

# Financial Summary for 2Q-FY2017 And Projections for FY2017

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November 2017



# I N D E X

**01** **Financial Summary for 2Q-FY2017**

**02** **Performance Forecast for FY2017**

**03** **Topics**

# 01 Financial Summary for 2Q-FY2017

# 01 Financial Summary

## ➤ Key points

### (1) Orders

- Increase from previous term except for Industrial Machinery, and Environmental Facilities and Plants.
- Increase in demand for hydraulic excavators.
- Improved market conditions for gear reducers, plastics machinery and semiconductor-related equipment.

### (2) Sales

- Due to the above increase in orders, sales also rose in all segments except for Industrial Machinery, and Environmental Facilities and Plants.

### (3) Operating Income

- Profit increases in all segments except for Industrial Machinery, and Environmental Facilities and Plants.  
Significant improvements seen particularly in the Construction Machinery segment.

Unit: JPY billion

	FY2016 1H	FY2017 1H	Change
Orders	336.6	385.8	49.2
Net sales	317.8	355.3	37.5
Operating income	18.6	29.0	10.4
Operating income ratio	5.9%	8.2%	2.3.%
Ordinary income	18.2	28.9	10.7
Ordinary income ratio	5.7%	8.1%	2.4%
Extraordinary income or loss	(0.0)	(0.1)	(0.1)
Current net income before tax adjustments	18.2	28.8	10.6
Current net income	13.1	19.8	6.7
Current net income ratio	4.1%	5.6%	1.5%
Currency exchange rate (US dollars)	¥105	¥110	¥5

# 01 Operating Income by Segment

Unit: JPY billion

## ➤ Comparison with same term previous fiscal year

### <Machinery Components>

Robust market conditions for small-to-medium scale gear reducers and precision gear reducers for use in robotics. Market also showing signs of recovery in the large-scale gear reducer space. Consequent rise in income.

### <Precision Machinery>

Rise in income due to sales increases for plastics machinery and semiconductor-related equipment.

### <Construction Machinery>

Significant increase in income due to a rise in demand for hydraulic excavators and the subsidiarization of Hitachi Sumitomo Construction Crane Co., Ltd. in the crane business.

### <Industrial Machinery>

Drop in income due to decreased sales for industrial crane and turbines.

### <Ships>

Increase in income due to sales of highly profitable backlog.

### <Environmental Facilities & Plants>

Drop in income due to a decrease in boiler sales.

	FY2016 1H	FY2017 1H	Change
Machinery components	4.1	5.3	1.2
Precision machinery	7.2	7.8	0.6
Construction machinery	(0.7)	8.3	8.9
Industrial machinery	4.5	3.0	(1.5)
Ships	0.6	2.0	1.4
Environmental facilities & plants	2.1	1.6	(0.5)
Others	0.9	1.1	0.2
<b>Total</b>	<b>18.6</b>	<b>29.0</b>	<b>10.4</b>

# 01 Consolidated Balance Sheet

Unit: JPY billion

	March 2017	September 2017	Change		March 2017	September 2017	Change
<b>Current Assets</b>	<b>507.6</b>	<b>505.4</b>	<b>(2.2)</b>	<b>Liabilities</b>	<b>387.3</b>	<b>405.0</b>	<b>17.7</b>
Cash and deposits	63.8	63.5	(0.3)	Notes and accounts payable	147.3	166.3	19.0
Notes and accounts receivable	242.5	229.4	(13.0)	Advanced payments received	32.2	35.2	3.0
Inventories	162.7	172.4	9.7	Interest-bearing debts	60.5	49.1	(11.4)
Others	38.6	40.0	1.3	Others	147.4	154.5	7.1
<b>Fixed Assets</b>	<b>288.8</b>	<b>323.1</b>	<b>34.3</b>	<b>Net Assets</b>	<b>409.2</b>	<b>423.4</b>	<b>14.3</b>
Tangible assets	227.7	231.6	3.9	Common equity	344.8	359.2	14.4
Intangible assets	15.2	46.2	31.0	Total accumulated other comprehensive income	53.8	52.2	(1.6)
Investments and other assets	45.9	45.3	(0.6)	Minority interests	10.6	12.0	1.5
<b>Total</b>	<b>796.5</b>	<b>828.5</b>	<b>32.0</b>	<b>Total</b>	<b>796.5</b>	<b>828.5</b>	<b>32.0</b>
				Net ratio of interest-bearing debts	(0.4%)	(1.7%)	(1.3%)
				Stockholders' equity ratio	50.0%	49.7%	(0.3%)

\* Increase of Total Asset for subsidiarization of SFW :  
51.9 billions of Yen (estimate)

# Ref. Overseas Sales by Regional Segment

Unit : JPY billion

	Total				Hydraulic Excavators			
	2Q-FY2016 (April-September)		2Q-FY2017 (April-September)		2Q-FY2016 (April-September)		2Q-FY2017 (April-September)	
	Sales	Sales Ratio	Sales	Sales Ratio	Sales	Sales Ratio	Sales	Sales Ratio
North America	56.1	17.6%	59.2	16.7%	16.2	24.1%	17.1	19.9%
Europe	27.5	8.7%	26.3	7.4%	7.4	10.9%	5.5	6.3%
Asia (Excluding China)	35.0	11.0%	34.4	9.7%	6.8	10.2%	9.0	10.5%
China	23.7	7.5%	38.6	10.9%	9.8	14.5%	18.2	21.1%
Others	10.4	3.3%	13.2	3.7%	4.0	5.9%	6.0	7.0%
Ships	14.2	4.5%	17.5	4.9%				
Japan	150.9	47.4%	166.1	46.7%	23.1	34.3%	30.3	35.2%
Total Sales	317.8	100%	355.3	100%	67.3	100%	86.0	100%

\* currency exchange rate (US dollars) 2Q-FY16: ¥105 2Q-FY17: ¥110

# 02 Performance Forecast for FY2017



# 02 Performance Forecast for FY2017

- Increase in orders and sales due to robust demand in the Construction Machinery, Precision Machinery and Machinery Components segments.
- Executed reverse stock split in October 2017.

Unit: JPY billion

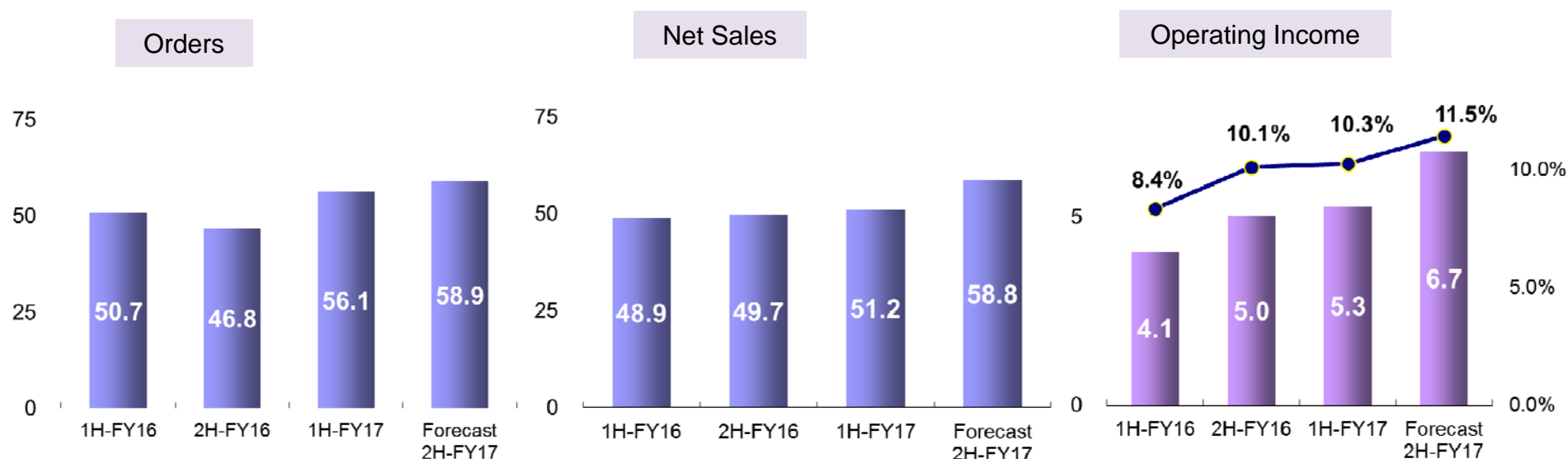
	Actual 1H-FY16	Actual 2H-FY16	Actual 1H-FY17	Forecast 2H-FY17	Actual FY2016	Forecast FY2017
Orders	336.6	374.5	385.8	414.2	711.1	800.0
Net Sales	317.8	356.5	355.3	424.7	674.3	780.0
Operating Income	18.6	29.8	29.0	31.0	48.4	60.0
Operating Income Ratio	5.9%	8.4%	8.2%	7.3%	7.2%	7.7%
Ordinary Income	18.2	30.1	28.9	30.1	48.3	59.0
Ordinary Income Ratio	5.7%	8.4%	8.1%	7.1%	7.2%	7.6%
Extraordinary Income / Loss	(0.0)	(1.0)	(0.1)	(1.2)	(1.0)	(1.3)
Current Net Income	13.1	20.5	19.8	19.2	33.6	39.0
Current Net Income Ratio	4.1%	5.8%	5.6%	4.5%	5.0%	5.0%
Dividend Per Share	JPY7	JPY9	JPY8	JPY40	JPY16	-
Dividend Payout Ratio					29.2%	25.1%
ROIC (after Tax)					7.3%	8.5%
[Ref.] ROE					8.7%	9.5%
Projected Currency Exchange rate (US dollars)	JPY105 (Record)	JPY115 (Record)	JPY110 (Record)	JPY110	JPY108 (Record)	

## 02 Machinery Components

**1H of FY2017 :** The market for small-to-medium scale gear reducers in Japan, US, Europe and China showed robust growth, along with the market for precision gear reducers for use in robotics. In addition, market conditions for large-scale gear reducers showed signs of improvement. As a result, orders, sales and income increased as compared to the previous term.

**2H of FY2017 :** Continued positivity in the small-to-medium scale and precision markets. Continue to actively invest to meet rising production demand for precision gear reducers. Further promote efforts to gain from the positive effects of structural reforms in the large-scale gear reducer business.

Unit: JPY billion



## 02

## Precision Machinery

## &lt;Plastic machinery&gt;

**1H of FY2017 :** Orders and sales increased as compared to the previous term due to rising demand from the Chinese electric and electronic sector and strong growth in the domestic and European markets.

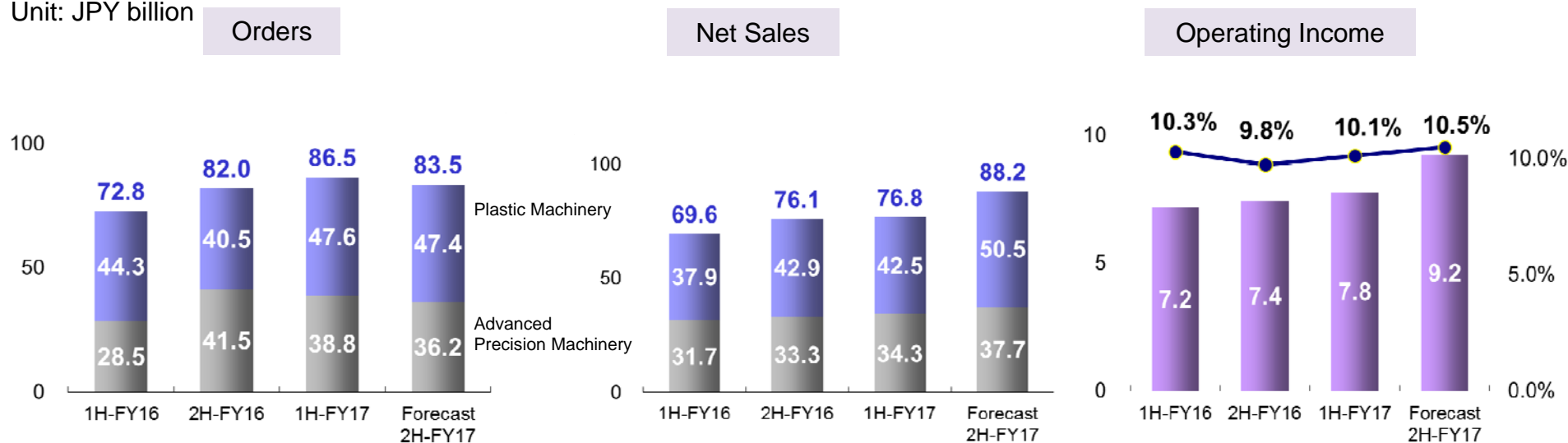
**2H of FY2017 :** Although demand from the Chinese electric and electronic sector will go through a down-cycle, demand is projected to rise in the automotive/container segments as well as from Europe.

## &lt;Advanced precision machinery&gt;

**1H of FY2017 :** Orders and sales increased mainly due to the recovery in demand for cryogenic equipment and semiconductor-related equipment.

**2H of FY2017 :** Demand for cryogenic equipment will remain robust while domestic demand for semiconductor-related equipment will go through a down-cycle.

Unit: JPY billion



## 02

## Construction Machinery

## &lt;Hydraulic excavators&gt;

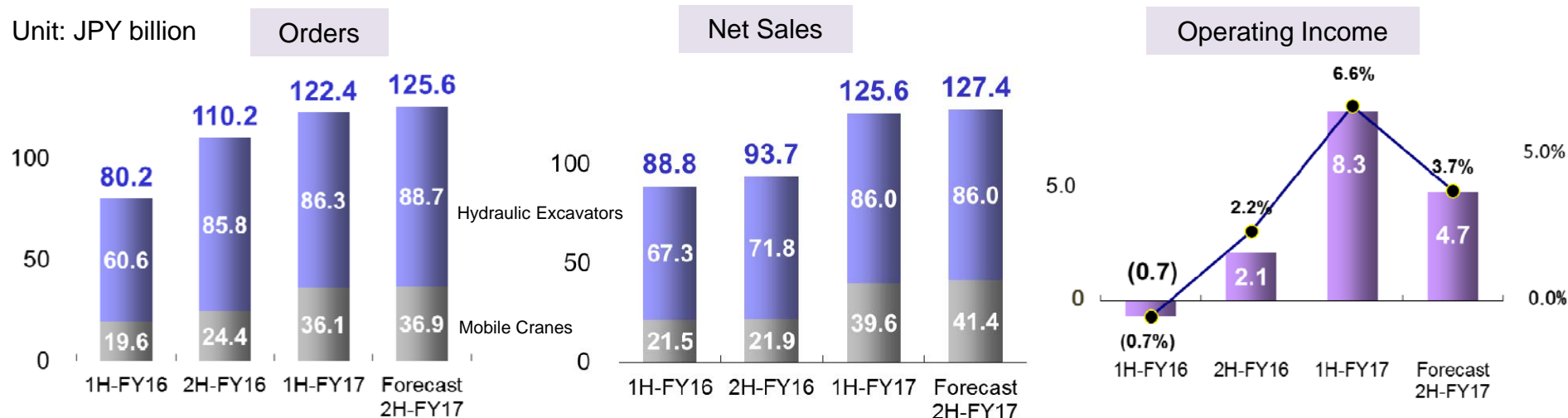
**1H of FY2017 :** Orders and sales increased as compared to the previous term as demand from the domestic and China markets showed improvements.

**2H of FY2017:** Demand from China and North America is projected to remain strong despite seasonal factors in China. Domestic market demand will drop because of the steep increase seen in 1H. Costs are expected to increase due to material costs, and development investments.

## &lt;Mobile cranes&gt;

**1H of FY2017 :** Orders and sales increased as compared to the previous term mainly due to the subsidiarization of Hitachi Sumitomo Construction Crane Co., Ltd. The North American market showed signs of a recovering trend.

**2H of FY2017 :** A drop in domestic demand and intensified competition in Asia and other overseas markets is projected.



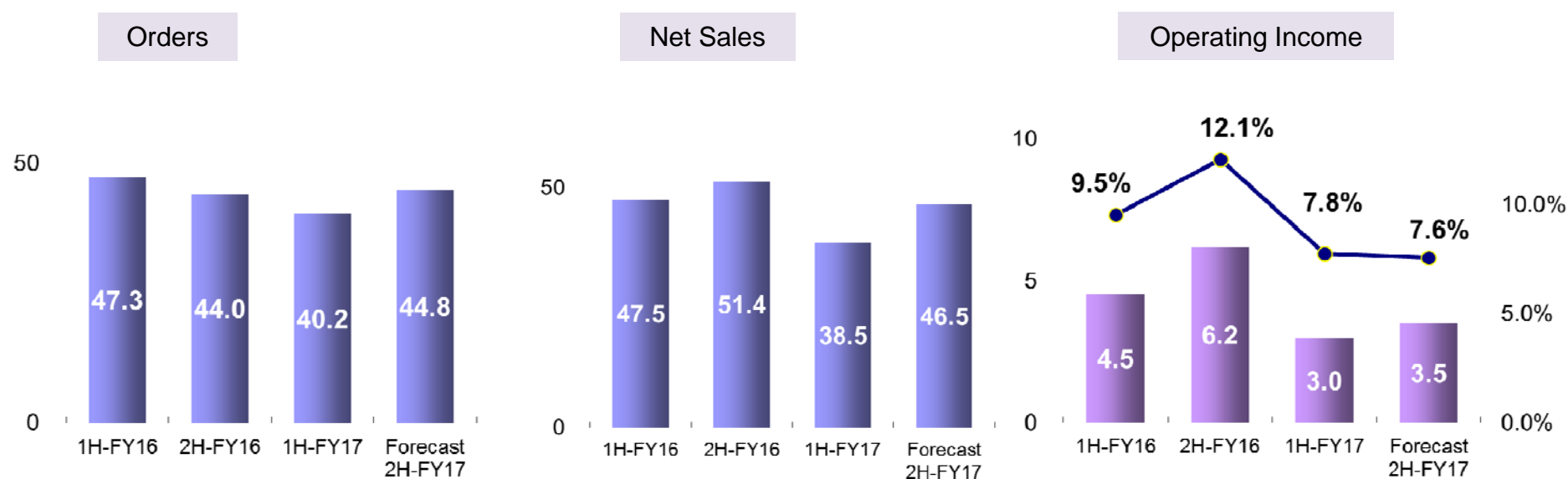
## 02 Industrial Machinery

**1H of FY2017 :** Orders fell as compared to the previous term as increases seen in forging presses and other equipment could not offset the declines in industrial cranes and turbines.

Sales also fell as compared to the previous term as the increase seen in medical-related equipment could not offset the declines in industrial cranes and turbines.

**2H of FY2017 :** Investments to refurbish in steel manufacturers and power companies are projected to push demand for industrial cranes while the stagnating overseas market for private power plants is expected to recover and drive demand for turbines.

Unit: JPY billion



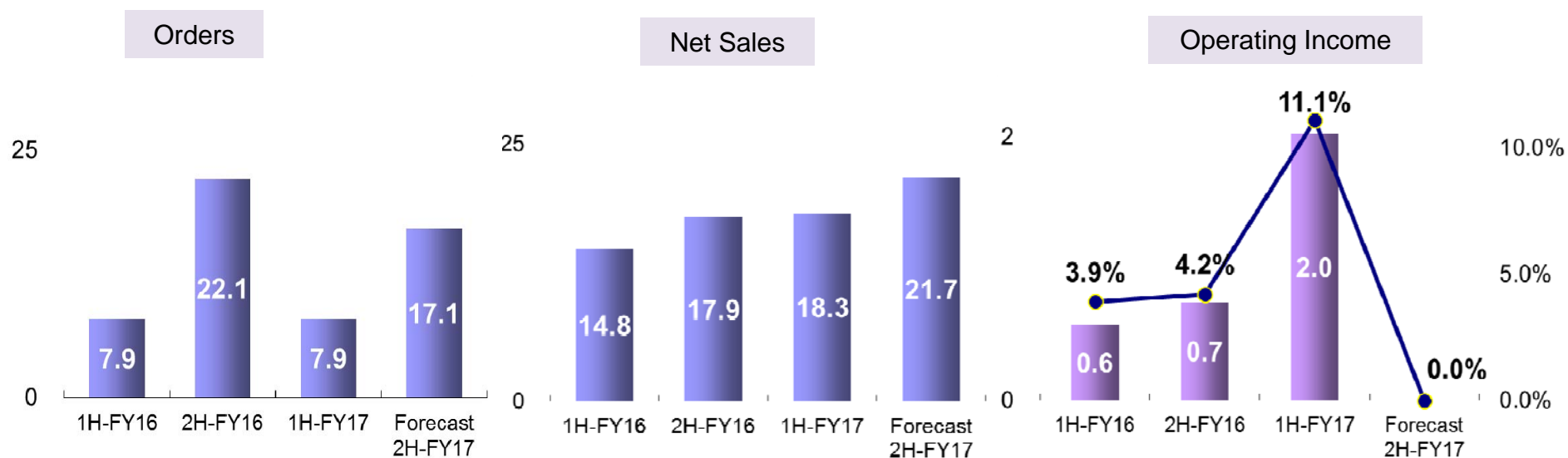
## 02

## Ships

**1H of FY2017 :** Market conditions remain depressed with no new orders received (same as previous term). Three vessels delivered, which is an increase of one vessel as compared to the previous term. Sales of highly profitable backlog contributed to overall rise in income.

**2H of FY2017 :** Partial recovery is expected in the overall marine market. However, recovery of the tanker market will be delayed. Through the utilization of current construction capacity, secure orders for new vessels and work.

Unit: JPY billion

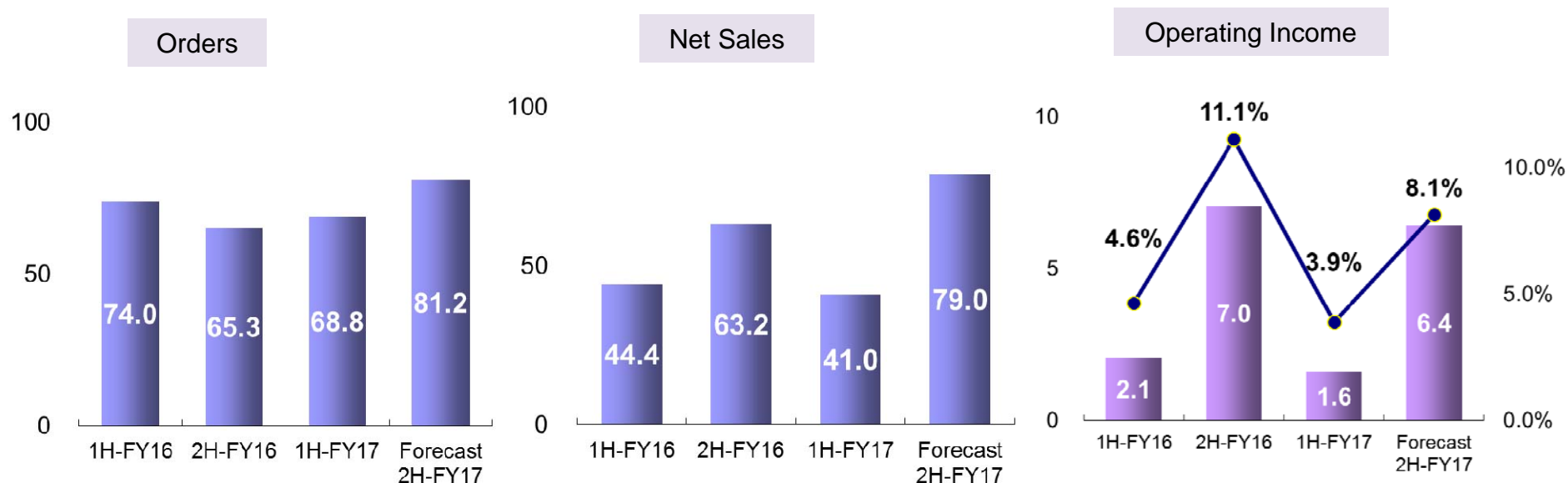


## 02 Environmental Facilities and Plants

**1H of FY2017 :** Despite an increase in demand for biomass-fueled power generation plants, orders in the energy plant business dropped as compared to the previous term mainly due to declining demand for large-scale ash treatment plants. Orders increased in the water treatment plant business. In overall terms, the segment posted lower than previous term figures for orders. Overall sales also fell as compared to the previous term as the increase in the water treatment plant business was not able to offset the drop in boiler construction projects in the energy plant business.

**2H of FY2017 :** Strong market conditions are expected to remain in the boiler business while construction in progress will be steady. Water treatment and agitator related businesses are also expected to show robust growth. From 2H, newly consolidated boiler business (SFW) will be included.

Unit: JPY billion



## 02

## Performance Forecast for FY2017 by Segment

Unit: JPY billion

		Actual 1H-FY16	Actual 2H-FY16	Actual 1H-FY17	Forecast 2H-FY17	Actual FY2016	Forecast FY2017
<b>Machinery Components</b>	Orders	50.7	46.8	56.1	58.9	97.4	115.0
	Net Sales	48.9	49.7	51.2	58.8	98.6	110.0
	Operating Income	4.1	5.0	5.3	6.7	9.1	12.0
<b>Precision Machinery</b>	Orders	72.8	82.0	86.5	83.5	154.7	170.0
	Net Sales	69.6	76.1	76.8	88.2	145.7	165.0
	Operating Income	7.2	7.4	7.8	9.2	14.6	17.0
<b>Construction Machinery</b>	Orders	80.2	110.2	122.4	125.6	190.3	248.0
	Net Sales	88.8	93.7	125.6	127.4	182.5	253.0
	Operating Income	(0.7)	2.1	8.3	4.7	1.4	13.0
<b>Industrial Machinery</b>	Orders	47.3	44.0	40.2	44.8	91.3	85.0
	Net Sales	47.5	51.4	38.5	46.5	98.9	85.0
	Operating Income	4.5	6.2	3.0	3.5	10.8	6.5
<b>Ships</b>	Orders	7.9	22.1	7.9	17.1	30.0	25.0
	Net Sales	14.8	17.9	18.3	21.7	32.6	40.0
	Operating Income	0.6	0.7	2.0	0	1.3	2.0
<b>Environmental Facilities &amp; Plants</b>	Orders	74.0	65.3	68.8	81.2	139.4	150.0
	Net Sales	44.4	63.2	41.0	79.0	107.6	120.0
	Operating Income	2.1	7.0	1.6	6.4	9.1	8.0
<b>Others</b>	Orders	3.8	4.2	3.8	3.2	8.0	7.0
	Net Sales	3.8	4.5	3.9	3.1	8.3	7.0
	Operating Income	0.9	1.2	1.1	0.4	2.1	1.5
<b>Total</b>	Orders	336.6	374.5	385.8	414.0	711.1	800.0
	Net Sales	317.8	356.5	355.3	424.7	674.3	780.0
	Operating Income	18.6	30.1	29.0	31.0	48.4	60.0



# 03 Topics

Unit: JPY billion

Segment	New Consolidated Companies	1H-2017 Actual		FY2017 Forecast	
		Orders	Net Sales	Orders	Net Sales
Precision Machinery	Persimmon Technologies	0.3	0.3	1.6	1.2
Construction Machinery	Hitachi Sumitomo Heavy Industries Construction Crane	14.7	18.7	33.0	40.0
Environmental facilities and Plants	Sumitomo SHI FW (SFW)	-	-	21.0	24.0

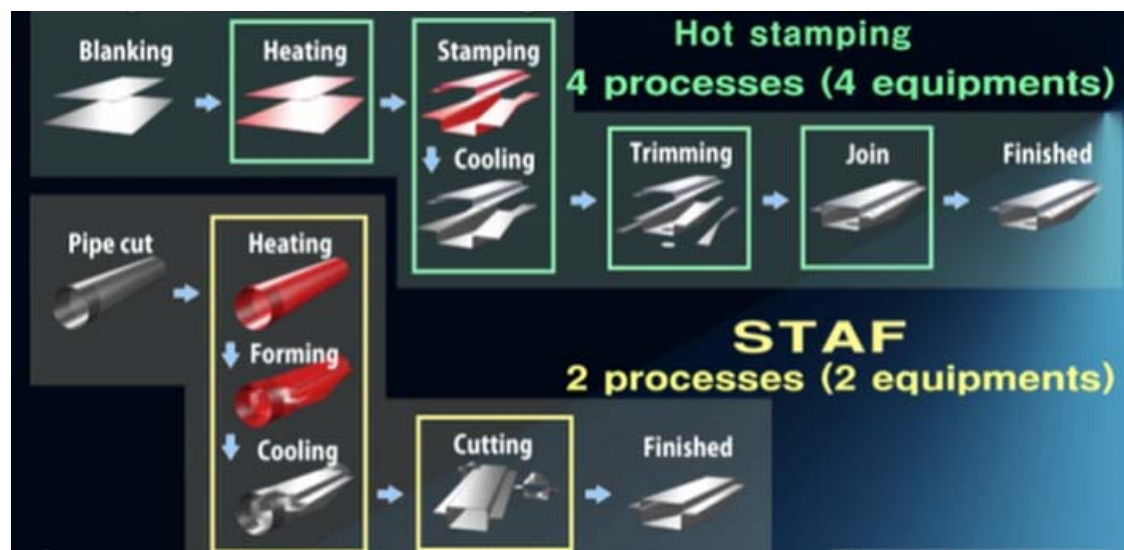
\*For the 2017 consolidated fiscal year, Persimmon is included from 2Q onwards (9 months) and SFW is included from 3Q onwards (6 months).



# 03 Topics 2-1 New Products STAF - Steel Tube Air Forming

Completion of a Test Unit for the Steel Tube Air Forming (STAF) automotive body frame production system in September, 2017.

- SHI has already commenced discussions with automotive manufacturers on the topic of adopting STAF for use in producing automotive components with the aim to introduce the system in this field during FY2018.
- Sales target : JPY10 billion by 2024.



While hot stamping uses four processes to form a closed cross-section structure, the STAF process reduces the number of processes to two by eliminating heating and welding.

A photo of the STAF test facility



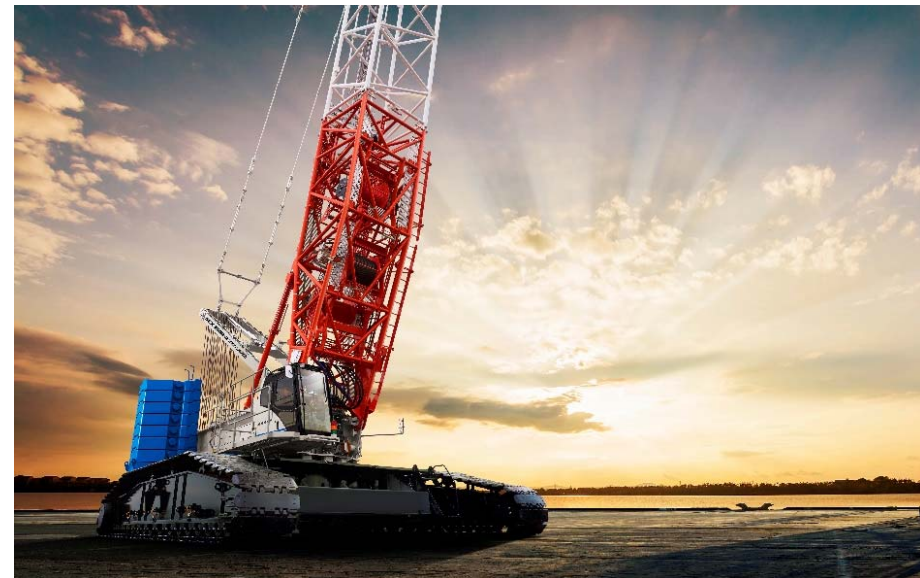
## Hitachi Sumitomo Construction Crane Co., Ltd. -SCX3500-3

Awarded the “Best Design Award (Minister of Economy, Trade, and Industry Award)” at the 47th Machinery and Industrial Design Award Presentation sponsored by the Nikkan Kogyo Shimbun.

First time a crawler crane was awarded the Best Design Award

### <Features>

- Compact and simple body
- Efficient transportation;  
ability to assemble and disassemble
- Environmental and safety conscious
- Ability to select a short tail swing  
radius specification suited for  
space-restricted work sites;  
the first for a crawler crane.



## 03

## Topics 3 Active promotion of CSR activities

	Actual Performance	Actions
<b>Product · After sales services</b>	Actively promote SHI's "unique ability to solve issues facing society through its products and services" across all business segments	Discuss ways to enhance customer value, including the ability to solve issues facing society, at the product planning stage
<b>Environment - E</b>	Formulate 5th Medium-Term Environmental Plan	<ul style="list-style-type: none"> <li>• Reduce environmental load of SHI's business activities</li> <li>• Expand activities to protect biodiversity</li> </ul>
<b>Social - S</b>	<ul style="list-style-type: none"> <li>• Implement parallel development of regional contribution activities</li> <li>• Carry out compliance seminars and deploy CSR procurement guidelines aimed at vendors</li> <li>• Promote diversity with a particular focus on Promotion Plan for female workers, and a Work-Life Balance</li> <li>• Commence activities to promote "Health-Based Management"</li> </ul>	<ul style="list-style-type: none"> <li>• Formulate and execute strategies that place an emphasis on CSR procurement and next-generation education.</li> <li>• Enhance various HR programs including Learning and Development tools to ensure that each and every employee has an active work environment.</li> </ul>
<b>Governance - G</b>	Actively implement Corporate Governance Code	Further improve upon frequency of periodic disclosures
<b>External Communication</b>	<ul style="list-style-type: none"> <li>• Issue Integrated Report in October</li> <li>• Issue CSR Report in September</li> </ul>	Increase frequency of face-to-face meetings with analysts and investors

## **FY2017 – 2<sup>nd</sup> Half:**

### **Towards achieving the goals in “MTMP19”**

- **Continue to implement prudent management ~ Execute quality-first management strategies**
- **During FY2017:**  
**Achieve revised objectives of JPY800 billion in orders, JPY780 billion in sales and JPY60.0 billion of operating income**
- **Effectively implement strategies set forth in the “Medium-Term Management Plan 2019”**



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.