

The 120th Interim Business and Financial Report
April 1, 2015 to September 30, 2015

To Our Shareholders

I would like to express our sincere gratitude for your continued support and patronage. I am pleased to present our business and financial report for the first half of the 120th fiscal year (from April 1 to September 30, 2015) of Sumitomo Heavy Industries, Ltd. (“Company”) as follows.

Business Performance during the Half-Year Period under Review

During the six-month period ended September 2015, Japan’s economy experienced a sluggish recovery in personal consumption, and despite a growth trend in capital investment, the pace was somewhat restrained. Overseas, the gradual recovery in the European economy continued, but the United States saw limited growth in capital investment despite an overall economic recovery. The slowing of China’s economy became more apparent, and this development had a negative impact on the growth of other emerging market economies while also increasing the risk of currency devaluation in those markets. As a result of these conditions, the global economy gave the overall impression of general stagnation.

In light of this operating environment, the Company Group worked to increase its earnings strength through stronger marketing efforts to secure orders and sales, and ongoing initiatives to reduce costs.

Under these measures, despite growth in orders in the Industrial Machinery and Precision Machinery segments, declines in the Ships and Construction Machinery segments led to an overall 3% year-on-year decline in orders, to ¥356.3 billion. Net sales rose in all segments, led by Precision Machinery, for overall growth of 5% year on year, to ¥322.5 billion. In terms of profit, operating income declined 8% year on year, to ¥18.4 billion, mainly from a decline in the Construction Machinery segment and despite an increase in the Precision Machinery segment. Net income attributed to shareholders of the parent company decreased 7% year on year, to ¥11.5 billion.

Given these first-half results, we have increased the interim dividend by ¥2, to ¥7 per share.

Progress under Medium-Term Management Plan 2016

Medium-Term Management Plan 2016, launched in April 2014 and covering the period through March 2017, sets financial targets of ¥700.0 billion in net sales, with an operating income ratio of 7.5%, and ROIC* of at least 7% for fiscal 2016 (the fiscal year ending March 31, 2017). At the beginning of the current fiscal year, we were aiming for the achievement of these targets one year ahead of schedule in light of the previous fiscal year’s strong orders, but given the changes in the operating environment since then, including in the Chinese economy, we have lowered our forecasts for the current fiscal year and are currently working to strengthen our competitiveness to ensure the achievement of these targets in fiscal 2016. Going forward, we will continue to pursue steady growth for a return to higher levels of profitability, with the aim of being “a company that continuously provides first-class products.”

Looking at our achievements during the first half, we received an order for circulating fluidized bed boiler units for an independent power producer sponsored by Indonesia’s largest coal mining company and a South Korean electric power company. This will help alleviate power shortages on Kalimantan Island in Indonesia and is an example of our efforts toward proactive development in the energy-related field, which we have identified as a growth area.

In the medical field, we won an order for a proton therapy system, designed in a vertical arrangement of a cyclotron and a treatment room, allowing for significant space reduction. This will be Japan’s third vertically arranged compact-type proton therapy system.

In developing first-class products, the plastic machinery business released the new SEEV-A-HD series of all-electric medium-sized injection molding machines. This new series can be equipped with larger molds than previous machines, significantly increasing productivity for molded items.

In addition, as one measure to strengthen our business, on October 1, 2015, the Company’s subsidiary Sumitomo Heavy Industries Material Handling Systems Co., Ltd. (“SHI-MH”) completed an absorption-type company split of the Mitsubishi Heavy Industries, Ltd. subsidiary Mitsubishi Heavy Industries Machinery Technology Corporation’s material handling systems business. By absorbing this business, SHI-MH will expand its product and service lineup, while also achieving an optimal integration of management resources by integrating the two companies’ technological capabilities and expertise.

This will strengthen SHI-MH's capabilities in the domestic market, and by investing growth resources in overseas businesses and new products going forward, SHI-MH intends to maintain its competitiveness as an industrial crane manufacturer.

*ROIC (return on invested capital) is the after-tax profit margin on invested capital, showing the amount of profit generated as a percentage of invested capital (the total of shareholders' equity and interest-bearing debt), and indicating whether profitability corresponds to the cost of capital.

Looking ahead

Our outlook for the Japanese economy is for a delayed rebound in personal consumption, and although capital investment is fairly solid, we cannot expect major growth. Overseas, although the European and U.S. economies are showing signs of strength, the slowing of the Chinese economy is increasingly clear and we expect that stagnation to continue for the long term. We also believe that the effect of the predicted interest rate increase in the United States will spread to emerging market economies.

Given this uncertain economic outlook, we will emphasize the steady implementation of the management strategies outlined in Medium-Term Management Plan 2016, and work to further accelerate the strengthening of the Company Group's product competitiveness and production and sales capabilities.

Going forward, the Company Group will continue striving to contribute to the development of society through the provision of first-class products and services. The continued support and cooperation of our shareholders is greatly appreciated.

Shunsuke Betsukawa
President and CEO

Review of Operations by Segment

Machinery Components

Major Products: Power Transmission Equipment, Motors

Despite a weak market in China, strength in Japan and North America led to overall growth in both orders and sales.

(Billions of yen)

	FY2014 Interim	FY2015 Interim	Year-on-Year Change
Orders	51.4	54.0	+5%
Net Sales	48.4	52.3	+8%
Operating Income	3.4	3.6	+4%



Precision Machinery

Major Products: Plastic Injection Molding Machines, Extrusion Laminators, Semiconductor Manufacturing Equipment, Laser Processing Systems, Cryogenic Equipment, Precision-Positioning Stages, Precision Forgings, Control System, Defense Equipment, Machining Tools

Orders and sales in the plastic machinery business rose on strong markets in Japan, Europe, and North America, and despite a plateauing of IT-related markets in Asia.

In other businesses, orders for semiconductor-related models declined, but sales increased.

(Billions of yen)

	FY2014 Interim	FY2015 Interim	Year-on-Year Change
Orders	71.9	75.0	+4%
Net Sales	70.8	75.5	+7%
Operating Income	6.6	9.4	+43%



Construction Machinery

Major Products: Hydraulic Excavators, Construction Cranes, Road Construction Machinery

Orders and sales in the hydraulic excavator business declined on the large drop in demand in the Chinese market and in the wake of extraordinary demand in Japan in the year-earlier period to comply with emission regulations.

Orders in the construction crane business declined on a delayed recovery in oil-related demand in the North American market, but sales rose.

(Billions of yen)

	FY2014 Interim	FY2015 Interim	Year-on-Year Change
Orders	101.6	93.7	-8%
Net Sales	97.7	98.3	+1%
Operating Income	7.4	2.2	-70%



Industrial Machinery

Major Products: Cyclotrons, Medical Equipment, Liquid Crystal Display Manufacturing Equipment, Forging Machines, Material Handling Systems, Logistics & Handling Systems, Automated Parking Systems, Turbines, Pumps

Orders rose, on solid orders from domestic shipbuilders in the material handling systems business, orders from overseas power generation-related customers in the turbine and pump business, and the order for the proton therapy system in the industrial machinery business. Sales rose on increases in the material handling systems business and the turbine and pump business.

(Billions of yen)

	FY2014 Interim	FY2015 Interim	Year-on-Year Change
Orders	37.0	47.5	+29%
Net Sales	33.7	34.9	+4%
Operating Income	1.9	2.6	+36%



Ships

Major Products: Ships

During the half-year period, orders were received for two ships, three less than in the same period a year earlier. In terms of sales, one vessel was delivered, just as in the same period a year earlier.

(Billions of yen)

	FY2014 Interim	FY2015 Interim	Year-on-Year Change
Orders	32.1	18.6	-42%
Net Sales	11.5	13.0	+13%
Operating Income	(1.1)	(0)	—



Environmental Protection Facilities & Plants

Major Products: Power Generation Systems, Boiler Systems, Industrial Waste Treatment Plants, Air Pollution Prevention Equipment, Water Treatment Systems, Chemical Process Equipment & Plants, Pressure Vessels, Stirring Tanks, Air-Conditioning Equipment, Food Production Equipment

Although the energy-related plant business received orders for circulating fluidized bed boiler units from an overseas independent power producer and for biomass power generation equipment in Japan, the total number of projects decreased and orders declined. Orders rose in the water treatment plant business on an order for large-scale maintenance. Sales rose on progress in construction for boiler projects.

(Billions of yen)

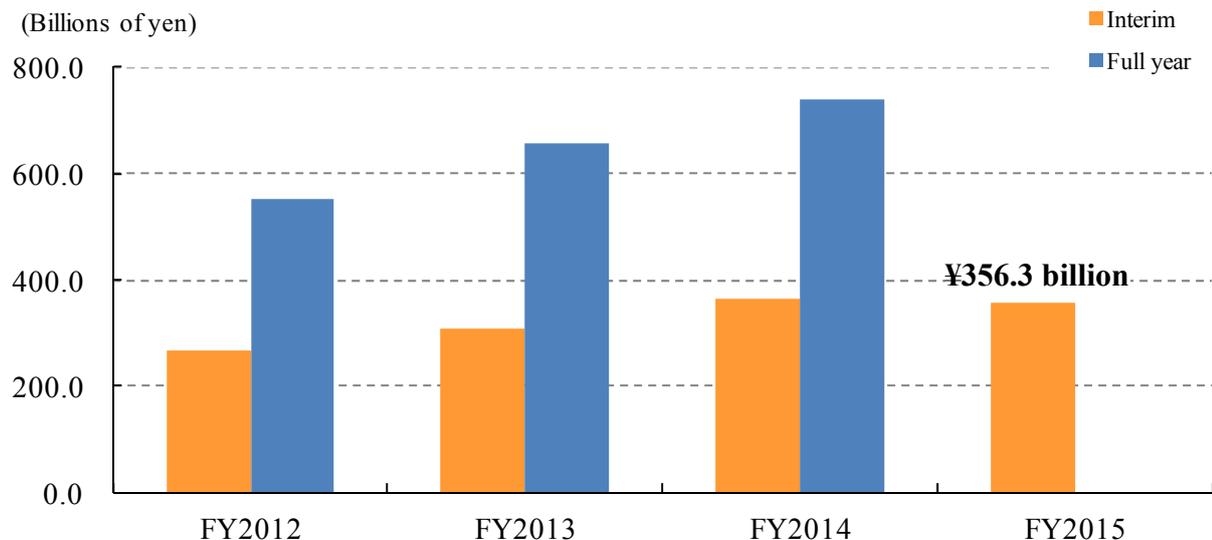
	FY2014 Interim	FY2015 Interim	Year-on-Year Change
Orders	66.2	63.0	-5%
Net Sales	40.3	42.7	+6%
Operating Income	0.8	(0.1)	—



*Numbers less than one unit are rounded to the nearest unit.

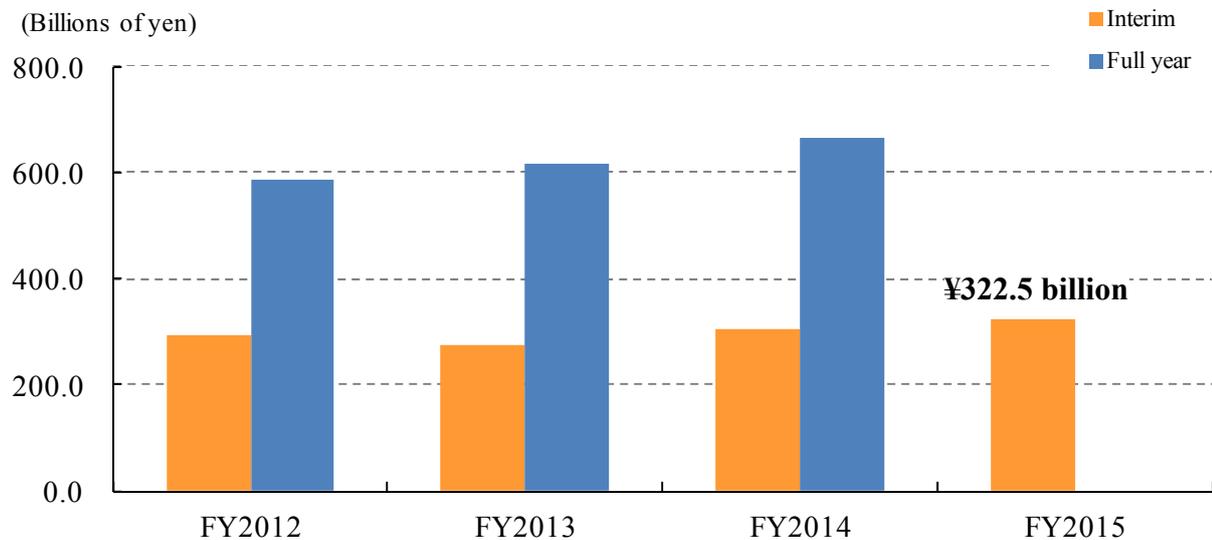
Consolidated Financial Highlights

Orders



Orders rose in the Industrial Machinery and Precision Machinery segments, but declines in the Ships and Construction Machinery segments resulted in an overall 3% decline year on year, to ¥356.3 billion.

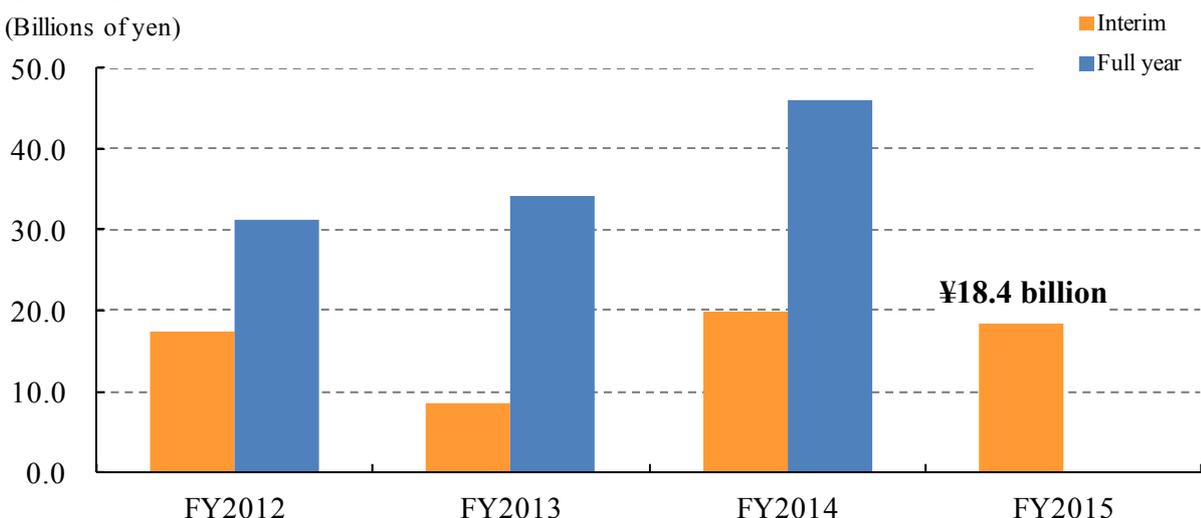
Net Sales



Sales rose in all segments, led by Precision Machinery, for a 5% increase year on year, to ¥322.5 billion.

Operating Income

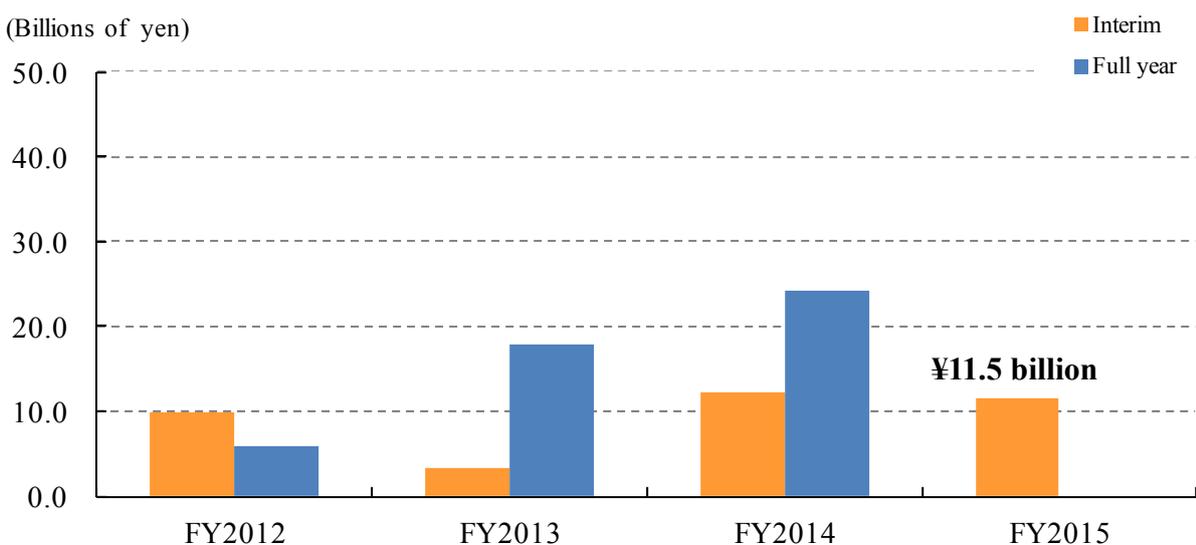
(Billions of yen)



Despite growth in the Precision Machinery and other segments, declines in the Construction Machinery and other segments led to an overall 8% decline year on year, to ¥18.4 billion.

Net Income Attributed to Shareholders of the Parent Company

(Billions of yen)



With the decrease in operating income, net income fell 7% year on year, to ¥11.5 billion.

(Billions of yen)

	FY2012		FY2013		FY2014		FY2015
	Interim	Full year	Interim	Full year	Interim	Full year	Interim
Orders	266.6	550.7	306.5	658.2	365.5	740.8	356.3
Net Sales	293.3	585.9	273.0	615.3	306.3	667.1	322.5
Operating Income	17.4	31.3	8.4	34.3	19.9	46.0	18.4
Net Income Attributed to Shareholders of the Parent Company	9.8	5.9	3.4	17.9	12.3	24.3	11.5

Interim Consolidated Financial Statements**Interim Consolidated Balance Sheet (Summary)**

(Billions of yen)

Account Items	FY2015 End of interim period (As of September 30, 2015)	End of FY2014 (As of March 31, 2015)
Assets		
Current assets	469.5	492.0
Cash and deposits*	59.7	92.4
Notes and accounts receivable	187.2	194.9
Inventories	170.9	153.8
Other	51.7	50.8
Fixed assets	292.3	294.0
Tangible fixed assets	230.5	228.3
Intangible fixed assets	9.3	9.3
Investments and other assets	52.6	56.4
Total assets	761.8	786.0
Liabilities		
Notes and accounts payable	132.2	140.4
Interest-bearing liabilities	72.1	83.6
Other	185.5	196.8
Total liabilities	389.7	420.9
Net assets		
Stockholders' equity	301.6	293.7
Accumulate other comprehensive income	66.0	66.4
Non-controlling interest	4.5	5.0
Total net assets	372.1	365.1
Total liabilities and net assets	761.8	786.0

*Includes cash equivalents

Interim Consolidated Statements of Income (Summary)

(Billions of yen)

Account Items	FY2015 Interim period (April 1, 2015 to September 30, 2015)	FY2014 Interim period (April 1, 2014 to September 30, 2014)
Net sales	322.5	306.3
Operating income	18.4	19.9
Ordinary income	16.8	20.0
Extraordinary gains (losses)	(0.2)	(0.3)
Interim net income attributed to shareholders of the parent company	11.5	12.3

Interim Consolidated Statements of Cash Flow (Summary)

(Billions of yen)

Account Items	FY2015 Interim period (April 1, 2015 to September 30, 2015)	FY2014 Interim period (April 1, 2014 to September 30, 2014)
Cash flows from operating activities	(7.8)	31.9
Cash flows from investing activities	(8.2)	(5.1)
Cash flows from financing activities	(17.5)	(17.5)
Net increase (decrease) in cash and cash equivalents	(33.4)	8.4
Cash and cash equivalents at end of the interim period	57.7	84.8

Note: Numbers less than one unit are rounded to the nearest unit.

From fiscal 2015, “net income” has been replaced by “net income attributed to shareholders of the parent company.”

Feature 1: Product Introduction

Plastic Machinery – Injection Molding Machine

Injection molding machines shape plastic resins to make plastic products. The plastic material (resin) is melted and poured (injected) into a mold, to make (shape) a solid product.

Injection molding machines are used to produce a variety of products essential to our daily lives, including electronic components, components and lenses for mobile phones, switches, optical discs, syringes and other medical equipment, and plastic bottles.

Of these products, the Company Group specializes in precision, high-cycle molding for products like light guide plates.

Light guide plates are a component used in liquid crystal display (LCD) backlight units, to guide the light onto the liquid crystal by evenly dispersing light that enters from the side to the panel's surface. Today these are used in a broad range of products, from small panels for smartphones and car navigation system displays to large panels for tablet and notebook computers.

The Company Group has developed and manufactures an all-electric injection molding machine specifically for producing light guide plates, and has acquired a very large share of this market.

- 1 Looking at a broken down smartphone...
- 2 Backlight unit
- 3 This is where the light guide plate is placed
- 4 Button switch
- 5 Battery (connection)
- 6 Lens unit (partial)
- 7 All of these pieces are produced by injection molding machines
- 8 LED flash lens
- 9 Housing
- 10 Card slot (connection)
- 11 All-electric injection molding machine specifically for light guide plates
- 12 Clamping unit
- 13 Injection unit
- 14 The entire process takes place inside this machine
- 15 Melt
- 16 Pellet raw material is heated to approximately 350° C
- 17 Clamping unit
- 18 Injection unit
- 19 Pour
- 20 Heated resin is poured into mold (in 0.05 seconds)
- 21 This takes only 0.1 second
- 22 Press to harden
- 23 Quickly pressed at appropriate timing
- 24 Eject
- 25 The resin hardens to be finished!
- 26 Items made using injection molding machines (examples)
- 27 These are also some of the products made
- 28 This portion is one lens
- 29 Precision
- 30 LED lens
- 31 Key is to create a defect-free, high-precision, curved surface
- 32 Solid molding
- 33 Automobile components
- 34 Key is to mold metal and resin into one very strong unit without using adhesives
- 35 High-cycle
- 36 Containers
- 37 Key is to produce multiple thin containers at once, in a few seconds

プラスチック加工機械 —射出成形機—

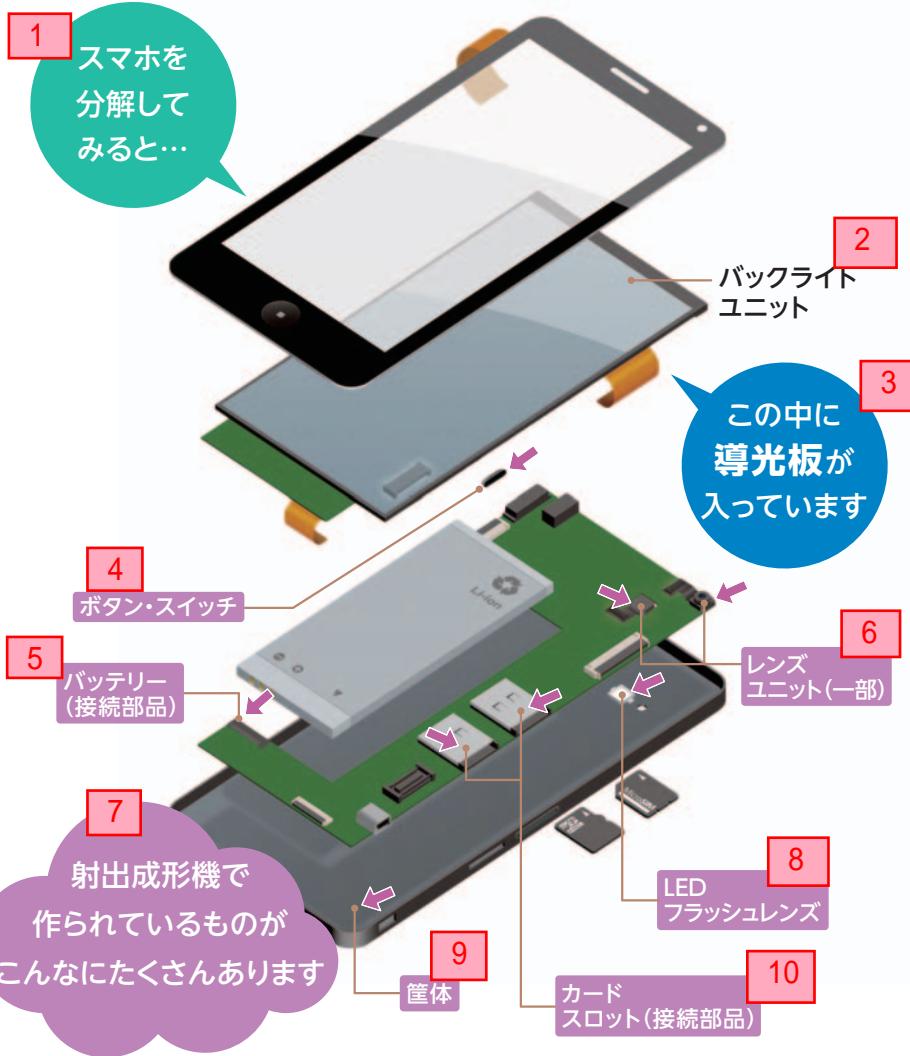
射出成形機とはプラスチック樹脂を成形してプラスチック製品を作る機械です。プラスチックの材料（樹脂）を溶かし、金型に流し込み（射出）、固めて形を作ります（成形）。

電子部品、携帯電話用部品やレンズ、スイッチ類、光ディスク、注射器などの医療用具、ペットボトルなど、私たちの生活に欠かせないさまざまなものが射出成形機で生産されています。

中でも当社グループが得意とするのは導光板などの精密、ハイサイクルな成形分野です。

導光板とは、液晶ディスプレイ内で光を液晶に導くバックライトユニットの内部に使用されている部品のことで、側面から入れた光をパネルの表面に均一に拡散させる板です。現在、スマートフォンやカーナビゲーション等の小型から、タブレットやノート型パソコン等の大型まで幅広く用いられています。

当社グループはその導光板を製造する全電動導光板専用射出成形機を開発、製造しており、非常に高いシェアを獲得しています。



11 全電動導光板専用射出成形機

12 型締装置

13 射出装置

14 全部この中で作られています

15 溶かす

16 原材料となるペレットを約350℃まで加熱する

19 流し込む

20 高温で樹脂を金型へ流し込む(その間0.05秒)

22 押しつぶして固める

23 適切なタイミングでスピードに押しつぶす

24 取り出す

25 樹脂が固まって完成!

17 型締装置

18 射出装置

21 この間わずか0.1秒

26 射出成形機で作られているもの（一例）

27 こういうものも作っています

28 この部分が一つのレンズです

29 精密LEDレンズ

30 不良無く、精度の高い曲面を作れるのがポイント

31

32 一体成形

33 自動車の部品

34 金属と樹脂を一体化し、接着剤無しの高い強度で作れるのがポイント

35 容器

36 数秒で一度に多数個を薄く作れるのがポイント

37

Feature 2: Corporate Governance

The Corporate Governance Code took effect for listed companies in June 2015. The Company has continued to strive to strengthen its corporate governance, to maintain continuous growth and medium- to long-term enhancement of corporate value. As one measure in this effort, to further enhance the management oversight function, the number of outside directors was increased to two at the Ordinary General Meeting of Shareholders held in June 2015.

We asked the two outside directors to discuss their roles as outside directors and what they are looking for from the Company's management.

Susumu Takahashi, Outside Director

Chairman, The Japan Research Institute, Limited

Appointed to the Cabinet Office's Council on Economic and Fiscal Policy in 2013; Outside Director of the Company since 2014

To fulfill the Company's social responsibility and meet the expectations of its stakeholders, the Company needs, as well as to enhance its sincere, dedicated management, to have a degree of dynamism to link these aspects to the improvement of productivity and the enhancement of earnings strength. In other words, this means refining the morals that are the core of Japanese corporate management while at the same time appropriately addressing changes in the domestic and overseas operating environment, like China's economic slowdown, and using these changes as an opportunity to make significant improvements to the Company's management strength. I believe this requires the further strengthening of corporate governance, and this is what I am looking for at the Company. As an outside director, I hope to use my experience and knowledge to contribute to this strengthening of the Company's corporate governance.

Hideo Kojima, Outside Director

Certified Public Accountant

First serving as an Outside Corporate Auditor of the Company, now elected as an Outside Director of the Company in 2015

With the Corporate Governance Code being applied from the current fiscal year, I intend to use my specialist experience in finance, accounting, and auditing to consider, and help implement, what the Company Group needs to do to continuously enhance its corporate value.

Enhancing corporate value is not limited to items like profitability and business scale. Business risk and the continuous improvement of operational quality are also important. Comprehensively managing these items is an important part of enhancing corporate value, and I will offer my advice as an outside director in this regard.

In addition, as a member of the Directors Recommendation Committee, I will advise management on the selection of directors and other senior management personnel decisions.

Company Information (as of September 30, 2015)

Corporate Data

- Incorporated: November 1, 1934
- Paid-in capital: ¥30,871,651,300
- Number of employees (consolidated): 15,746
- Offices
 - Head office: 1-1, Osaki 2-chome, Shinagawa-ku, Tokyo, Japan

 - Business offices: Chubu (Nagoya-shi)
Kansai (Osaka-shi)
Kyushu (Fukuoka-shi)

 - Plants: Tanashi Works (Nishitokyo-shi, Tokyo)
Chiba Works (Chiba-shi)
Yokosuka Works (Yokosuka-shi, Kanagawa Pref.)
Nagoya Works (Ohbu-shi, Aichi Pref.)
Okayama Works (Kurashiki-shi, Okayama Pref.)
Ehime Works-Niihama Factory (Niihama-shi, Ehime Pref.)
Ehime Works-Saijo Factory (Saijo-shi, Ehime Pref.)

 - Laboratories: Technology Research Center (Yokosuka-shi, Kanagawa Pref.)

Directors and Auditors

Yoshinobu Nakamura, Representative Director and Chairman
Shunsuke Betsukawa, Representative Director and President
Shinji Nishimura, Representative Director
Yuji Takaishi, Representative Director
Toshiharu Tanaka, Director
Yoshiyuki Tomita, Director
Kazuto Kaneshige, Director
Mikio Ide, Director
Susumu Takahashi, Director
Hideo Kojima, Director
Yukio Kinoshita, Standing Corporate Auditor
Kazumi Fujita, Standing Corporate Auditor
Takeo Wakae, Corporate Auditor
Takashi Miyazawa, Corporate Auditor

Executive Officers

Shunsuke Betsukawa, President (CEO)
Shinji Nishimura, Senior Executive Vice President
Katsuhiko Taniguchi, Executive Vice President
Yuji Takaishi, Executive Vice President
Katsuhide Yokota, Executive Vice President
Chuck Martz, Executive Vice President
Toshiharu Tanaka, Executive Vice President
Kazuto Kaneshige, Senior Vice President
Tetsuya Okamura, Senior Vice President
Akio Yoshikawa, Senior Vice President
Nobutaka Miyawaki, Senior Vice President
Yoshiyuki Tomita, Senior Vice President
Hideo Suzuki, Senior Vice President
Shinji Shimomura, Senior Vice President

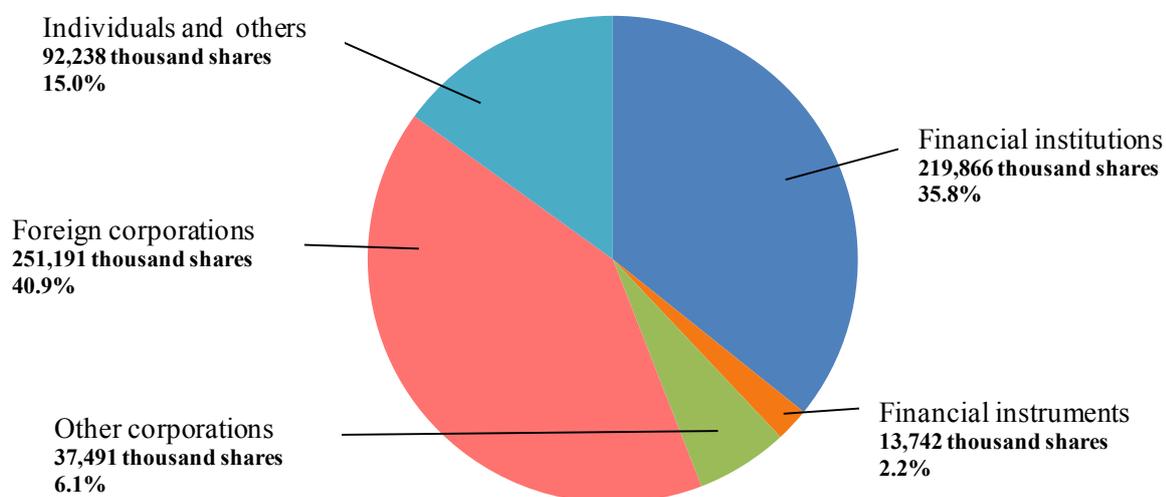
Masami Deguchi, Senior Vice President
Hiroo Morita, Senior Vice President
Yukio Kumata, Vice President
Isao Kono, Vice President
Kazuo Hiraoka, Vice President

Stock Information (as of September 30, 2015)

Stock Data

- Total number of authorized shares: 1,800,000,000
- Total number of issued shares: 614,527,405
- Number of shareholders: 43,019

Breakdown of Shareholders



*The number of shares and shareholding ratios are rounded to the nearest unit.

Shareholder Information

Fiscal Year	April 1 each year through March 31 of the following year	
Ordinary General Meeting of Shareholders	June (every year)	
Record Dates	Ordinary General Meetings of Shareholders	March 31st
	Payment of Interim Dividends	September 30th
	Payment of Term-end Dividends	March 31st
Custodian of the Register of Shareholders and Account Manager of the Special Accounts	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan	
Handling Office for Custodian of the Register of Shareholders	Stock Transfer Agency Business Planning Department Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan	
	[Mailing Address] Stock Transfer Agency Business Planning Department Sumitomo Mitsui Trust Bank, Limited 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan	
	[Telephone Inquiries] Toll free number: 0120-782-031 Hours: 9:00-17:00 (except for Saturdays, Sundays, national holidays, and the New Year's holiday)	
	[Website] http://www.smtb.jp/personal/agency/index.html	
Method of Public Notice	All public notices of the Company shall be posted on the Company's website at http://www.shi.co.jp Under unavoidable circumstances, however, such notices shall be published in the newspaper <i>Nihon Keizai Shimbun</i> .	

Notice

[Notification or Inquiries about Change of Address with Respect to Shares]

Shareholders who have an account with a securities company are asked to give notification or make inquiries about matters such as change of address to the securities company at which he or she has an account. Shareholders who do not have an account with a securities company are asked to call the above telephone number.

[Special Accounts]

For shareholders who did not use the depository and book-entry transfer system (*Hofuri*) operated by the Japan Securities Depository Center prior to dematerialization of share certificates, we have opened an account (called a special account) at the transfer agent Sumitomo Mitsui Trust Bank, Limited.

Inquiries about, or notifications of, matters such as change of address with regard to special accounts should be made to the above telephone number.

[Request for the Purchase or Sale of Shares of Less than One Unit]

Please contact the securities company at which you have an account for requests for the purchase or sale of shares of less than one unit (1,000) shares. In the case of requests regarding shares recorded in a special account, please call the above telephone number.

Sumitomo Heavy Industries, Ltd.
Website www.shi.co.jp