

Second Quarter Financial Summary and Projections for FY2013

 **Sumitomo Heavy Industries, Ltd.**

**President and CEO
Shunsuke Betsukawa**

Management Policies

FY2013

- **Set FY2013 as a year of reversal to break out of the stagnate state and make a new start.**
 - **Forge a solid footing through solid management.**
 - **Achieve Net Sales JPY600 billion and Operating Income JPY30 billion as a minimum target and commitment figures.**
- **Recover earning capacity of mass-produced machinery businesses**
 - ... **Rapidly recover earning capacity through such means as the introduction of new products. Implement structural reforms as needed.**
 - **Promote structural reforms in heavy machinery businesses**
 - ... **Aim for the enhancement and growth of business by building an organizational framework for optimum placement and efficient operation of management resources.**

Financial Summary

➤ Key points

(1) Orders

- Increased over the previous term in all segments, other than the industrial machinery segment.
- Increased in the precision machinery segment, due to favorable conditions of injection molding machines.
- Significantly increased in the construction machinery segment, due to favorable conditions of hydraulic excavators in the domestic market.

(2) Net sales

- Increased over the previous term in machinery components and construction machinery segments.
- Decreased in industrial machinery, ships, as well as environmental facilities & plants segments.

(3) Operating income

- Increased in machinery components and construction machinery segments.
- Decreased in other segments, due in part to an impact from the drop in sales.

Unit: JPY billion

	FY2012 1H	FY2013 1H	Change
Orders	266.6	306.5	39.9
Net sales	293.3	273.0	(20.2)
Operating income	17.4	8.4	(9.0)
Operating income ratio	5.9%	3.1%	(2.8%)
Ordinary income	16.6	7.8	(8.7)
Ordinary income ratio	5.7%	2.9%	(2.8%)
Extraordinary income or loss	(1.0)	(0.2)	0.8
Current net income before tax adjustments	15.5	7.6	(7.9)
Current net income	9.8	3.4	(6.5)
Current net income ratio	3.4%	1.2%	(2.2%)

Operating Income by Segment

Unit: JPY billion

➤ Comparison with same term previous fiscal year

<Machinery components>

Increased in this segment, due to improvements in the business performance of overseas bases, as well as in the profitability of larger models.

<Precision machinery>

Favorable performance with cryogenic coolers in this segment, but decreased with plastics machinery and semiconductor related products.

<Construction machinery>

Decreased with hydraulic excavators in this segment, but increased with mobile cranes in the United States, due to increased sales.

<Industrial machinery>

Decreased in this segment, due to a deteriorated performance of industrial equipment and others.

<Ships>

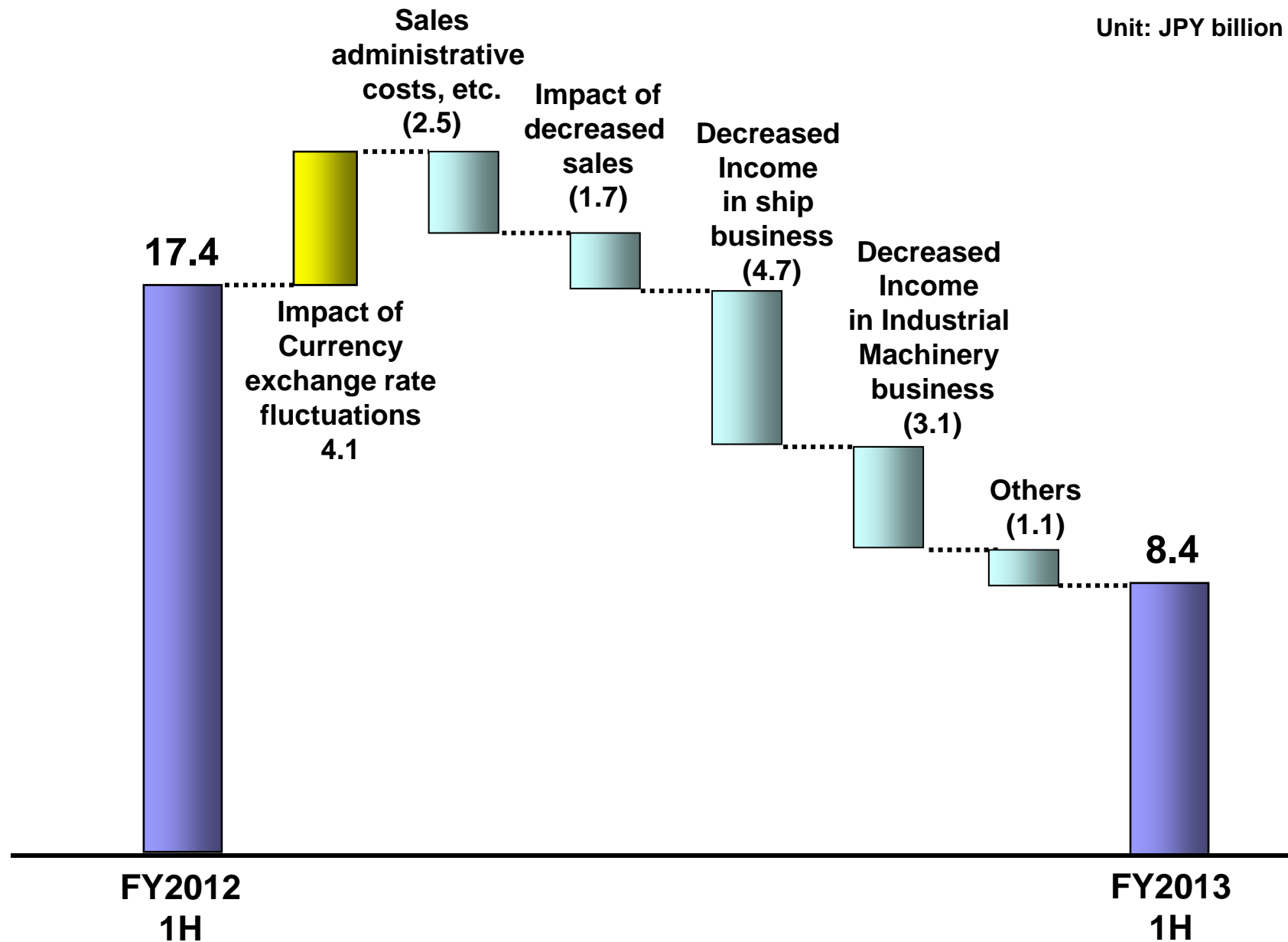
The number of newly built vessels delivered was one, i.e., one less than the previous fiscal year. Significantly decreased, due to the posting of operating losses, etc.

<Environmental facilities & plants>

Decreased due to the drop in sales.

	FY2012 1H	FY2013 1H	Change
Machinery components	0.5	2.6	2.1
Precision machinery	5.6	3.4	(2.2)
Construction machinery	3.1	3.3	0.2
Industrial machinery	3.4	0.3	(3.1)
Ships	2.8	(2.0)	(4.7)
Environmental facilities & plants	1.4	(0.5)	(1.9)
Others	0.6	1.1	0.5
Total	17.4	8.4	(9.0)

Change in Operating Income



Consolidated Balance Sheet

Unit: JPY billion

	March 2013	September 2013	Change		March 2013	September 2013	Change
Current assets	386.6	398.8	12.2	Liabilities	354.9	363.4	8.5
Cash and deposits	47.8	53.1	5.3	Notes and accounts payable	113.6	111.9	(1.7)
Notes and accounts receivable	173.3	155.7	(17.6)	Advance payments received	20.9	26.0	5.0
Inventories	139.2	160.0	20.8	Interest-bearing debts	98.5	103.0	4.5
Others	26.3	30.0	3.7	Others	121.8	122.6	0.7
Fixed assets	261.1	273.4	12.3	Net assets	292.8	308.8	16.0
Tangible assets	210.7	217.0	6.3	Common equity	261.8	262.6	8.0
Intangible assets	7.8	8.5	0.7	Total accumulated other comprehensive income	27.1	41.5	14.5
Investments and other assets	42.7	48.0	5.3	Minority interests	4.0	4.7	0.7
Total	647.7	672.2	24.5	Total	647.7	672.2	24.5
				Net ratio of interest-bearing debts	7.8%	7.4%	(0.4%)
				Stockholders' equity ratio	44.6%	45.2%	0.6%

Consolidated Cash Flow Statement

Unit: JPY billion

Category	FY2012 1H	FY2013 1H	Change
Operating activities	4.7	13.9	18.6
Income before income taxes	15.5	7.6	(7.9)
Depreciation	8.5	8.8	0.4
Working capital	(18.9)	6.5	25.4
Others (taxes etc.)	(9.9)	(9.1)	0.8
Investing activities	(12.1)	(5.9)	6.2
Free cash flow	(16.8)	8.0	24.8
Financing activities	(13.8)	(6.2)	7.7
Change in cash and cash equivalents	(30.5)	5.6	36.1
Cash and cash equivalents at end of fiscal term	42.3	52.1	9.8

Performance Forecast for FY2013

Unit: JPY billion

➤ Key Points

- Forecasts for FY2013 full year performance and annual dividends JPY6 are unchanged.

	Record 1H-FY12	Record 2H-FY12	Record 1H-FY13	Forecast 2H-FY13	Record FY2012	Forecast FY2013
Orders	266.6	284.1	306.5	303.5	550.7	610.0
Net Sales	293.3	292.6	273.0	327.0	585.9	600.0
Operating income	17.4	13.9	8.4	21.6	31.3	30.0
Operating income ratio	5.9%	4.7%	3.1%	6.6%	5.3%	5.0%
Ordinary income	16.6	14.4	7.8	18.2	31.0	26.0
Ordinary income ratio	5.7%	4.9%	2.9%	5.5%	5.3%	4.3%
Extraordinary income or loss	(1.0)	(19.2)	(0.2)	(0.8)	(20.2)	(1.0)
Current net income	9.8	(4.0)	3.4	10.6	5.9	14.0
Current net income ratio	3.4%	—	1.3%	3.2%	1.0%	2.3%
Dividends	JPY4	JPY4	JPY3	JPY3	JPY8	JPY6
Dividend payout ratio					83.7%	26.3%
ROIC (after tax)					4.9%	4.4%
Projected currency exchange rate (US dollars)			JPY93 (actual)	JPY95	JPY85 (actual)	JPY95

Machinery Components

Business Performance

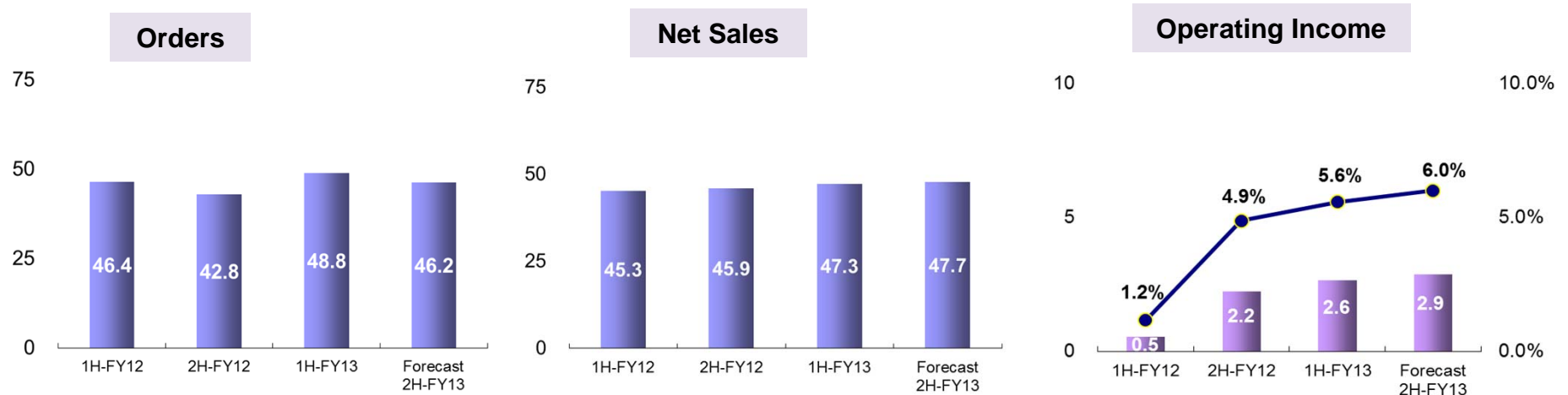
1H of FY2013 : The orders received and net sales both increased in comparison with the same term of the previous fiscal year. Overseas, North America and Southeast Asia performed well. Demand for larger speed reducers for resource fields continued with a downturn. Earnings at domestic and overseas production bases saw an improving trend.

2H of FY2013 : Expectations are high for increases in the domestic demand in infrastructure related fields. Concerns exist with regard to a decelerated growth in overseas markets. In Europe, the completion of corporate restructuring at Hansen Industrial Transmissions is expected to bring about recovery of earnings and profits.

Issues and Progress

- Manufacturing reformation activities are currently implemented to improve the earning capacity of small and medium speed reducers.
- The overseas sales organization for large speed reducers is currently being restructured with Hansen Industrial Transmissions.

Unit: JPY billion



Precision Machinery

Business Performance

<Plastic machinery>

1H of FY2013 : Orders and net sales increased, due to the favorable market conditions of electronics and electrical related markets in China and Korea. Market conditions in Europe are recovering gradually.

2H of FY2013 : Electronics and electrical related demand is declining gradually. Demand is steady in the automotive segment, primarily with overseas projects.

<Advanced precision machinery>

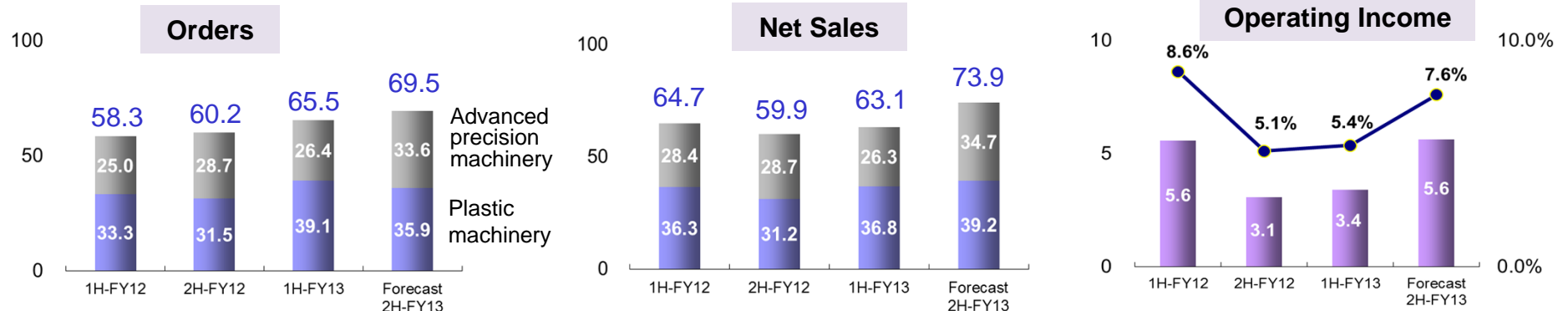
1H of FY2013 : Efforts were concentrated overseas for semiconductor related products. Cryogenic coolers, which are components for medical equipment, continued with a favorable trend.

2H of FY2013 : Electronics and semiconductor related segments are making a favorable turn.

Issues and Progress

- Integration with Sumitomo Demag in Germany is accelerated for the ongoing restructuring of the overseas sales network.
- The marketing activity of cryogenic coolers for the semiconductor market is enhanced and efforts to develop new customers are being made.

Unit: JPY billion



Construction Machinery

Business Performance

<Hydraulic excavators>

1H of FY2013 : Domestic orders came in steadily, due to reconstruction demands and emission regulations. The orders for North America dropped temporarily, due to inventory adjustments. Inventory reductions for completed machines were prioritized in China, which was dealt with by reducing production at the manufacturing plant. Profitability saw a downturn for business operations in China and Southeast Asia.

2H of FY2013 : Domestic demand is sustaining a favorable trend for this fiscal year. Sales are enhanced for general construction demands in China.

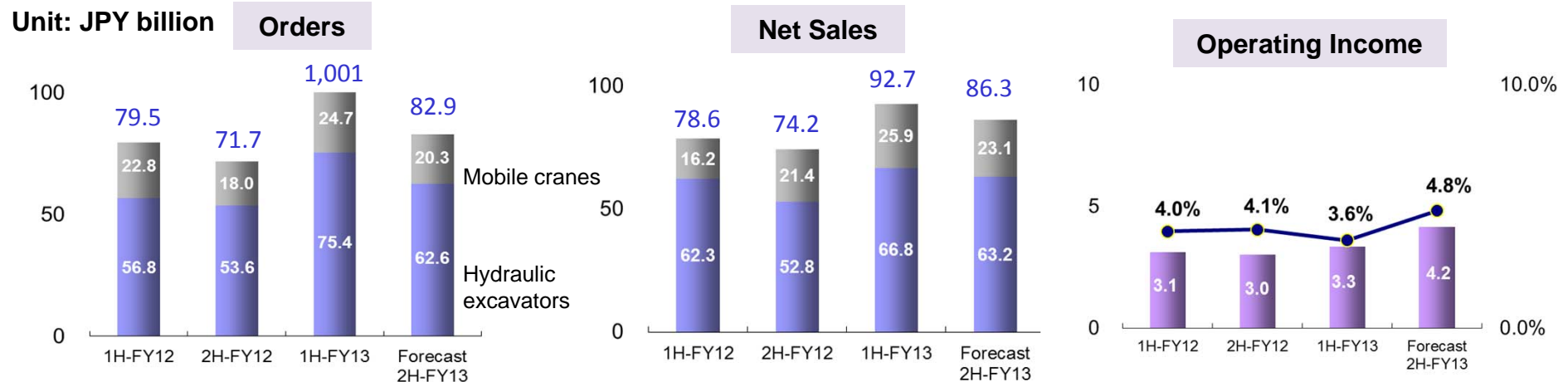
<Mobile cranes>

1H of FY2013 : Increased steadily with energy and infrastructure related businesses in North America.

2H of FY2013 : The decline in demand is a concern.

Issues and Progress

- <Hydraulic excavators> Collections of receivable accounts in leasing business in China are implemented.
- <Mobile cranes> Production increased in the first half, but action is taken to accommodate concerns for a drop in demand in the second half.



Industrial Machinery

Business Performance

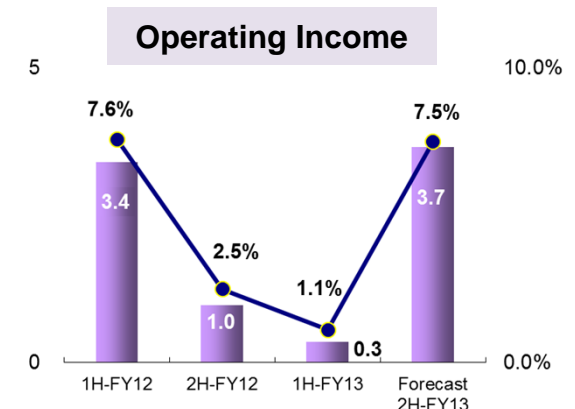
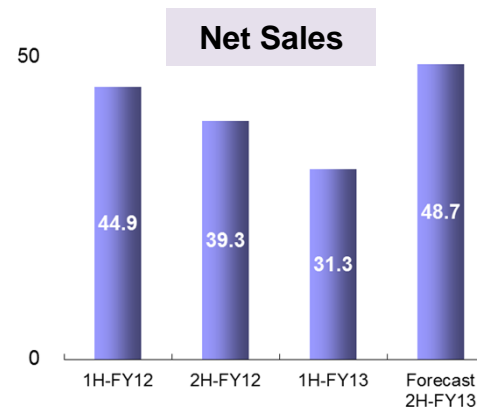
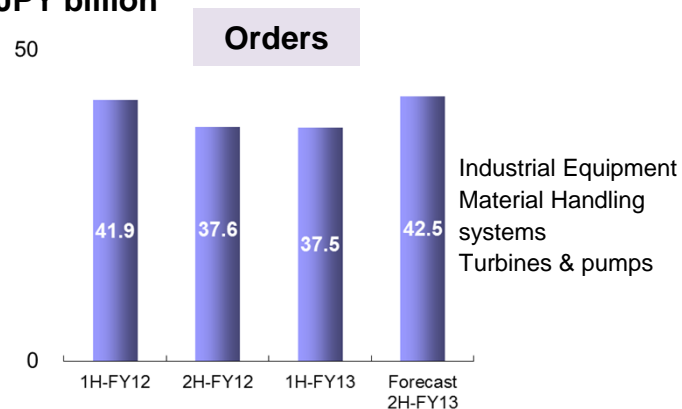
1H of FY2013 : An order was received in the material handling business for a large scale transport facility. The order-receiving environment saw a favorable turn for turbine and pumps, due to correction of yen appreciation. Operating profits declined, due to the drop in sales.

2H of FY2013 : Biomass power generation related segments are targeted in Japan, as well as overseas, to increase orders for turbines. Sales enhanced for material handling systems with projects for upgrading demand in the electric power and steel making segments. Operating income is increasing significantly, due to an increase in sales, including the percentage of completion basis sales.

Issues and Progress

- The early realization of the organizational integration effects in industrial equipment and material handling systems operations is a priority.

Unit: JPY billion



Ships

Business Performance

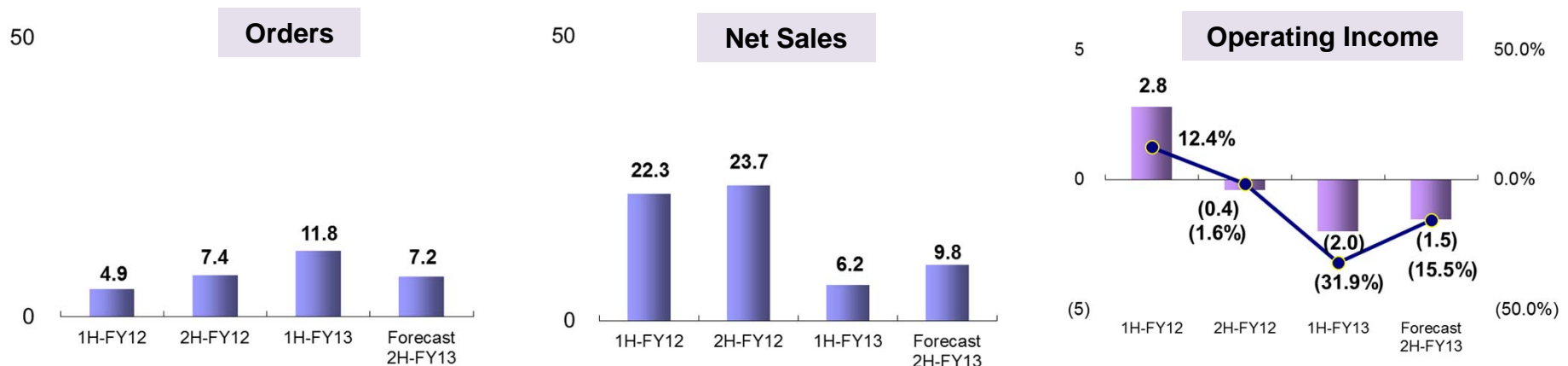
1H of FY2013 : Orders for two Aframax tankers were received in the first quarter. One vessel has been delivered. The order backlog at the end of first half consisted of three vessels. The operating income ran into the red, due to insufficient operations.

2H of FY2013 : The dollar-based price of vessels is still transitioning at a low level and a severe order-receiving environment continues. The amount of operating deficit will be reduced by increasing operations.

Issues and Progress

- Measures are implemented to minimize losses and ascertain the direction to take for the future.

Unit: JPY billion



November 1, 2013

Environmental Facilities and Plants

Business Performance

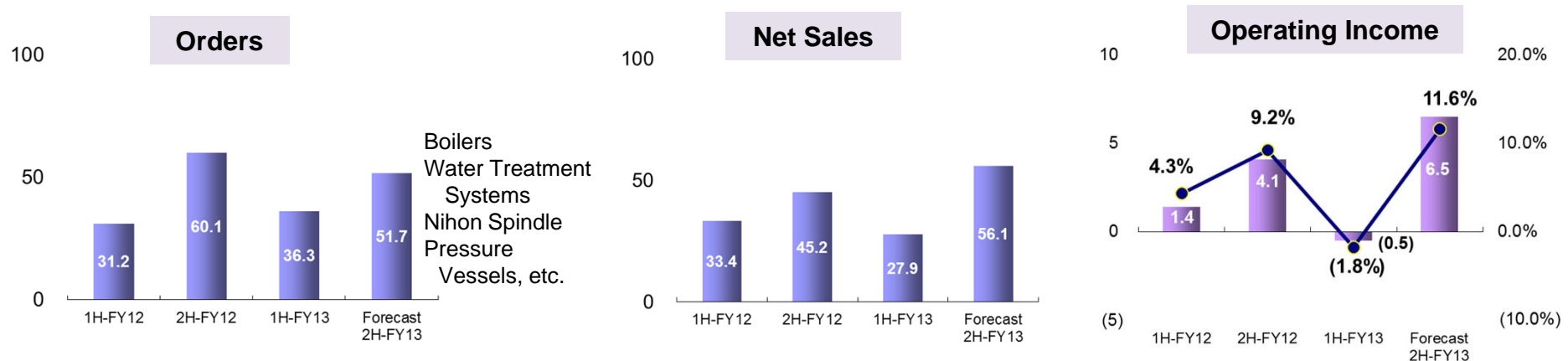
1H of FY2013 : Demand increased domestically for CFB boilers, while overseas an increasing number of inquiries were received in Indonesia. Nihon Spindle received a favorable amount of orders. Operating income ran into the red, due to a drop in sales in water treatment systems and pressure vessels businesses.

2H of FY2013 : Orders and sales increasing primarily with CFB boilers and water treatment systems. Increasing profits are associated to increases in the percentage of completion basis sales.

Issues and Progress

- Measures are taken to accommodate demand for compact to medium CFB boilers intended for domestic biomass power generation.

Unit: JPY billion



Performance Forecast for FY2013 by Segment

Unit: JPY billion

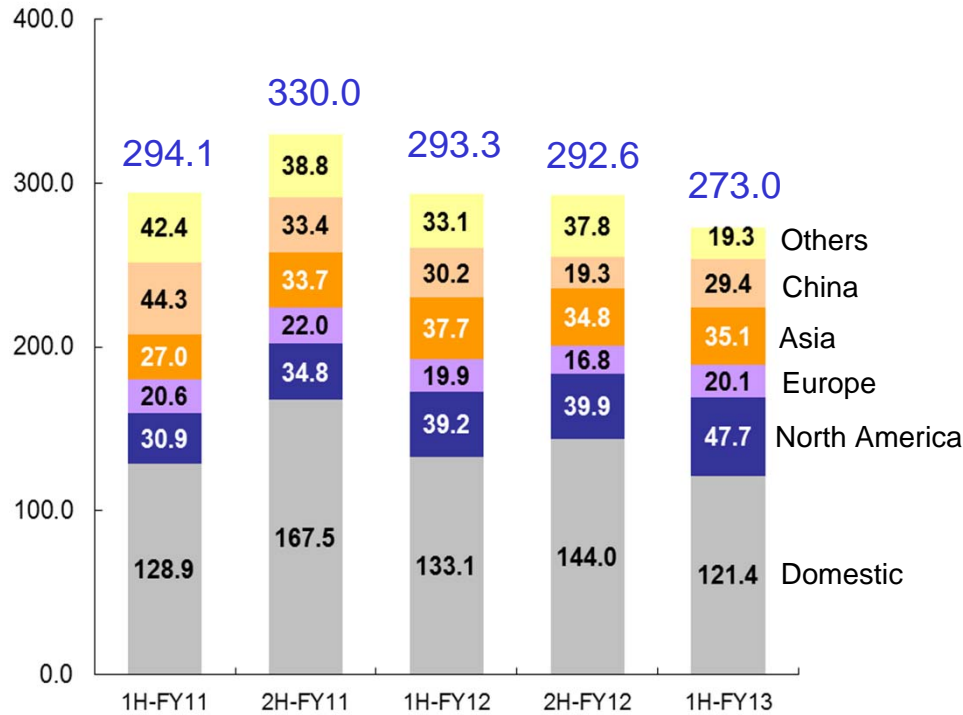
		Record 1H-FY12	Record 2H-FY12	Record 1H-FY13	Forecast 2H-FY13	Record FY2012	Forecast FY2013
Machinery components	Orders	46.4	42.8	48.8	46.2	89.2	95.0
	Net sales	45.3	45.9	47.3	47.7	91.2	95.0
	Operating income	0.5	2.2	2.6	2.9	2.8	5.5
Precision machinery	Orders	58.3	60.2	65.5	69.5	118.5	135.0
	Net sales	64.7	59.9	63.1	73.9	124.6	137.0
	Operating income	5.6	3.1	3.4	5.6	8.6	9.0
Construction machinery	Orders	79.5	71.7	100.1	82.9	151.2	183.0
	Net sales	78.6	74.2	92.7	86.3	152.8	179.0
	Operating income	3.1	3.0	3.3	4.2	6.1	7.5
Industrial machinery	Orders	41.9	37.6	37.5	42.5	79.5	80.0
	Net sales	44.9	39.3	31.3	48.7	84.3	80.0
	Operating income	3.4	1.0	0.3	3.7	4.4	4.0
Ships	Orders	4.9	7.4	11.8	7.2	12.3	19.0
	Net sales	22.3	23.7	6.2	9.8	46.0	16.0
	Operating income	2.8	(0.4)	(2.0)	(1.5)	2.4	(3.5)
Environmental facilities & plants	Orders	31.2	60.1	36.3	51.7	91.4	88.0
	Net sales	33.4	45.2	27.9	56.1	78.6	84.0
	Operating income	1.4	4.1	(0.5)	6.5	5.6	6.0
Others	Orders	4.3	4.4	6.6	3.4	8.7	10.0
	Net sales	4.1	4.4	4.6	4.4	8.5	9.0
	Operating income	0.6	0.8	1.1	0.4	1.4	1.5
Total	Orders	266.6	284.1	306.5	303.5	550.7	610.0
	Net sales	293.3	292.6	273.0	327.0	585.9	600.0
	Operating income	17.4	13.9	8.4	21.6	31.3	30.0

Overseas Sales

Unit: JPY billion

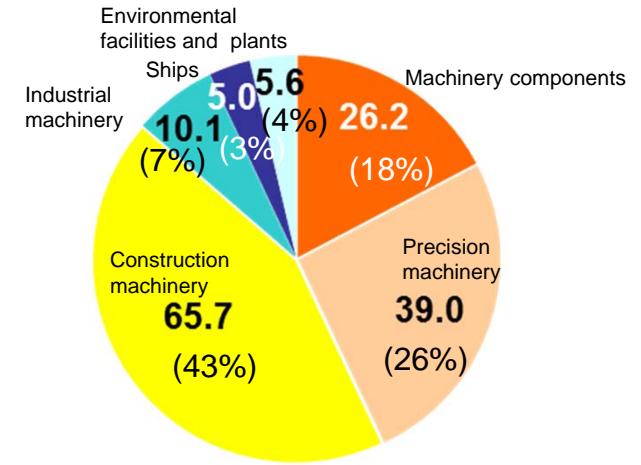
Overseas Sales by Regional Segment

Unit: JPY billion

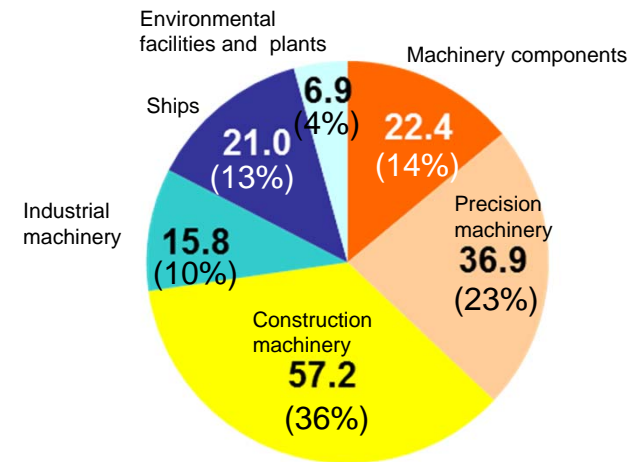


Overseas sales	165.2	162.6	160.2	148.6	151.6
Overseas sales ratio	56%	49%	55%	51%	56%

FY2013 / 1H Overseas Sales by Segment



FY2012 / 1H Overseas Sales by Segment



All forward-looking statements regarding the company's future performance are based on information currently available to Sumitomo Heavy Industries and determined subjectively. Future performance is not guaranteed and all information related to future performance contained herein is subject to changes in business environments.