

Sumitomo Heavy Industries, Ltd.

THIRD QUARTER CONSOLIDATED FINANCIAL REPORT

For the Nine-Month Period from April 1 to December 31, 2018

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, 2018
Presented January 31, 2019**

Sumitomo Heavy Industries, Ltd.

Listed exchanges	Tokyo Stock Exchange
Stock code	6302
Head office	Tokyo
President	Shunsuke Betsukawa
URL	www.shi.co.jp
Inquiries	Michiko Watanabe General Manager, Corporate Communications Dept.
Telephone	+81 3 6737 2331
Scheduled reporting date for quarterly report	February 8, 2019
Scheduled date of payment of cash dividends	–
Availability of supplementary explanations for quarterly financial statement	N/A
Holding of meeting to explain quarterly financial statement	N/A

1. FY 2018 Third Quarter Consolidated Results (April 1, 2018, to December 31, 2018)

(1) Business Results

(Units: millions of yen)

	Third Quarter April 1 to December 31, 2018		Previous Third Quarter April 1 to December 31, 2017	
		% change		% change
Net sales	646,695	16.5	555,212	16.1
Operating income	52,455	9.6	47,866	51.2
Ordinary income	50,332	6.6	47,197	47.8
Net income attributed to shareholders of the parent company	31,046	51.1	20,540	(13.7)
Net income per share (yen)	253.37		167.61	
Fully diluted net income per share (yen)	–		–	

Note: Comprehensive income

Fiscal quarter ended December 31, 2018: 28,479 million yen, (6.4%)

Fiscal quarter ended December 31, 2017: 26,778 million yen, (994.0%)

(Note) The Company carried out a 5-to-1 reverse stock split for its common shares with an effective date of October 1, 2017. The quarterly net income per share was calculated, under the assumption that such share consolidation was conducted at the beginning of the previous consolidated fiscal year.

(2) Financial Position

(Units: millions of yen)

	End of Third Quarter As of December 31, 2018	End of Previous Full Year As of March 31, 2018
Total assets	939,106	894,835
Total net assets	456,080	444,964
Equity ratio (%)	47.5	48.2

Reference: Equity
 Fiscal quarter ended December 31, 2018: 446,493 million yen
 Fiscal year ended March 31, 2018: 431,008 million yen

2. Dividends

(Units: yen)

	Year Ended March 31, 2018	Year Ending March 31, 2019	Year Ending March 31, 2019 (forecast)
Annual dividends per share			
First quarter	—	—	
Second quarter	8.00	50.00	
Third quarter	—		—
End of term	45.00		50.00
Annual dividends	—		100.00

Note 1: Changes from the most recent dividend forecast: None

Note 2: Because the Company carried out a 5-to-1 reverse stock split for its common shares with an effective date of October 1, 2017, the actual amount of second quarter-end dividend for the period ended March 2018 as calculated on a pre-consolidation basis is presented. The second quarter-end dividend and the total annual dividend for the period ended March 2018, taking into consideration of the share consolidation, are 40 yen and 85 yen, respectively.

3. FY 2018 Consolidated Forecasts (April 1, 2018, to March 31, 2019)

(Units: millions of yen)

	Full Year April 1, 2018, to March 31, 2019	
		% change
Net sales	890,000	12.5
Operating income	70,000	0.1
Ordinary income	67,500	0.1
Net income attributed to shareholders of the parent company	41,000	18.3
Projected net income per share (yen)	334.61	

Note 1: 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: Applicable
- (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): Applicable
- (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, 2018 | 122,905,481 shares |
| As of March 31, 2018 | 122,905,481 shares |
- (ii) Amount of treasury stock at end of fiscal period
- | | |
|-------------------------|----------------|
| As of December 31, 2018 | 378,639 shares |
| As of March 31, 2018 | 367,080 shares |
- (iii) Average number of shares during fiscal period (cumulative quarterly period)
- | | |
|-------------------------|--------------------|
| As of December 31, 2018 | 122,531,801 shares |
| As of December 31, 2017 | 122,549,864 shares |
- (Note) The Company carried out a 5-to-1 reverse stock split for its common shares with an effective date of October 1, 2017. The average number of shares during the fiscal period was calculated, under the assumption that such share consolidation was conducted at the beginning of the previous consolidated fiscal year.

* The Quarterly Summary of Financial Results is not subject to the Quarterly Review

* 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

In the third-quarter business environment that surrounded the Group, domestically we saw that capital investment continued to be firm upon improving corporate earnings, while in overseas markets the United States manufacturing industries continued to enjoy recovering production upon recovery of demand in domestic and external markets, and in China industrial production generally stayed healthy despite a recent stall in its economic recovery; thus generally machinery demand continued to be on a growth trend worldwide. At the same time, however, some uncertainty remained present because of concerns about the U.S-China trade dispute, continuing geopolitical risk on the Korean Peninsula, etc., and increasingly apparent concerns about currency risk and financial system instability in some of the emerging countries.

In this business environment, the Group started the Medium-Term Management Plan 2019, proactively pursue investments to drive growth through M&A, capital investments, etc., working to further improve the operational quality, actively promoting CSR measures and moving forward with other key initiatives.

Under these conditions, orders increased with the exception of Industrial Machinery and Other segment. On a consolidated basis, the Group posted an order figure of JPY675.5 billion, a 11% increase as compared to the same period last year (hereinafter referred to as the “previous term”). Sales also increased with the exception of Ships and Other segment. In total, the Group posted a sales figure of JPY646.7 billion, a 16% increase as compared to the previous term.

Turning to income, the drop in profits from the Machinery Components, Precision Machinery, and Ships was offset by increases from the Construction Machinery, Environmental Facilities & Plants and other segments. As a result, operating income was JPY52.5 billion, an 10% increase as compared to the previous term, and ordinary income was JPY50.3 billion, a 7% increase as compared to the previous term. Quarterly net income attributable to the shareholders of the parent company also increased by 51% as compared to the previous term to finish at JPY31.0 billion.

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

1. Machinery Components

The market for small-to-medium scale gear reducers showed positivity, and the Lafert Group (including Lafert S.p.A.) was made a consolidated subsidiary of the Company. As a result, orders and sales increased as compared to the previous term. In actual figures, the segment received orders worth JPY102.9 billion, a rise of 18% as compared to the previous term, and posted sales of JPY97.7 billion, a rise of 22% as compared to the previous term. Further, the segment posted operating income of JPY8.0 billion.

2. Precision Machinery

Strong demand for plastic injection molding machines continued to exist in China for electric/electronic items while demand in the European area stayed firm. As a result, both orders and sales increased on a year-on-year basis. In actual figures, the segment received orders worth JPY146.2 billion, a rise of 6% as compared to the previous term, and posted sales of JPY133.3 billion, a rise of 9% as compared to the previous term. Further, the segment posted operating income of JPY12.4 billion.

3. Construction Machinery

With regard to the hydraulic excavator business, both orders and sales increased as compared to the previous term due to a rise in demand from the China and other overseas markets. As for the mobile crane business, both orders and sales increased as compared to the previous term mainly due to a recovery trend in the U.S. market and strong demand from the domestic market. In actual figures, the segment received orders worth JPY226.8 billion, a rise of 21% as compared to the previous term, and posted sales of JPY213.7 billion, a rise of 15% as compared to the previous term. Further, the segment posted operating income of JPY18.0 billion.

4. Industrial Machinery

Order intake decreased on a year-on-year basis because of a decline in orders received for industrial turbines while sales increased on the same basis because of increased sales of material handling machines and forging presses for which we had a large backlog of orders. As a result, the segment received orders worth JPY59.5 billion (down 11% year on year), posted sales worth JPY66.7 billion (up 15% year on year) and operating income worth JPY5.4 billion.

5. Ships

Amid the continuing sluggish market the segment booked orders for two new vessels just as it did in the same quarter a year ago. The segment delivered three vessels, also the same quantity it delivered in the same quarter of the previous year. As a result, the segment received orders in the amount of JPY24.1 billion (up 4% year on year), recorded sales worth JPY27.8 billion (down 3% year on year) and operating profit in the amount of JPY0.5 billion.

6. Environmental Facilities & Plants

Despite a decrease in orders received for biomass-fueled power generation plants from a year-ago period this segment enjoyed a larger number of orders received and greater sales than in the year-ago period due in part to the subsidiarization of Sumitomo SHI FW Energie B.V. With respect to the water treatment plant business the segment received increased orders and posted greater sales as compared with the same quarter of the previous year. In actual figures, the segment received orders worth JPY110.4 billion, a rise of 7% as compared to the previous term, and posted sales of JPY102.2 billion, a rise of 36% as compared to the previous term. Further, the segment posted an operating income of JPY6.6 billion.

7. Other

The Other segment received orders worth JPY5.6 billion, a fall of 4% as compared to the previous term, and posted sales of JPY5.2 billion, a fall of 5% as compared to the previous term. Further, the segment posted operating income of JPY1.6 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 of the current consolidated fiscal year under review (ended December 31, 2018) amounted to JPY939.1 billion, an increase of JPY44.3 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to increases of JPY33.7 billion in inventory assets and JPY17.4 billion in intangible assets offsetting a decrease of JPY4.5 billion in trade notes and accounts receivable.

Total liabilities rose to JPY483.0 billion, an increase of JPY33.2 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to increases of JPY10.2 billion in notes and accounts payable and offsetting the increase of JPY9.4 billion in the balance of interest-bearing liabilities.

Net assets to JPY456.1 billion, an increase of JPY11.1 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to increase of JPY19.4 billion in retained earnings.

As a result of the above, the shareholders' equity ratio fell by 0.7 points from the end of the previous consolidated fiscal year to finish at 47.5%.

2. Cash Flow Condition

The increase in cash flow from operating activities was JPY44.6 billion (as compared to an increase in cash flow of JPY33.5 billion in the previous term). When broken down, the main components of the proceeds were JPY47.7 billion in quarterly net income before tax and other adjustments, and the JPY20.4 billion reduction in trade receivables. The main sources of the outflow of cash were the JPY32.2 billion increase in inventory assets and the JPY14.2 billion payment of corporate and other taxes.

The decrease in cash flow as a result of investing activities was JPY44.0 billion (as compared to a decrease in cash flow of JPY30.3 billion in the previous term). The decrease is attributable, principally, to an expenditure in the amount of JPY24.0 billion for acquisition of fixed assets and the acquisition of shares or equity in subsidiaries worth JPY20.6 billion (which requires a change in the scope of consolidation).

The decrease in cash flow as a result of financing activities was JPY14.3 billion (as compared to a decrease in cash flow of JPY4.9 billion in the previous term). The main reasons are the JPY11.6 billion used to pay 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 under review totaled JPY70.7 billion, a decrease of JPY14.8 billion as compared to the end of the previous consolidated fiscal year.

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

No revision was made to our consolidated earnings forecast for the period ending March 2019 announced in our October 31, 2018 earnings briefing.

On January 24, 2019 the company announced that some inappropriate inspection had been conducted among the Company and group companies. In our consolidated earnings forecast we did not factor in any effect that may be caused by the announced event. We will separately announce if we come to know for certain the effect to be caused to our forecast for the period ending March 2019.

2. Quarterly Consolidated Financial Statements and Key Explanatory Notes

(1) Quarterly Consolidated Balance Sheets

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2018	End of Third Quarter As of December 31, 2018
	Amount	Amount
Assets		
Cash and deposits	88,233	73,192
Notes and accounts receivable	269,409	264,863
Inventory assets	167,400	201,147
Other	30,597	36,307
Allowance for doubtful accounts	(4,055)	(3,664)
Current assets	551,584	571,845
Land	107,826	107,774
Other (net)	131,770	139,833
Total tangible assets	239,596	247,607
Goodwill	18,030	33,861
Other	32,319	33,911
Total intangible assets	50,349	67,772
Other	58,830	57,218
Allowance for doubtful accounts	(5,524)	(5,336)
Investments and other assets	53,306	51,882
Fixed assets	343,251	367,260
Total assets	894,835	939,106

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2018	End of Third Quarter As of December 31, 2018
	Amount	Amount
Liabilities		
Notes and accounts payable	184,227	194,457
Short-term bank loans	33,516	27,309
Current portion of corporate bonds	–	10,000
Long-term loans due within one year	7,801	2,034
Commercial paper	–	13,000
Allowance for guaranteed construction	13,478	12,372
Other allowance amount	5,679	5,604
Other	102,984	118,423
Current liabilities	347,684	383,200
Bonds	20,000	10,000
Long-term debt due after one year	2,864	11,222
Allowance	155	156
Defined benefit liability	40,466	40,518
Deferred income taxes on revaluation	20,730	20,713
Other	17,972	17,217
Total fixed liabilities	102,187	99,826
Total liabilities	449,871	483,026
Net assets		
Common stock	30,872	30,872
Capital surplus	25,267	26,014
Retained earnings	314,296	333,718
Treasury stock	(1,000)	(1,044)
Total shareholders' equity	369,434	389,561
Unrealized gains on securities	5,406	3,213
Profit (loss) on deferred hedge	925	(235)
Revaluation reserve for land	40,831	40,813
Foreign currency translation adjustments	17,565	14,760
Re-measurement of defined benefit plans	(3,153)	(1,619)
Total accumulated other comprehensive income	61,574	56,933
Non-controlling interest	13,956	9,586
Total net assets	444,964	456,080
Total liabilities and net assets	894,835	939,106

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

(Units: millions of yen)

	Previous Third Quarter April 1, 2017, to December 31, 2017	Present Third Quarter April 1, 2018, to December 31, 2018
	Amount	Amount
Net sales	555,212	646,695
Cost of sales	418,215	494,641
Gross income	136,998	152,055
Selling, general & administrative expenses	89,132	99,600
Operating income	47,866	52,455
Non-operating income		
Interest income	371	580
Dividend income	743	784
Other	2,504	2,104
Total non-operating income	3,617	3,468
Non-operating expenses		
Interest expense	782	826
Loss on foreign currency exchange	513	2,079
Other	2,991	2,685
Total non-operating expenses	4,286	5,591
Ordinary income	47,197	50,332
Extraordinary losses		
Loss on pension buyout	—	2,085
Loss on impaired assets	164	502
Loss related to dispute settlements	14,481	—
Total extraordinary losses	14,645	2,587
Income before income taxes	32,553	47,745
Corporate income taxes	10,438	14,294
Net income	22,115	33,451
Net income (or loss) attributable to non-controlling interests	1,575	2,405
Net income attributed to shareholders of the parent company	20,540	31,046

Consolidated Statement of Comprehensive Income

(Units: millions of yen)

	Previous Third Quarter April 1, 2017, to December 31, 2017	Present Third Quarter April 1, 2018, to December 31, 2018
	Amount	Amount
Net income	22,115	33,451
Other comprehensive income		
Unrealized gains on securities	2,515	(2,194)
Profit (loss) on deferred hedge	(223)	(1,158)
Revaluation reserve for land	7	—
Foreign currency translation adjustments	1,645	(3,155)
Adjustment to retirement benefits	708	1,525
Amount applied for equity method accounting of affiliates	11	10
Total other comprehensive income	4,663	(4,973)
Comprehensive income	26,778	28,479
(Breakdown)		
Comprehensive income relating to parent company shareholdings	24,278	26,423
Quarterly comprehensive income relating to non-controlling interests	2,500	2,056

(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.

(Application of Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements)

(Calculation of tax expenses)

The effective tax rate expected to be imposed on pretax net income (after tax effect accounting) applicable to the consolidated fiscal year in which the third quarter of the current consolidated fiscal year under review is included was estimated based on reasonable assumptions, and tax expenses were calculated by multiplying the quarterly pretax net income by the estimated effective tax rate.

(Change in Accounting Policy)

(Change in calculation method for tax expenses)

Previously, tax expenses of the Company and its consolidated subsidiaries were calculated based on a method that was applied as a general rule. To further streamline operations for quarterly settlement of accounts for the Company and its consolidated subsidiaries, however, starting from the first quarter of the current consolidated fiscal year under review, the calculation method for the tax expenses has been changed so that the effective tax rate expected to be imposed on pretax net income (after tax effect accounting) applicable to the consolidated fiscal year is estimated based on reasonable assumptions, and tax expenses are calculated by multiplying the quarterly pretax net income by the estimated effective tax rate.

Note that because this change only has a minimal impact, the Company has decided not to make a retrospective application.

(Additional Information)

The Company has applied the "Partial Amendment to the 'Accounting Standard on Tax Effect Accounting'" (Corporate Accounting Standard No. 28; February 16, 2018), etc. from the first quarter of the current consolidated fiscal year under review. As a result, deferred tax assets are presented in the investments and other assets section and deferred tax liabilities are presented in the fixed liabilities section.

(Subsequent Events of Significant Importance)

There are no applicable items.

3. Supplementary Information

(1) Orders, Sales and Operating Income, and Balance of Orders by Segment

Orders

(Units: millions of yen)

Segment	April 1, 2017, to December 31, 2017	April 1, 2018, to December 31, 2018	Y/Y Change	
	Amount	Amount	Amount	%
Machinery Components	87,350	102,897	15,547	17.8
Precision Machinery	138,010	146,230	8,220	6.0
Construction Machinery	186,776	226,803	40,027	21.4
Industrial Machinery	67,186	59,487	(7,699)	(11.5)
Ships	23,231	24,052	822	3.5
Environmental Facilities & Plants	102,729	110,391	7,662	7.5
Other	5,863	5,613	(250)	(4.3)
Total	611,143	675,473	64,330	10.5

Sales and Operating Income

(Units: millions of yen)

Segment	April 1, 2017, to December 31, 2017		April 1, 2018, to December 31, 2018		Y/Y Change	
	Sales	Operating Income	Sales	Operating Income	Sales	Operating Income
Machinery Components	80,102	8,840	97,728	8,018	17,626	(822)
Precision Machinery	122,330	13,985	133,318	12,386	10,988	(1,599)
Construction Machinery	185,264	12,168	213,713	17,989	28,450	5,821
Industrial Machinery	58,060	5,199	66,713	5,419	8,653	220
Ships	28,588	2,097	27,798	450	(791)	(1,647)
Environmental Facilities & Plants	75,350	3,981	102,178	6,595	26,827	2,614
Other	5,518	1,609	5,248	1,611	(269)	2
Adjustments	—	(14)	—	(14)	—	0
Total	555,212	47,866	646,695	52,455	91,483	4,589

Balance of Orders Received

(Units: millions of yen)

Segment	End of Previous Fiscal Year As of March 31, 2018	End of Third Quarter As of December 31, 2018	Change	
	Amount	Amount	Amount	%
Machinery Components	37,317	42,486	5,170	13.9
Precision Machinery	78,140	91,052	12,912	16.5
Construction Machinery	58,782	71,871	13,089	22.3
Industrial Machinery	98,939	91,714	(7,225)	(7.3)
Ships	49,712	45,967	(3,745)	(7.5)
Environmental Facilities & Plants	232,520	240,733	8,213	3.5
Other	1,484	1,849	365	24.6
Total	556,893	585,671	28,778	5.2

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, forging press 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

(2) (Summary) Consolidated Cash Flows Statement

(Units: millions of yen)

	Previous Third Quarter April 1, 2017, to December 31, 2017	Present Third Quarter April 1, 2018, to December 31, 2018	Y/Y Change
Income before income taxes	32,553	47,745	15,192
Depreciation	16,746	18,928	2,182
(Increase) decrease in notes and accounts receivable	18,507	20,365	1,858
(Increase) decrease in inventories	(23,935)	(32,225)	(8,289)
Increase (decrease) in notes and accounts payable	7,263	7,563	299
Payments for income taxes	(15,782)	(14,219)	1,563
Other	(1,831)	(3,562)	(1,730)
Net cash provided by operating activities	33,520	44,595	11,075
Payments for purchases of property, plant, and equipment	(20,786)	(24,027)	(3,241)
Other	(9,551)	(19,947)	(10,396)
Net cash used in investing activities	(30,337)	(43,974)	(13,637)
Net increase (decrease) in short-term loans	7,738	4,641	(3,097)
Cash dividends paid	(10,385)	(11,614)	(1,229)
Other	(2,289)	(7,284)	(4,995)
Net cash used in financing activities	(4,936)	(14,257)	(9,321)
Other	24	(1,138)	(1,162)
Cash and cash equivalents at beginning of period	61,017	85,503	24,486
Cash and cash equivalents at end of period	59,289	70,729	11,440