resolution passed at the Board of Directors meeting held on September 26, 2014;

1. Name: Sumitomo Heavy Industries Limited Series 3 Unsecured Bond (with Inter-Bond Pari Passu Clause)
2. Total issuance amount: JPY10,000,000,000
3. Issuance price: JPY100 per JPY100 of face value
4. Interest rate: 0.258% per annum
5. Redemption value: JPY100 per JPY100 of face value
6. Redemption period and repayment method: October 28, 2019 (bullet maturity amortization)
7. Purpose of loan: Funds for redemption of Series 2 Unsecured Bond

4. Supplementary Information

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

Orders Received

(Units: millions of yen)

Segment	April 1, 2013, to September 30, 2013	April 1, 2014, to September 30, 2014	Y/Y Change	
	Amount	Amount	Amount	%
Machinery Components	48,753	51,360	2,607	5.3
Precision Machinery	65,512	71,917	6,406	9.8
Construction Machinery	100,113	101,557	1,444	1.4
Industrial Machinery	37,485	36,975	(510)	(1.4)
Ships	11,831	32,072	20,241	171.1
Environmental Facilities & Plants	36,253	66,250	29,997	82.7
Other	6,576	5,414	(1,162)	(17.7)
Total	306,524	365,545	59,022	19.3

Sales and Operational Profit

(Units: millions of yen)

Segment	April 1, 2013, to September 30, 2013		April 1, 2014, to September 30, 2014		Y/Y Change	
	Sales	Operational Profit	Sales	Operational Profit	Sales	Operational Profit
Machinery Components	47,277	2,779	48,408	3,439	1,131	660
Precision Machinery	63,071	3,811	70,815	6,582	7,745	2,771
Construction Machinery	92,698	2,954	97,739	7,366	5,041	4,412
Industrial Machinery	31,333	215	33,673	1,915	2,340	1,701
Ships	6,189	(1,978)	11,536	(1,136)	5,348	843
Environmental Facilities & Plants	27,852	(539)	40,327	818	12,475	1,357
Other	4,584	1,055	3,829	1,022	(755)	(33)
Adjustments	—	74	—	(60)	—	(134)
Total	273,003	8,370	306,329	19,946	33,325	11,576

Balance of Orders Received

(Units: millions of yen)

Segment	End of Previous Fiscal Year As of March 31, 2014	End of Second Quarter As of September 30, 2014	Change	
	Amount	Amount	Amount	%
Machinery Components	27,845	30,796	2,952	10.6
Precision Machinery	41,474	42,576	1,102	2.7
Construction Machinery	26,532	30,350	3,818	14.4
Industrial Machinery	80,005	83,308	3,302	4.1
Ships	28,122	48,658	20,535	73.0
Environmental Facilities & Plants	106,932	132,855	25,922	24.2
Other	3,765	5,351	1,585	42.1
Total	314,676	373,892	59,217	18.8

The Group's operating segments are categorized as follows:

Businesses	Main Products
Machinery Components	Power transmission and control equipment
Precision Machinery	Plastics machinery, film forming machines, semiconductor production equipment, laser processing systems, cryogenic equipment, 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, mixing vessels, air-conditioning equipment, food processing machinery

Adoption of Accounting Standards for Retirement Benefits

As noted in the *Changes to Accounting Policies* section, as of the first quarter of the current consolidated fiscal year under review, the method used to calculate retirement benefit obligations has been changed. Consequently, the method used to calculate retirement benefit obligations and service costs has also been changed at the business segment level. However, the impact of this change on segment income for the second quarter of the current consolidated fiscal year is considered to be minimal.

Changes to Depreciation Method for Tangible Fixed Assets

As mentioned in the “Changes to Accounting Policies That Are Difficult to Distinguish from Changes in Accounting-Based Estimates” section, from the first quarter of the current consolidated fiscal year under review, the straight-line method has been used to depreciate tangible fixed assets. As a result, the straight-line method has also been used to depreciate assets at the business segment level. As a result of this change, the segment income for the second quarter of the current consolidated fiscal year under review for Machinery Components, Precision Machinery, Construction Machinery, Industrial Machinery, Environmental Facilities & Plant, and Others increased by JPY116 million, JPY252 million, JPY342 million, JPY131 million, JPY77 million, and JPY24 million, respectively, as compared to the previously used method. Further, the segment loss improved by JPY19 million for the Ships segment.

Changes to the Measurement Methodology for Segment Income and/or Loss

In order to measure the financial performance of each business segment more accurately, the allocation method for research and development (R&D) costs has been changed from the first quarter of the current consolidated fiscal year under review.

Please note that the segment information, including profit and loss figures, provided herein for the second quarter of the previous consolidated fiscal year reflects the changes to the calculation methods noted above.

(2) (Summary) Consolidated Cash Flows Statement

(Units: millions of yen)

	Previous Second Quarter April 1, 2013, to September 30, 2013	Present Second Quarter April 1, 2014, to September 30, 2014	Y/Y Change
Income before income taxes	7,649	19,744	12,095
Depreciation	8,818	8,012	(806)
(Increase) decrease in notes and accounts receivable	27,486	24,708	(2,778)
(Increase) decrease in inventories	(10,762)	(14,506)	(3,743)
Increase (decrease) in notes and accounts payable	(10,198)	6,779	16,978
Payments for income taxes	(6,166)	(11,279)	(5,114)
Other	(2,955)	(1,520)	1,435
Net cash provided by operating activities	13,871	31,937	18,066
Payments for purchases of property, plant, and equipment	(8,497)	(7,446)	1,052
Proceeds from the sale of fixed assets	586	915	328
Proceeds from the sale of securities	1,260	643	(617)
Other	792	781	(11)
Net cash used in investing activities	(5,859)	(5,107)	751
Net increase (decrease) in short-term loans	(2,708)	(14,099)	(11,390)
Cash dividends paid	(2,460)	(2,466)	(7)
Other	(988)	(933)	55
Net cash used in financing activities	(6,155)	(17,497)	(11,342)
Other	3,746	(978)	(4,724)
Cash and cash equivalents at beginning of period	46,476	76,418	29,942
Cash and cash equivalents at end of period	52,078	84,772	32,694