

Financial Summary for FY2018 And Projections for FY2019

May 2019



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**Progress Status of “Medium-Term
Management Plan 2019”**



01 Financial Summary for FY2018

01 Financial Summary

■ Main Points

(1) Orders

- Recorded a historical high.
- YoY increases, except for ships.
- Construction machinery and environmental facilities & plants did well.
- Machinery component and environmental facility & plant businesses were newly consolidated into the Group through M&A, which helped increase orders.

(2) Net Sales

- Recorded a historical high.
- YoY increases in all segments.
- As in the case of orders, construction machinery and environmental facilities & plants did well as did the consolidation of businesses into the Group help increase sales.

(3) Operating Income

- Substantially driven by construction machinery and environmental facilities & plants.
- Decreases in machinery components and precision machinery.

(4) Current net income

Recorded a historical high.

Unit: JPY billion

	FY2017	FY2018	Change
Orders	864.0	952.2	88.2
Net Sales	791.0	903.1	112.0
Operating Income	69.9	75.2	5.3
Operating Income Ratio	8.8%	8.3%	(0.5%)
Ordinary Income	67.5	72.6	5.2
Ordinary Income Ratio	8.5%	8.0%	(0.5%)
Extraordinary Income or Loss	(14.8)	(5.6)	9.2
Current Net Income before Tax Adjustments	52.7	67.1	14.4
Current Net Income	34.7	45.7	11.0
Current Net Income Ratio	4.4%	5.1%	0.7%
Currency Exchange Rate (US dollars)	¥112	¥111	(¥1)

01 Operating Income by Segment

Unit: JPY billion

➤ Comparison with Previous Fiscal Year

<Machinery components>

The market for small-to-medium scale gear reducers was strong and the consolidation of businesses (Lafert Group) into the SHI Group helped increase sales but profits decreased due to burdens of investment costs, etc.

<Precision machinery>

Increased sales for plastics machinery led to higher profits. On the other hand, as for semiconductor-related equipment models, profits decreased due to a difference in model configurations.

<Construction machinery>

The markets for both hydraulic excavators and mobile cranes were strong; this led to large profit increases.

<Industrial machinery>

The markets for material handling equipment and other machinery were strong; this led to small profit increases.

<Ships>

Profits increased although they were small due to stagnant conditions in the market for ships.

<Environmental facilities & plants>

Sales increased in the energy plant business and the business (SFW) was consolidated into the Group; these led to large profit increases.

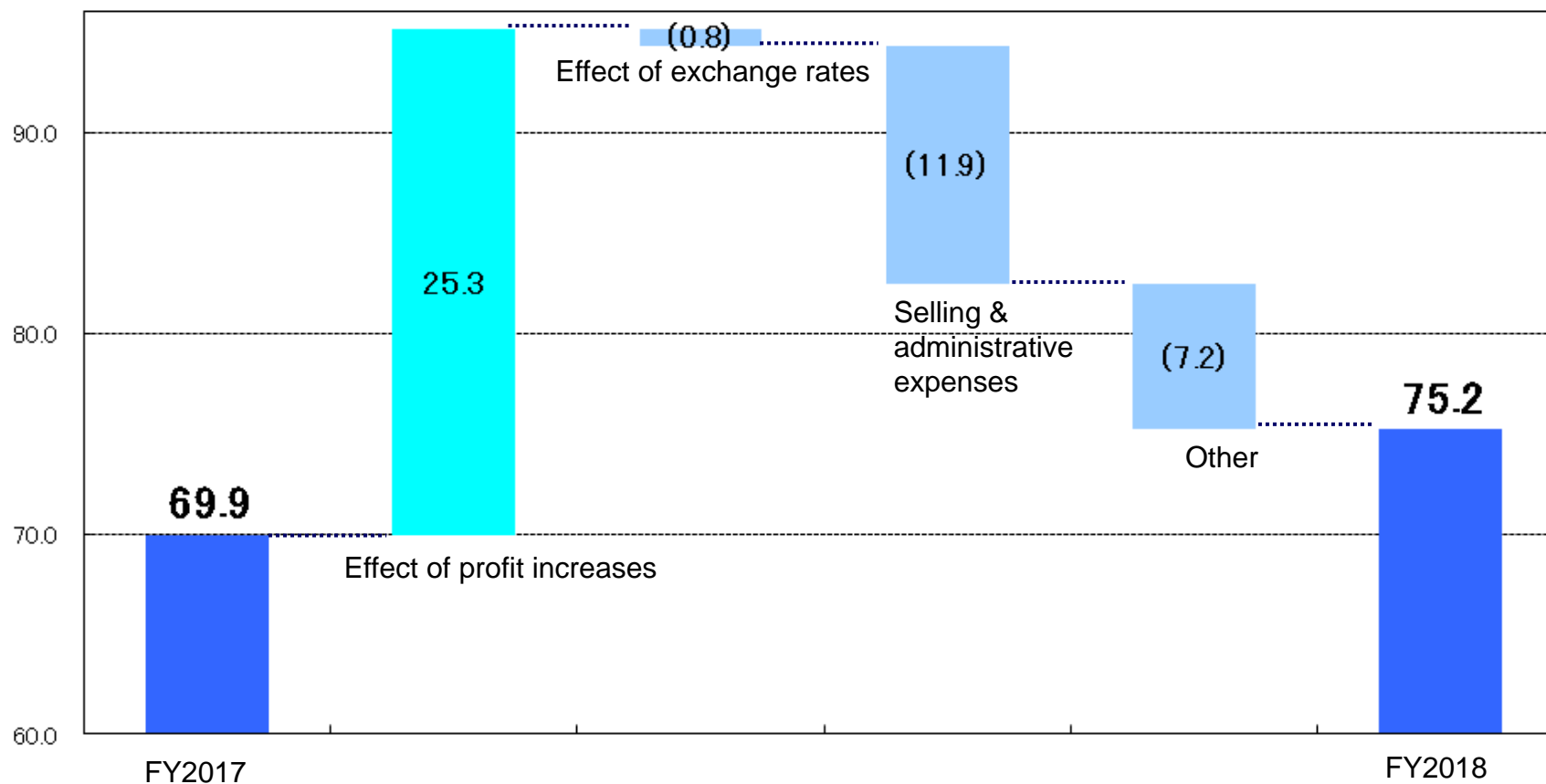
SFW: Sumitomo SHI FW

	FY2017	FY2018	Change
Machinery components	11.8	11.1	(0.8)
Precision machinery	19.5	17.7	(1.8)
Construction machinery	17.4	22.0	4.5
Industrial machinery	8.8	9.0	0.1
Ships	0.7	0.8	0.1
Environmental facilities & plants	9.5	12.6	3.0
Others	2.1	2.2	0.1
Total	69.9	75.2	5.3

01

Analysis of Changes in Operating Income

Unit: JPY billion



01

Consolidated Balance Sheet

Unit: JPY billion

	March 2018	March 2019	Change		March 2018	March 2019	Change
Current Assets	551.6	583.6	32.0	Liabilities	449.9	489.1	39.2
Cash and deposits	88.2	73.6	(14.6)	Notes and accounts payable	184.2	188.1	3.8
Notes and accounts receivable	269.4	291.6	22.2	Advanced payments received	42.5	52.6	10.0
Inventories	167.4	189.0	21.6	Interest-bearing debts	64.2	73.3	9.1
Others	26.5	29.4	2.8	Others	158.9	175.1	16.2
Fixed Assets	343.3	370.5	27.2	Net Assets	445.0	465.0	20.0
Tangible assets	239.6	248.3	8.7	Common equity	369.4	404.7	35.3
Intangible assets	50.3	65.1	14.7	Total accumulated other comprehensive income	61.6	48.7	(12.9)
Investments and other assets	53.3	57.1	3.8	Minority interests	14.0	11.5	(2.4)
Total	894.8	954.1	59.2	Total	894.8	954.1	59.2
				Net ratio of interest-bearing debts	(2.7%)	(0.3%)	(2.4%)
				Stockholders' equity ratio	48.1%	47.5%	(0.7%)

Increase of Total Asset for subsidiarization of Lafert Group:
33.2 billion yen



01 Consolidated Cash Flow Statement

- Acceleration of active investments
- Increase in FCF despite deterioration of operating CF due to an increase in working capital resulting from increased sales.

Unit: JPY billion

Category	FY2017	FY2018	Change
Operating Activities	71.1	55.2	(15.9)
Income before income taxes	52.7	67.1	14.4
Depreciation	23.0	26.0	3.0
Working capital	5.1	(31.1)	(36.2)
Others (taxes etc.)	(9.7)	(6.8)	2.9
Investing Activities	(37.8)	(55.0)	(17.2)
Free Cash Flow	33.3	0.2	(33.1)
Financing Activities	(10.1)	(13.3)	(3.2)
Change in Cash and Cash Equivalents	24.4	(15.7)	(40.1)
Cash and Cash Equivalents at end of fiscal term	85.5	69.8	(15.7)



Ref. Overseas Sales by Regional Segment

Unit: JPY billion

	Total				Hydraulic Excavators			
	FY2017 (April - March)		FY2018 (April - March)		FY2017 (April - March)		FY2018 (April - March)	
	Sales	Sales Ratio	Sales	Sales Ratio	Sales	Sales Ratio	Sales	Sales Ratio
North America	118.5	15.0%	139.0	15.4%	34.1	19.1%	44.8	21.9%
Europe	70.9	9.0%	104.7	11.6%	11.7	6.6%	16.7	8.2%
Asia (Excluding China)	90.4	11.4%	97.9	10.8%	22.0	12.3%	18.7	9.2%
China	80.4	10.2%	99.4	11.0%	37.3	20.9%	48.2	23.6%
Others	28.6	3.6%	32.4	3.6%	13.5	7.5%	14.8	7.3%
Ships	36.7	4.6%	39.0	4.3%				
Japan	365.5	46.2%	390.5	43.3%	60.0	33.6%	61.1	29.8%
Total Sales	791.0	100%	903.1	100%	178.7	100%	204.2	100%

* currency exchange rate (US dollars) FY2017: JPY 112 FY2018: JPY111

02 Performance Forecast for FY2019

02

Performance Forecast for FY2019

- Net sales increased as the environment for new orders remained strong.
- Operating income declined due to increased investments and worsening market conditions for mass-produced machinery

Unit: JPY billion

	Actual FY2017	Actual FY2018	Forecast FY2019
Orders	864.0	952.2	930.0
Net Sales	791.0	903.1	905.0
Operating Income	69.9	75.2	72.0
Operating Income Ratio	8.8%	8.3%	8.0%
Ordinary Income	67.5	72.6	69.0
Ordinary Income Ratio	8.5%	8.0%	7.6%
Extraordinary Income / Loss	(14.8)	(5.6)	(1.0)
Current Net Income	34.7	45.7	46.0
Current Net Income Ratio	4.4%	5.1%	5.1%
Dividend Per Share	JPY85 (After considering reverse stock split)	JPY112	JPY112
Dividend Payout Ratio	30.1%	30.1%	29.8%
ROIC (after Tax)	10.3%	10.5%	9.2%
[Ref.] ROE	8.4%	10.3%	9.8%
Projected Currency Exchange rate (US dollars)	JPY112 (Record)	JPY111 (Record)	JPY110



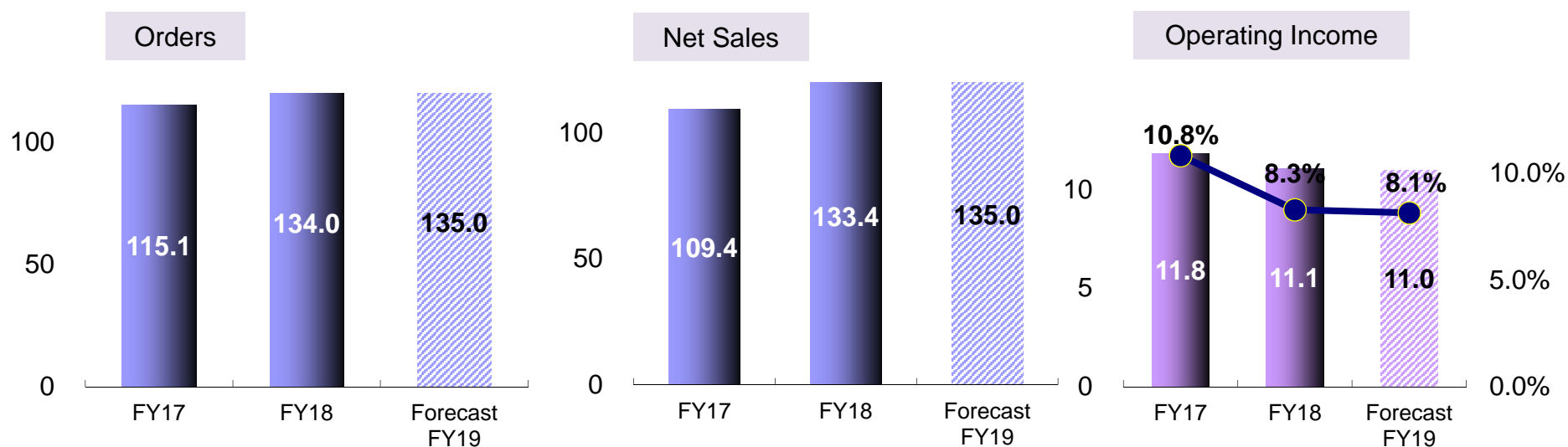
02 Machinery Components

FY2018: Both orders and sales increased due to the strength of the market for small-to-medium scale gear reducers and the consolidation of Lafert Group companies into the SHI Group as subsidiaries through M&A.

Active investments such as establishment of a gear reducer parts production plant in Vietnam were promoted.

FY2019: We are carefully examining market conditions for small-to-medium scale gear reducers and gear boxes. We will aim to achieve growth by making active investments such as development of new products and enhancement of domestic production capacity and cooperating with Lafert Group.

Unit: JPY billion



02 Precision Machinery

<Plastic Machinery>

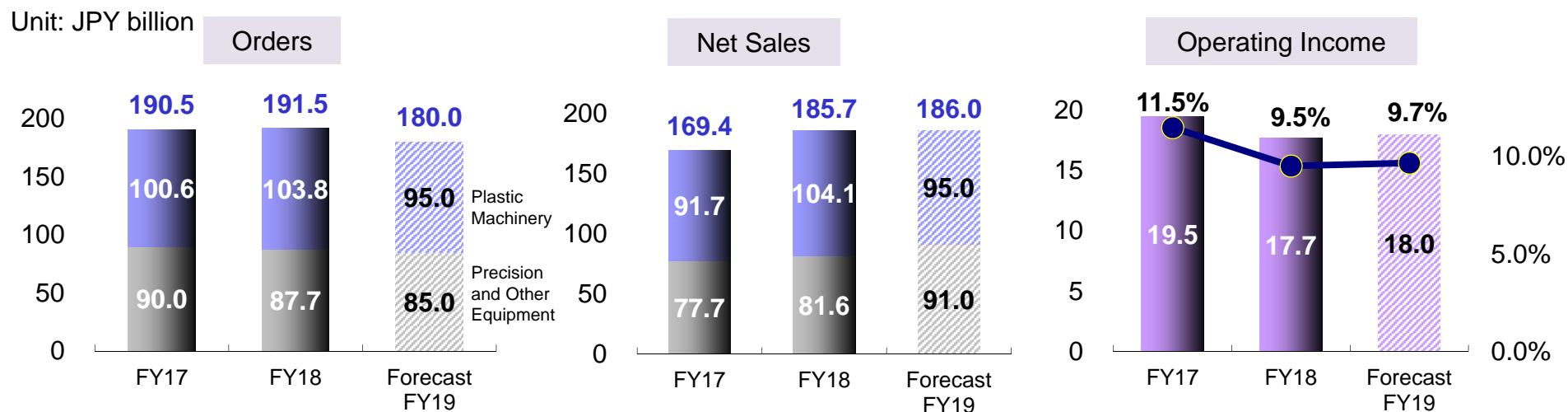
FY2018: High demand levels for electrical and electronics-related products continued in China and demand in Europe remained strong. This led to increases in both orders and sales.

FY2019: Because of slightly severe market conditions, we project demand for electrical and electronics-related products in China to normalize. We will actively proceed with releases of new products and investments in domestic production reformation.

<Precision and Other Equipment>

FY2018: Due to weak demand for a part of semiconductor-related equipment models, orders decreased. However, sales increased partially because there were backlogs of orders from the previous fiscal year.

FY2019: The outlook for cryogenic equipment will continue to be strong. Demand for semiconductor-related models is projected to be in an adjustment phase in the near future, but demand for some of such models is expected to recover from the second half onwards.



02 Construction Machinery

<Hydraulic Excavators>

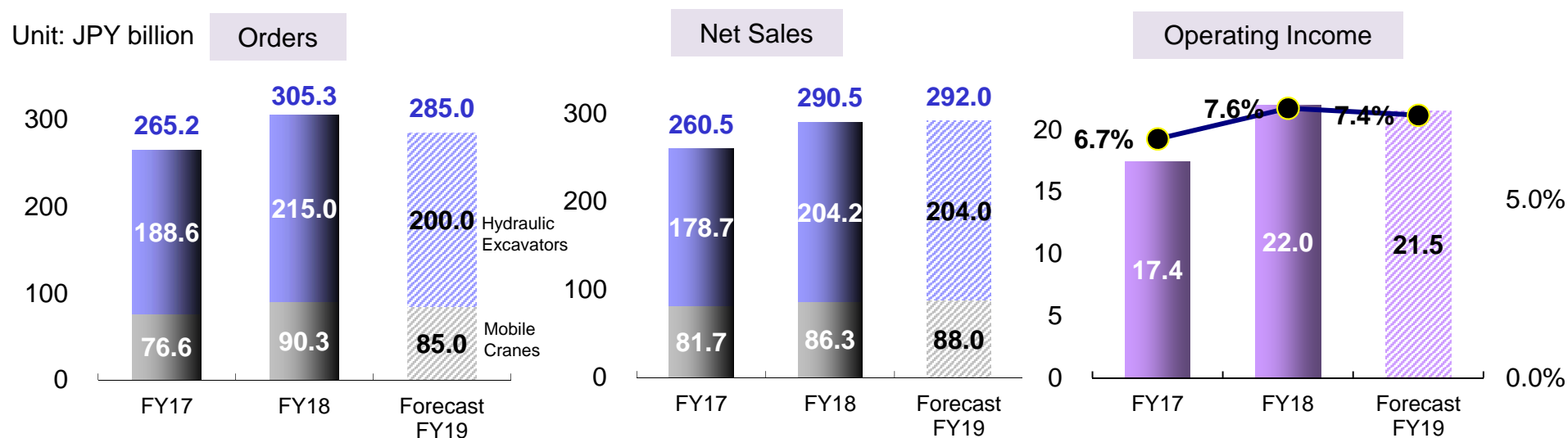
FY2018: Demand increased abroad, such as in China and North America, and this led to an increase in both orders and sales. High capacity utilization continued at our plants in Japan, China and Indonesia.

FY2019: Demand will be slightly weak in China but is projected to be strong in North America and other overseas regions and Japan. We will make investments for expanding our production capacity at sites in Japan and abroad and otherwise strengthen our ability to supply products.

<Mobile Cranes>

FY2018: The North American market trended towards recovery and demand in Japan was strong. Due to these and other factors, both orders and sales increased.

FY2019: The domestic market will be weak but the North American market is projected to be strong. We will strengthen cooperation with LBC and HSC.



02 Industrial Machinery

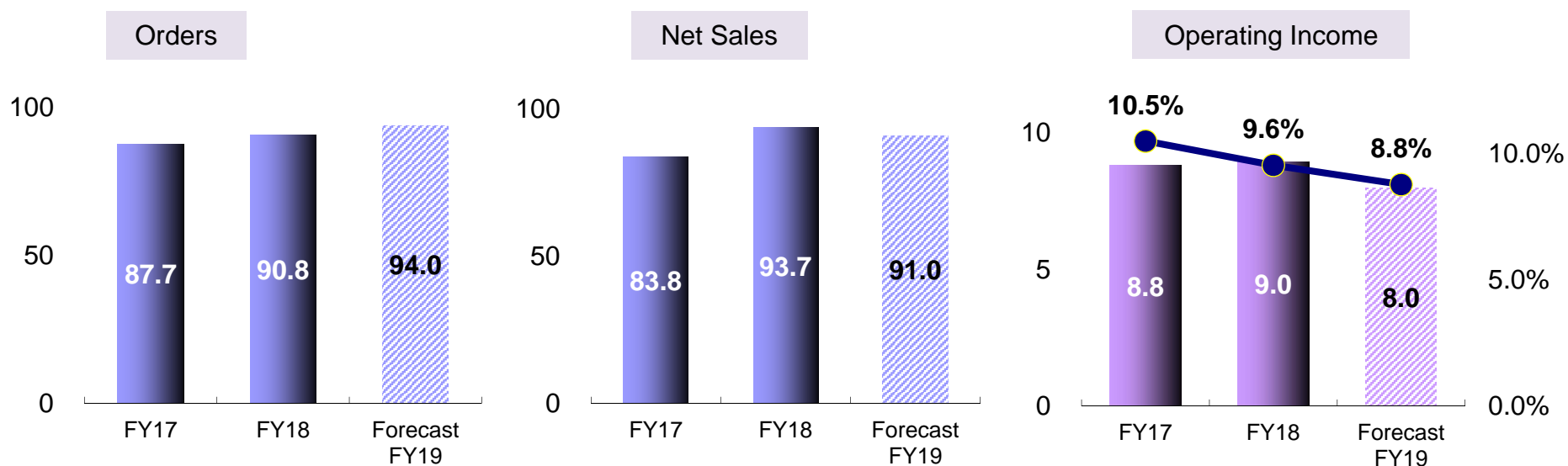
FY2018: As demand for material handling equipment from the electric utility and steel industries was strong, both orders and sales increased.

Although orders for other equipment models fell due to a decrease in demand for industrial turbines, sales increased because demand for forging presses and others increased.

FY2019: Demand from the electric utility and steel industries for material handling equipment will continue to be strong and we aim at increasing sales of new logistic systems (Magic Racks) for distribution centers. Demand for other equipment models is expected to be strong in general. We will actively promote investment in development as we move forward with the commercialization of STAF and the medical equipment application of BNCT.

※STAF: Our new proprietary body frame manufacturing system for automobiles.
 ※BNCT: Boron neutron capture therapy. The next generation of cancer treatment equipment.

Unit: JPY billion

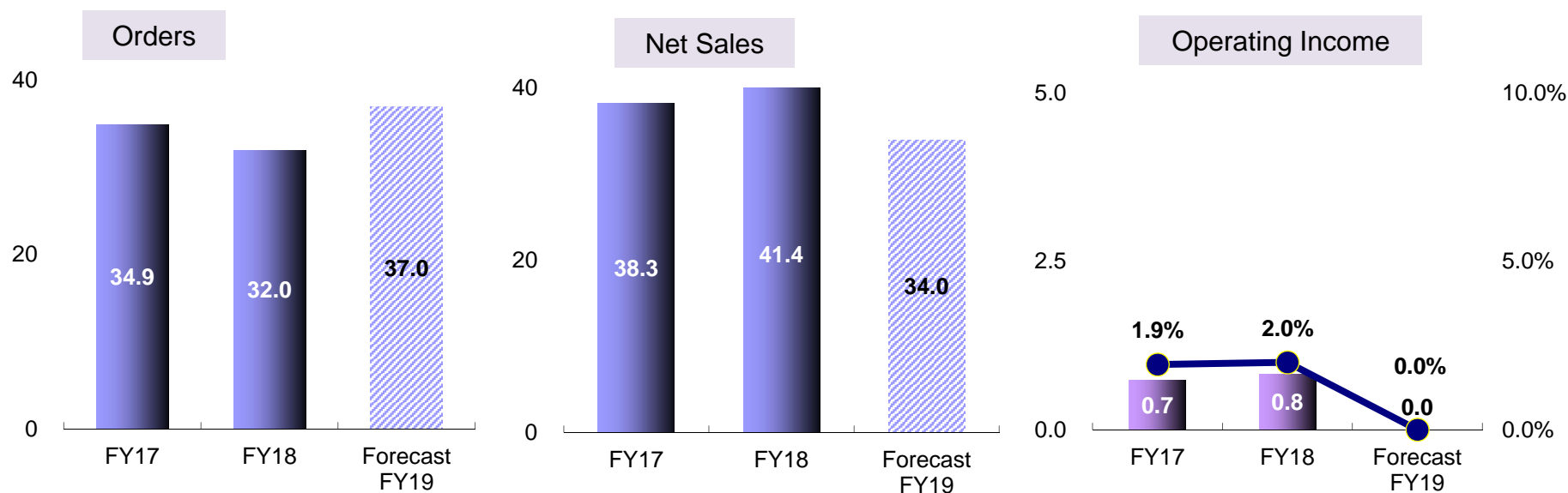


02 Ships

FY2018: The market for vessels continued to be stagnant. In the current fiscal year, we received orders for three new vessels, one vessel less than in the previous fiscal year. Although we delivered four vessels, one vessel less than in the previous fiscal year, sales increased year-on-year due to an increase in vessel repair projects.

FY2019: The market for vessels is projected to continue to be stagnant but gradually recover and we project to receive orders for four vessels in the current fiscal year. In addition, we plan to deliver four.

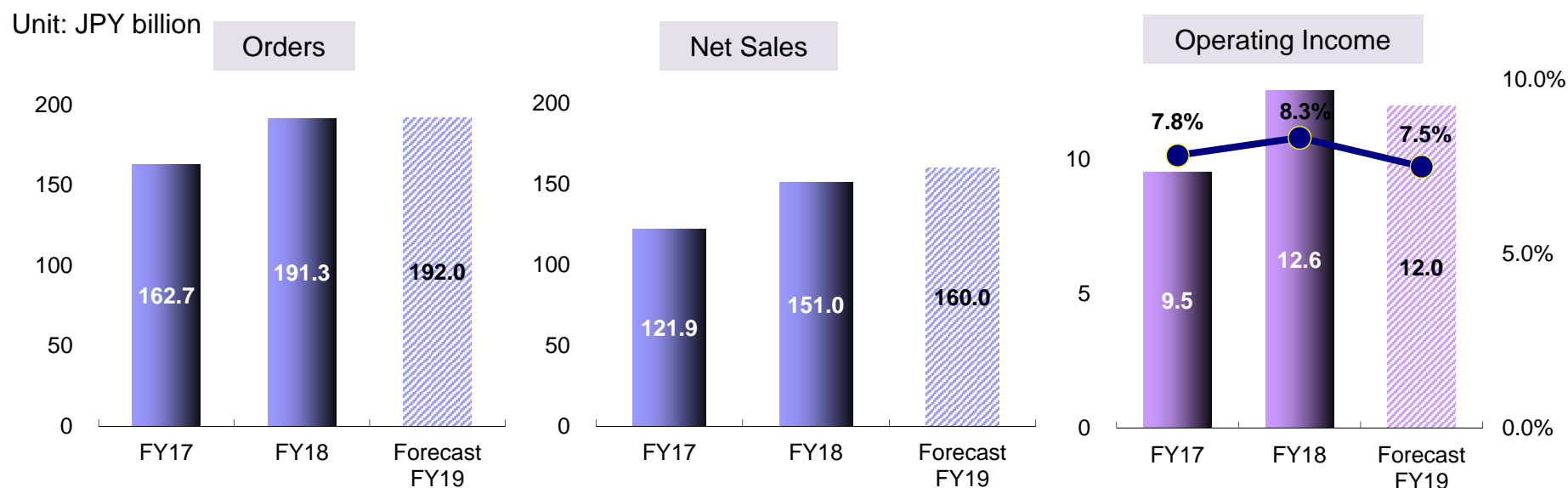
Unit: JPY billion



02 Environmental Facilities and Plants

FY2018: Both orders and sales increased in the energy plant business due partially to an increase in orders for biomass-fueled power generation plants and the consolidation of SFW into our energy plant business in the previous fiscal year. In the water treatment plant business, orders and sales increased as we received orders for large-scale waste water treatment facilities and won long-term operation and maintenance contracts.

FY2019 : As for all businesses, markets are projected to be strong in general. In the energy plant business, we will aim to win medium-scale power generation contracts and work together with SFW to receive contracts.



02

Performance Forecast for FY2019 by Segment

Unit: JPY billion

		Actual FY2017		Actual FY2018		Forecast FY2019	
Machinery Components	Orders	115.1		134.2		135.0	
	Net Sales	109.4		133.4		135.0	
	Operating Income (Ratio)	11.8	10.8%	11.1	8.3%	11.0	8.1%
Precision Machinery	Orders	190.5		191.6		180.0	
	Net Sales	169.4		185.7		186.0	
	Operating Income (Ratio)	19.5	11.5%	17.7	9.5%	18.0	9.7%
Construction Machinery	Orders	265.2		305.3		285.0	
	Net Sales	260.5		290.5		292.0	
	Operating Income (Ratio)	17.4	6.7%	22.0	7.6%	21.5	7.4%
Industrial Machinery	Orders	87.7		90.8		94.0	
	Net Sales	83.8		93.7		91.0	
	Operating Income (Ratio)	8.8	10.5%	9.0	9.5%	8.0	8.8%
Ships	Orders	34.9		32.0		37.0	
	Net Sales	38.3		41.4		34.0	
	Operating Income (Ratio)	0.7	1.9%	0.8	2.0%	0.0	0.0%
Environmental Facilities & Plants	Orders	162.7		191.3		192.0	
	Net Sales	121.9		151.0		160.0	
	Operating Income (Ratio)	9.5	7.8%	12.6	8.3%	12.0	7.5%
Others	Orders	7.7		7.2		7.0	
	Net Sales	7.8		7.3		7.0	
	Operating Income	2.1		2.2		1.5	
Total	Orders	864.0		952.3		930.0	
	Net Sales	791.0		903.0		905.0	
	Operating Income (Ratio)	69.9	8.8%	75.2	8.3%	72.0	8.0%



03 Progress Status of “Medium-Term Management Plan 2019”

03

Progress Status of “MTMP19” (Overall)

	“MTMP19” Plan	Actual FY2017	Forecast FY2018	Plan FY2019
Numerical targets FY2019	Net sales:JPY800 billion	JPY791.0 b	JPY903.0 b	JPY905.0 b
	Operating Income Ratio:7.5%	8.8% JPY69.9 b	8.3% JPY75.2 b	8.0% JPY72.0 b
	ROIC: 7.5% or more	10.3%	10.2%	9.5%
	Dividend Payout Ratio : Maintain a 30% level	30.1%	30.1%	30%-level
	Capital Investments : JPY80.0 billion (Three-Year Total *Based on Budget)	JPY130.5 b (three-year total)		
		JPY36.0 b	JPY42.5 b	JPY52.0 b
	R&D Expenses : JPY52.0 billion (Three-Year Total)	JPY57.9 b (three-year total)		
		JPY16.7 b	JPY18.6 b	JPY22.6 b

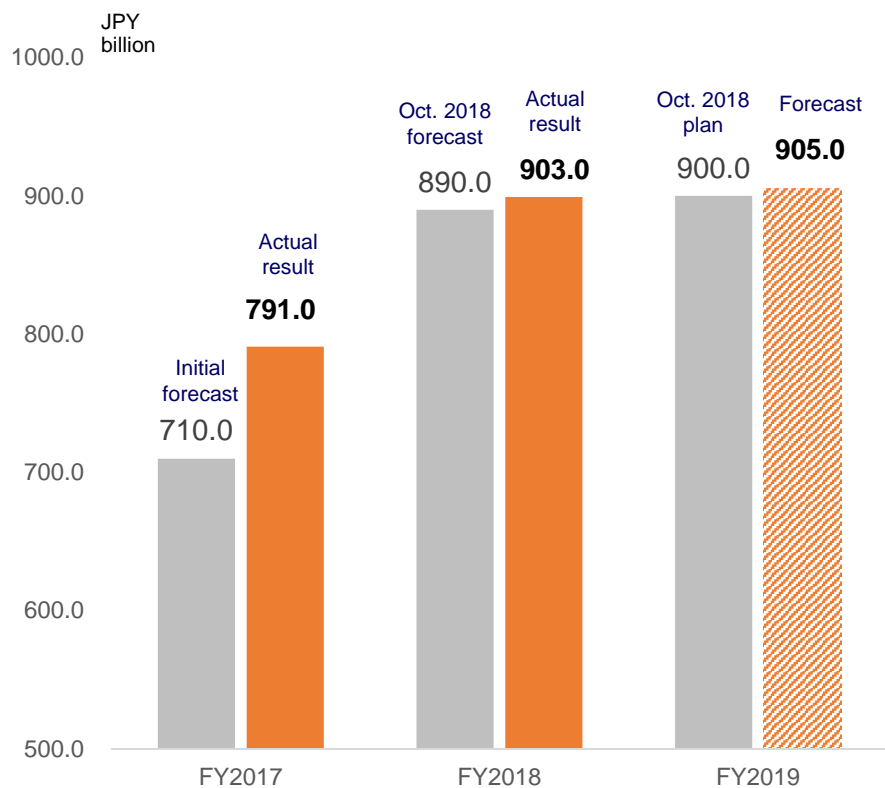


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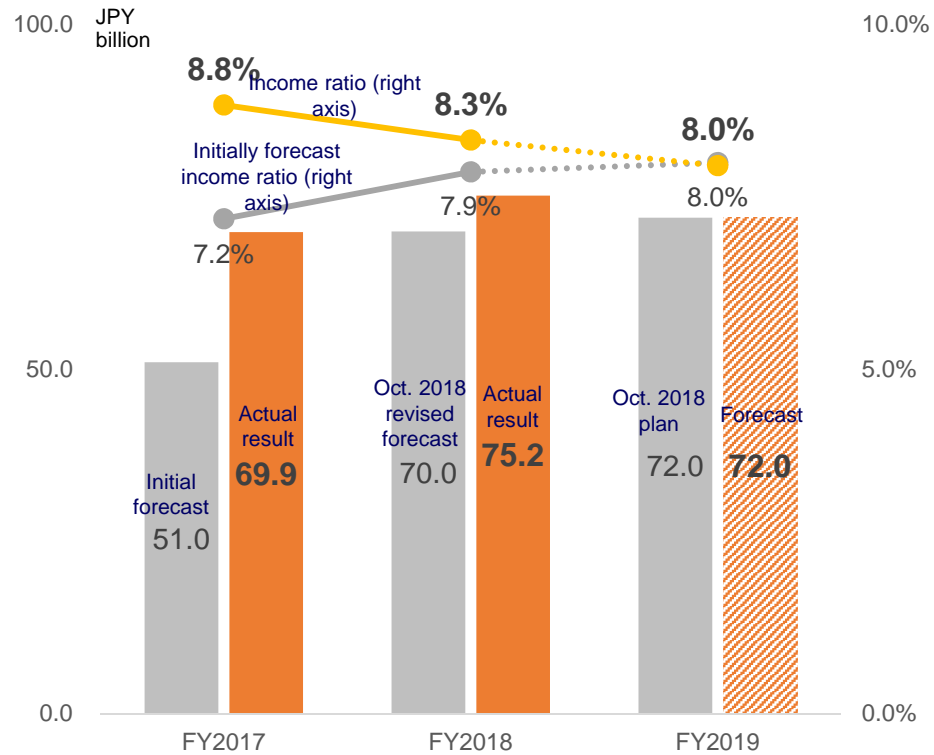
Progress Status of "MTMP19"

■ Business environments are generally robust around the world and goals of MTMP19 that were raised in October 2018 are projected to be achieved.

Sales



Operating income & income ratio



03

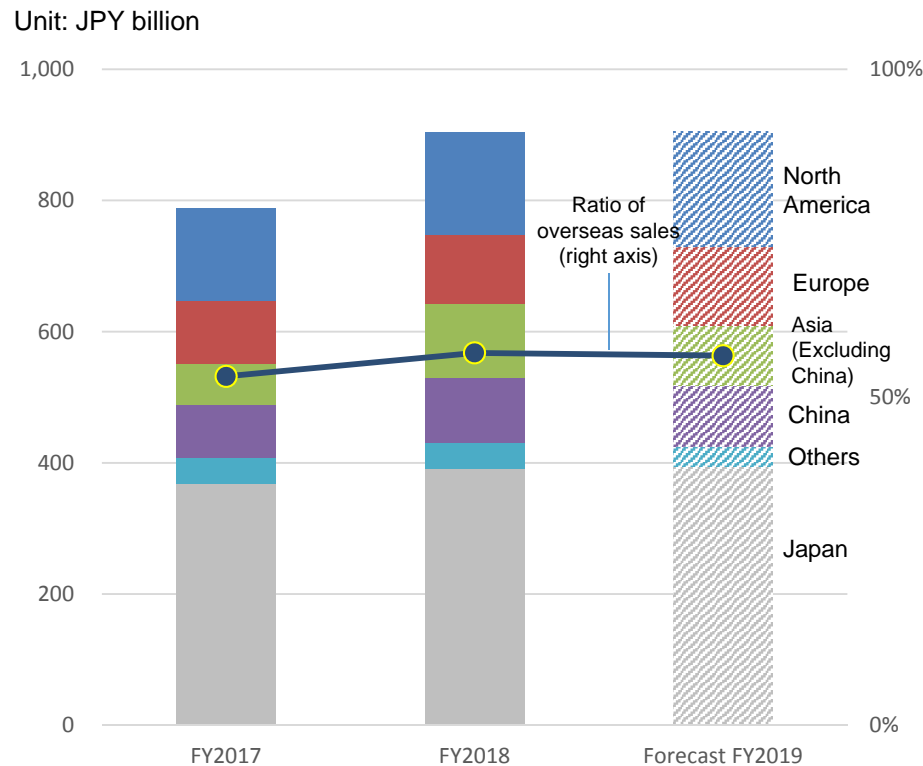
Progress Status of “MTMP19” (Basic Policy)

Basic Policy	Initiatives
1. Achieve “Steady Growth”	Achieve growth globally (especially for mass produced machinery) Accelerate new product development and their introduction to the marketplace
2. Become a “High Profit Company”	Undertake investments (R&D/CAPEX/personnel) according to the roles of our respective business segments Become a self-reliance company (operating income of 5% or more)
3. Create excellent products and services through “A Tireless Commitment to Improving Operational Quality”	Radical improvement in the quality of operations Reinforce the after-market business Promote the active utilization of systems technology (ICT,IoT)
4. M&A, and formation of business alliances	Pursue integration and ties between our organizations and actively seek M&A opportunities and form business alliances/cooperative arrangements with other companies
5. Establish non-financial objectives and actively promote CSR	Provide solutions to social issues, improve product quality, and promote CSR procurement in the course of providing products and services, promote diversity and reduce environmental load (CO2 emissions)

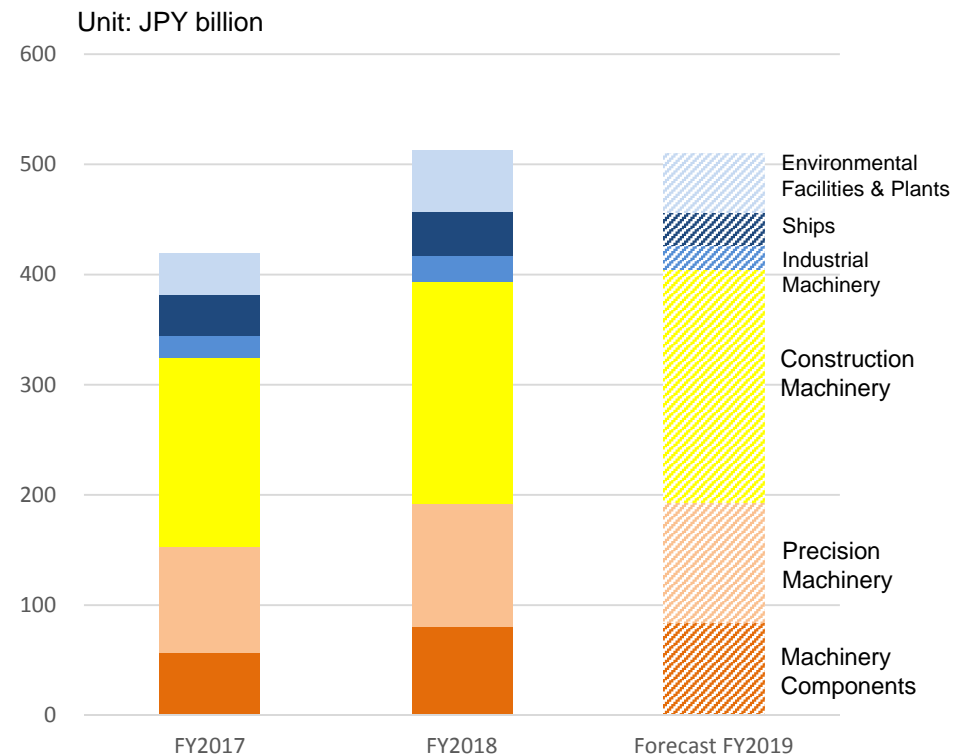
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Basic Policy 1 Growth of Overseas Sales

Overseas Sales by Regional Segment



Overseas Sales by Segment



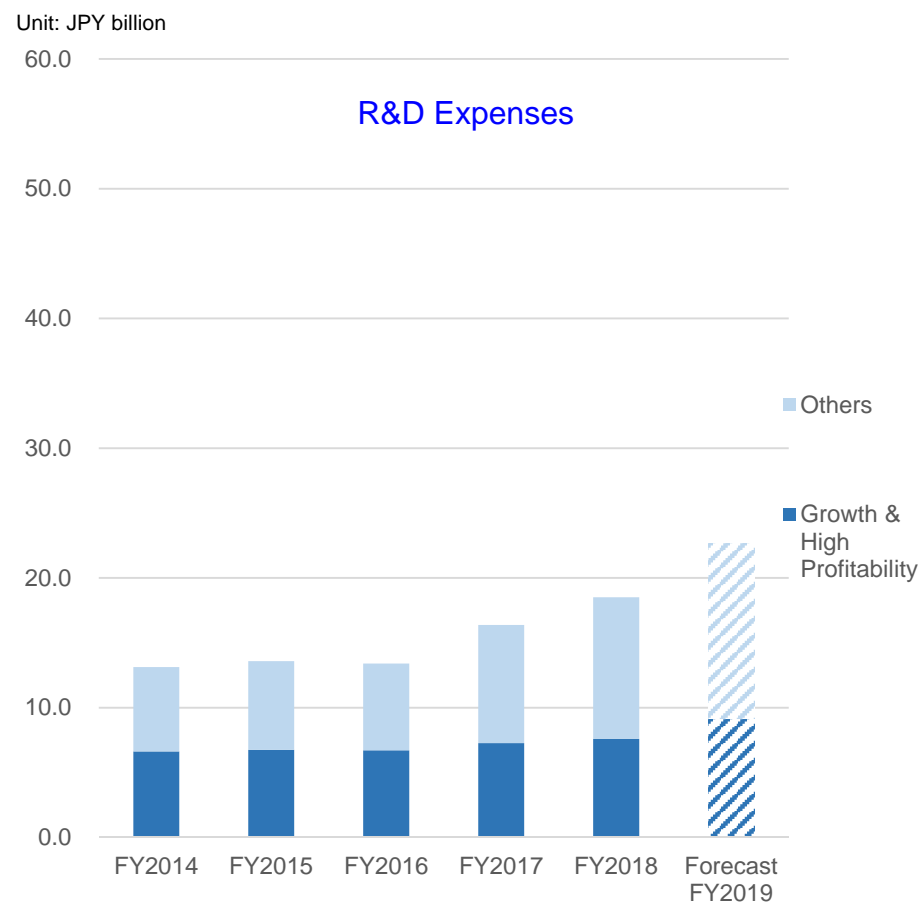
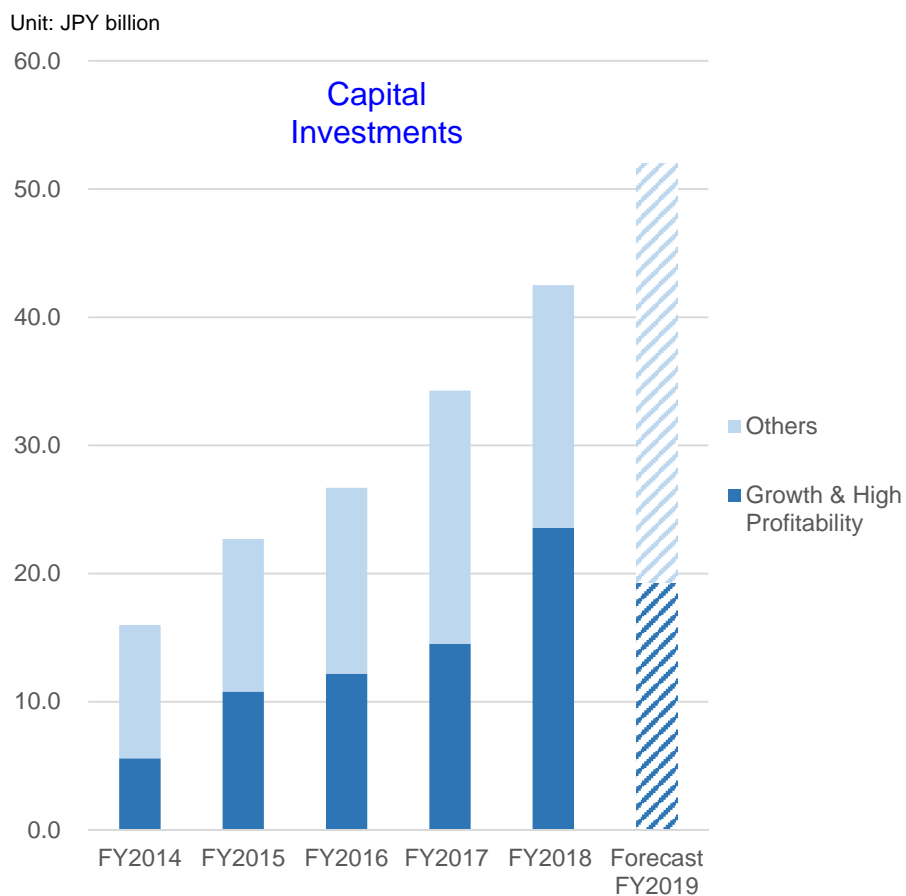
- Overseas sales of mass-produced machinery and environmental facilities & plants are steadily increasing.
- By geographic segment, North America and China are the leaders. Other regions are also projected to do well.
- The underlying trend in overseas sales for FY2017 and FY2018 is one of expansion.



03

Basic Policy 2 Investment (Capital Investments / R&D)

- Capital investments are made with a focus on areas with growth potential, such as gear reducers and injection molding machines.
- As for development investments, new products will be developed in relation to equipment models whose sales are growing, and development investments will continue to be made in the fields of healthcare, automobiles and semiconductor-related equipment that are expected to serve as next-generation growth drivers.

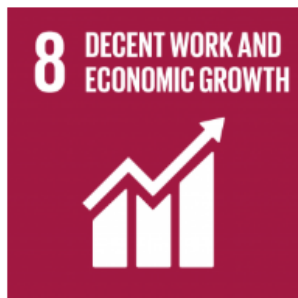


03

Basic Policies 1 and 2 <Global Expansion/Investments>

We established the fourth plant in Vietnam to produce gear reducer parts (March 2019)

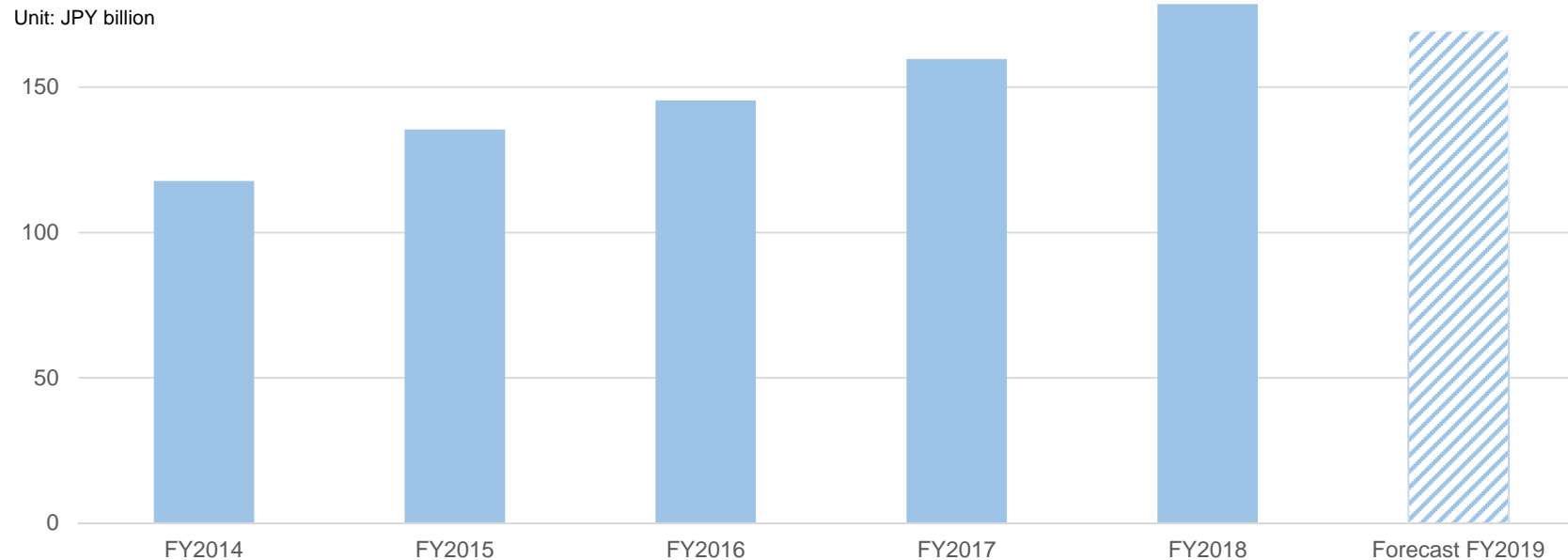
- Processes and produces main parts of gear reducers for precision control that are used at joints of industrial robots, and provides such parts to assembly sites in Japan, China, Germany and the rest of the world.
- Utilizes the potential of Vietnam to strengthen the global supply chain for gear reducers for precision control, thereby aiming to build a production system that can provide high quality products in a stable manner.



Fourth plant in Vietnam

03

Basic Policy 3 Trends in Sales of After Sales Services



<Actual results for FY2018>

- YoY increase due to the consolidation of SFW, etc. into the Group
- Steady increase in terms of existing models as well

<FY2019> We plan to continue to implement measures to strengthen after sales services for each business

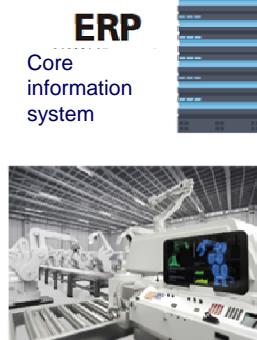


03

Basic Policy 3 <Promotion of Active Utilization of System Technology>

We have released “i-Connect,” a production quality management system for injection molding machines

- Application that integrates information from molding machines, peripheral devices and various sensors to build IoT solutions for production sites
- Improves functions for monitoring and managing overall molding cells to realize higher quality, borderless and efficient production



■ Acquisition of Italy-based Lafert S.p.A. (May 2018)

<Objectives>

Strengthen businesses and improve presence by using Europe (that plays a leading role to drive technologies and markets) as a starting point in target fields for the PTC business, including “robot/positioning,” “transportation and logistics” and “food and beverage machines.”

Acquire technologies and production sites related to high-efficiency motors, servomotors and drivers.

Used as a starting point for expanding business areas to include electrical equipment and control systems.



Head office of Lafert

■ Lafert products



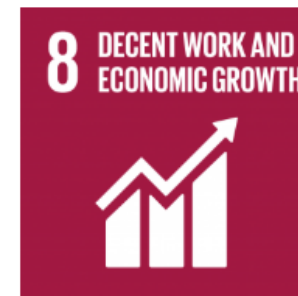
IE2/IE3
High Eff. motors



Servo
motors



Torque motors



Unit : JPY billion

Segment	New Consolidated Companies	Actual FY2017		Actual FY2018	
		Orders	Net Sales	Orders	Net Sales
Machinery component	Lafert Group	—	—	14.5	16.4
Precision machinery	Persimmon Technologies	1.1	1.0	1.2	1.5
Construction machinery	Sumitomo Heavy Industries Construction Cranes (HSC)	33.4	38.4	40.4	37.2
Environmental facilities and plants	Sumitomo SHI FW (SFW)	19.6	25.3	29.8	44.5

*For the 2017 consolidated fiscal year, Persimmon is included from 2Q onwards (9 months) and SFW is included from 3Q onwards (6 months).
For the 2018 consolidated fiscal year, Lafert is included from 2Q onwards (9 months).



03

Basic Policy 5 Active Promotion of CSR

	Actual Results for FY2018	Issues for FY2019
Products/ services	<ul style="list-style-type: none"> • Discussed with 15 departments (in cumulative total) • Established CSR policy (slogans, indices) 	<ul style="list-style-type: none"> • Summarize discussions with departments to define materiality of the Group
Environment (E)	<ul style="list-style-type: none"> • Acquired ISO14001 multi-site certification • Publicized the amount of Scope 3 (when products are used) CO2 emissions 	<ul style="list-style-type: none"> • Reduce CO2 emitted when products are used (improvement of environmental performance) • Prepare for formulation of the long-term environmental vision
Society (S)	<ul style="list-style-type: none"> • Held information sessions for CSR procurement guidelines • Promoted diversity • Completed trial implementation of work-at-home system • Launched a health management system 	<ul style="list-style-type: none"> • Continue to hold procurement information sessions (expand the scope of departments) • Create an organization that makes use of diversity • Promote work style reforms • Operate health management system
Governance (G)	<ul style="list-style-type: none"> • Revised corporate governance codes 	<ul style="list-style-type: none"> • Consider Increasing the number of external directors
Information dissemination	<ul style="list-style-type: none"> • Increased non-financial data in integrated report • Issued the Group magazine featuring CSR matters 	<ul style="list-style-type: none"> • Story of creating value for integrated reports • Increase discussions with ESG analysts and investors



We deeply apologize for the great inconvenience caused to parties concerned and will make every effort to regain your trust by reliably implementing recurrence prevention measures. In addition, the progress of recurrence prevention measures will be regularly reported to the Board of Directors and the measures will be reliably implemented under the supervision of the Board of Directors.

1. Confirming and thoroughly implementing the Sumitomo Business Spirit and Management Philosophy once again
2. Top and senior management exhibiting leadership to thoroughly implement the management policy of improving work quality and giving the highest priority to compliance
3. Strengthening quality management process
4. Strengthening the head office's governance system for work quality
5. Studying the Company's frameworks and initiatives for ensuring quality related to services
6. Promoting business management and organizational management that strike a balance
7. Strengthening the promotion of compliance
8. Promoting risk management in the Group





Forecasts and outlooks concerning future results are considered by the Company to be reasonable based on information available at the time of publication. Actual results may vary from the above forecast and outlook because of a variety of factors.