

“Medium-Term Management Plan 2016”



**President and CEO
Shunsuke Betsukawa**

Review of Previous Medium-Term Management Plan “Innovation 21”

■ "Innovation 21" picked out the path for turning the business around by promoting structural reforms to deal with the Eurozone debt crisis and the slowdown of the growth of the Chinese economy. Measures were executed in line with the basic policies.

	Innovation 21	Results
FY2013 Targets	<ul style="list-style-type: none"> ➢ Sales JPY730 billion ➢ Operating income JPY 73 billion ➢ ROIC 10% or more 	Structural reforms were promoted and turnaround of business trends achieved in spite of being affected by the economic crisis described above.
Keywords	<ul style="list-style-type: none"> ➢ Globalization ➢ Innovation 	The globalization progressed as planned. The implementation of innovation continued.
Investment Policy (for 3 years)	JPY100 billion (Not including M&A)	Necessary investments were implemented while maintaining financial discipline.

Results for FY2013 (Last year of Innovation 21)

Could not achieve the targets, however, orders steadily increased to about JPY660 billion.

	(Target)	⇒	(Results)
Orders	—	⇒	658.2
Sales	730	⇒	615.3
Operating Income	73	⇒	34.3
ROIC	10% or more	⇒	4.8%

Unit: JPY billion

Accumulated investment amount for 3 years (FY2011-2013)

Capital investments were implemented primarily at overseas bases. R&D investments sought to create first-class products.

(Plan)	⇒	(Results)
100	⇒	(Capital Investment) 42
		(R&D) 39
		Total 81

Unit: JPY billion

*Not including M&A for Plan and Results.

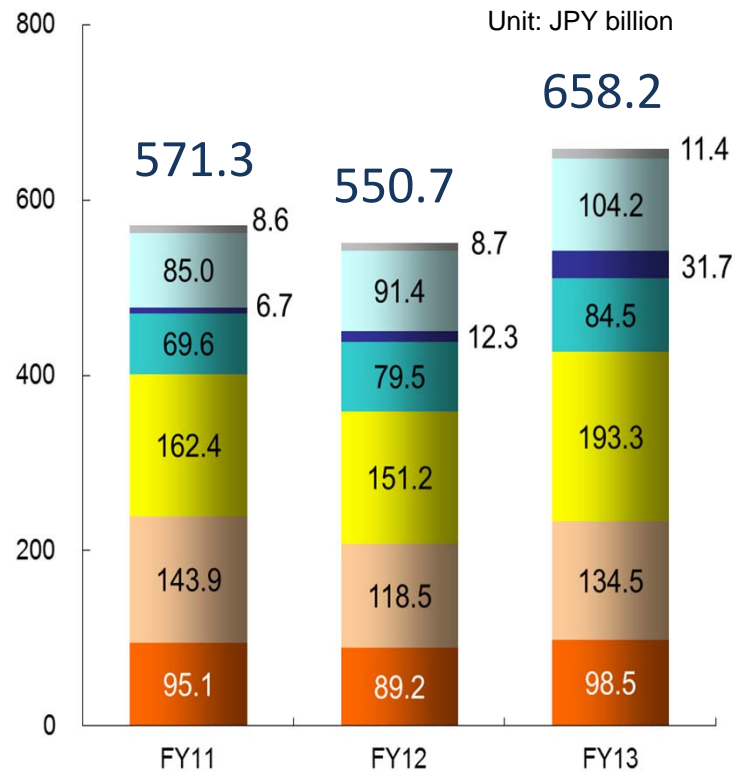
“Innovation 21” Results

	Implementations	Outstanding issues
Globalization	<ul style="list-style-type: none"> • Establishment of manufacturing and sales bases in growing regions (Indonesia and Brazil). • Promotion of local production for local sales (extension of manufacturing plant in Tangshan). • Transition to optimized production organization for small-sized gearmotors (Power Transmission & Controls (PTC)). • Sales promotion in growing markets. (energy and environment). • Establishment of regional management companies. 	<ul style="list-style-type: none"> • Improvement of profitability in unprofitable overseas regions. • Restoration of profitability for subsidiaries, business operations and models in deficit. • Achievement of synergy with acquired subsidiaries (PTC and Plastic Machinery). • Improvement of profitability for PTC, Plastic Machinery and Construction Machinery.
Innovation	<ul style="list-style-type: none"> • Launch of SE-EV series energy-saving type injection molding machines. • Launch of hybrid type hydraulic excavators. • Launch of compact CFB boilers. • Design innovation activities. 	<ul style="list-style-type: none"> • Launch of new products. • Improvement of productivity at manufacturing plants overseas. • Focus on after-market business.

“Innovation 21” Orders and Net Sales

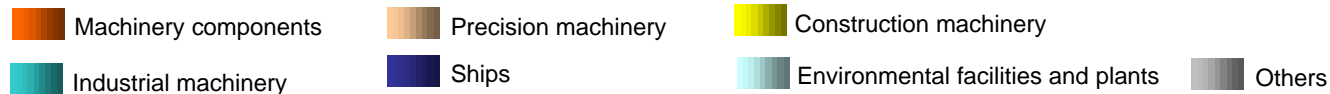
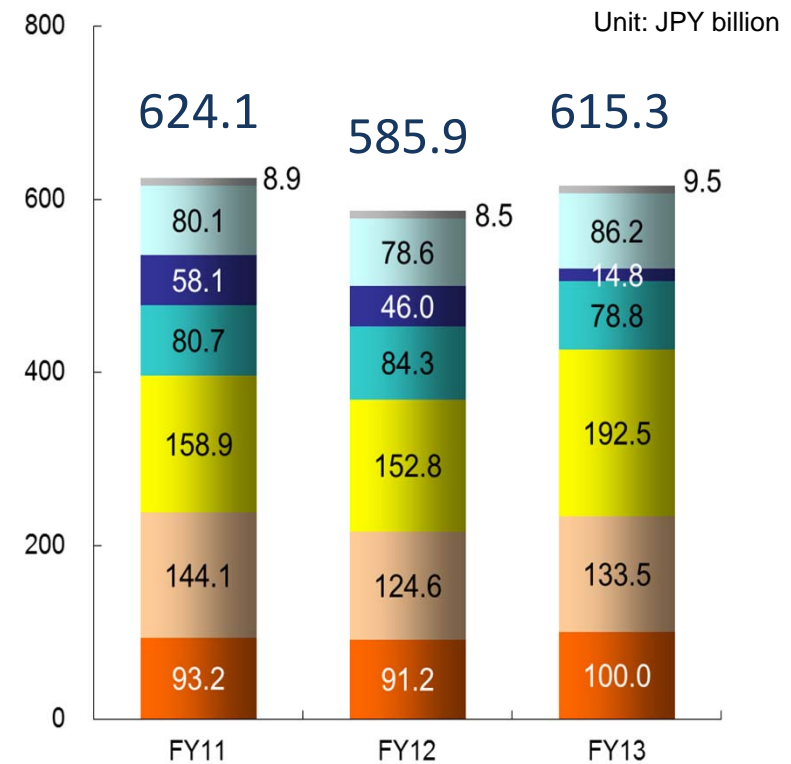
Orders

■ Orders increased in all segments and exceeded JPY650 billion for the first time since the global financial crisis.



Net Sales

■ All segments other than construction machinery experienced sluggish growth due to stagnant orders received in 2011 and 2012.

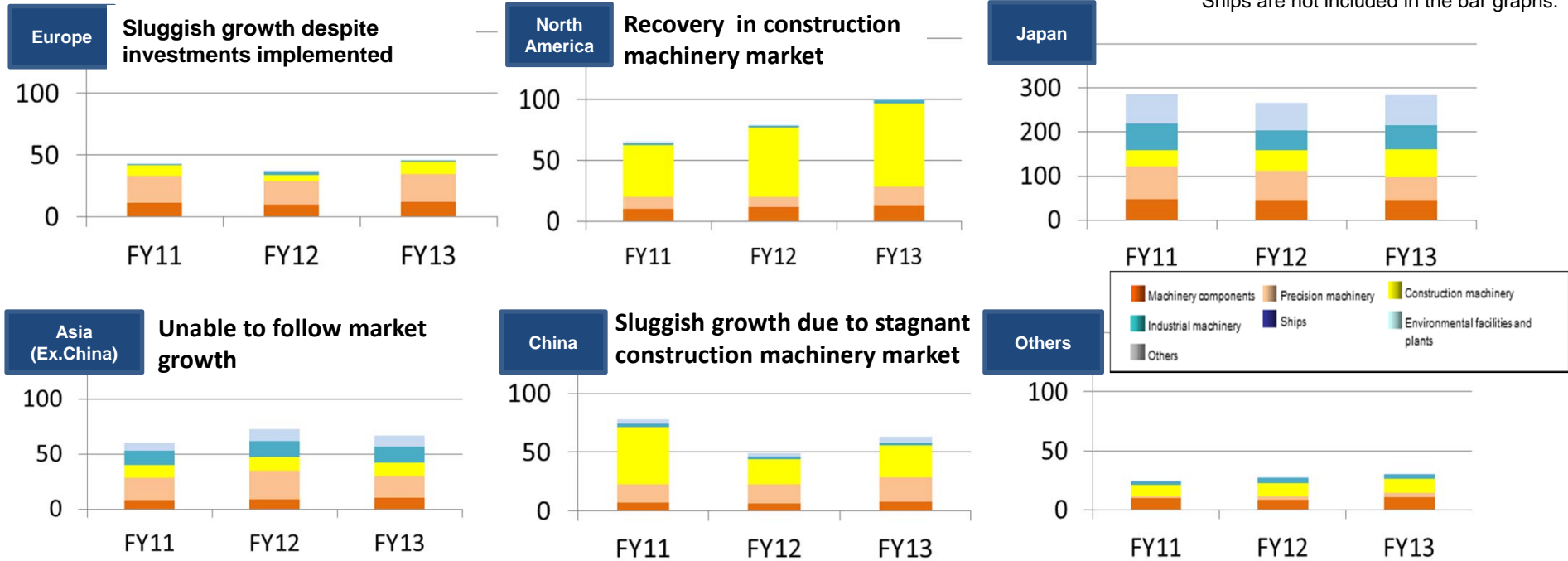


“Innovation 21” Net Sales by Areas and Segment

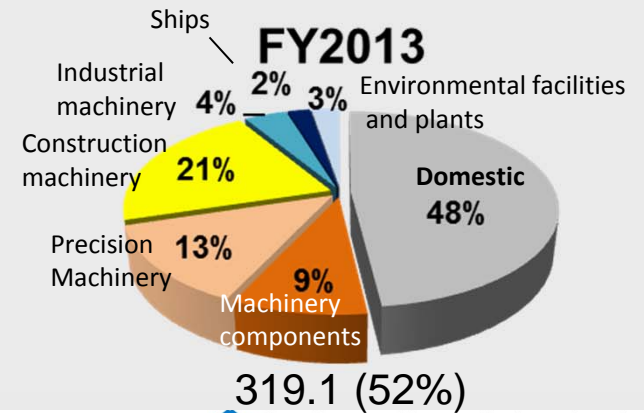
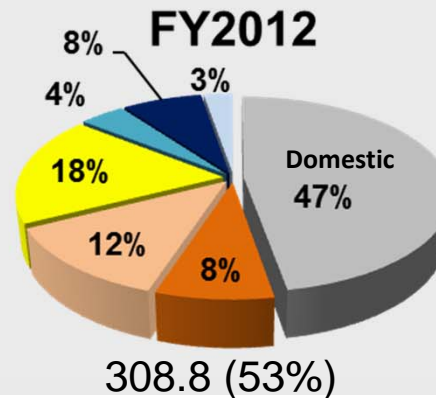
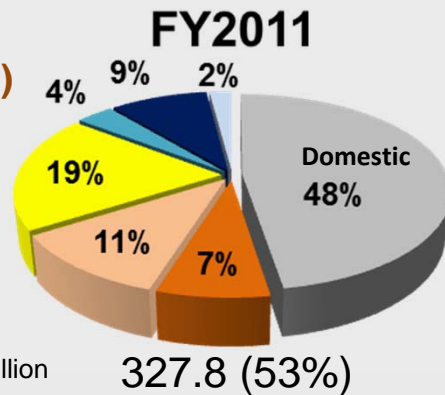
Key points Sluggish growth despite aggressive investments implemented at overseas bases.

Unit: JPY billion

* Ships are not included in the bar graphs.



Overseas Net Sales (Sales ratio)



Unit: JPY billion

Outline of the “Medium-Term Management Plan 2016”

Objectives of the Medium-Term Management Plan 2016 (MTMP16)

1. “Steady growth”
2. “Return to higher levels of profitability”
3. “Persistent efforts for operational quality improvements”
4. Numerical targets
 - FY2016 financial targets
 - Net sales: JPY700 billion Operating income ratio: 7.5% ROIC: 7% or more
 - Dividend payout ratio (three years): 30% targeted
 - Investment (three years) - Capital investment: (JPY50 billion) R&D: JPY45 billion
 - Recruiting (three years) - 600 persons

		FY2013	FY2016
Steady growth	Net Sales	JPY615.3 billion	JPY700 billion
Return to higher levels of profitability	Operating Income ratio	5.6%	7.5%
Persistent efforts for operational quality improvements	Focus on product quality, compliance and safety		

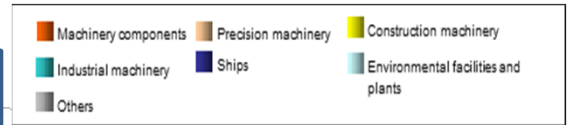
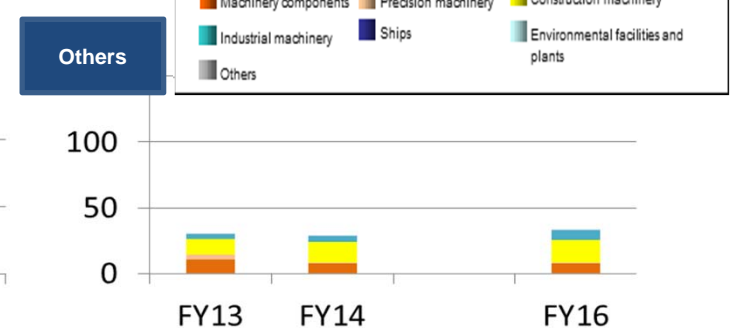
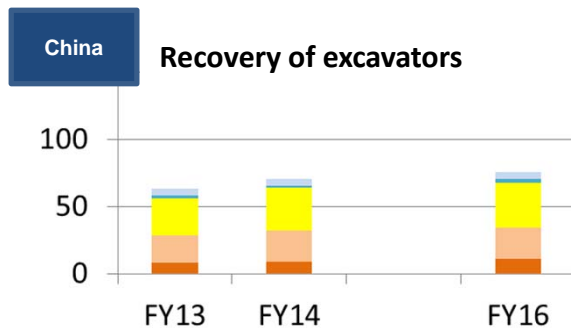
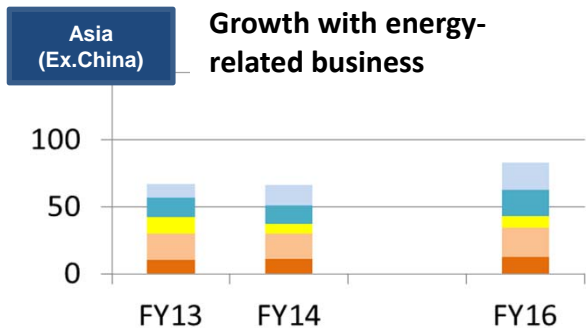
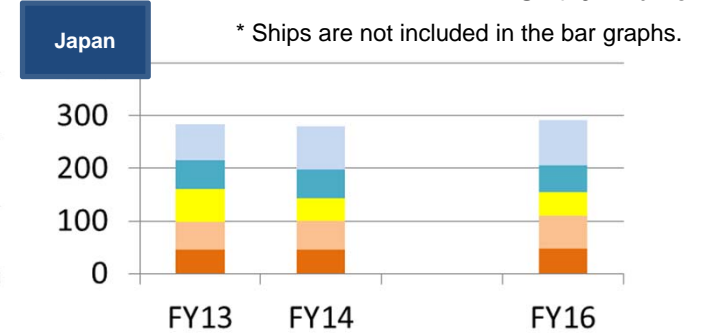
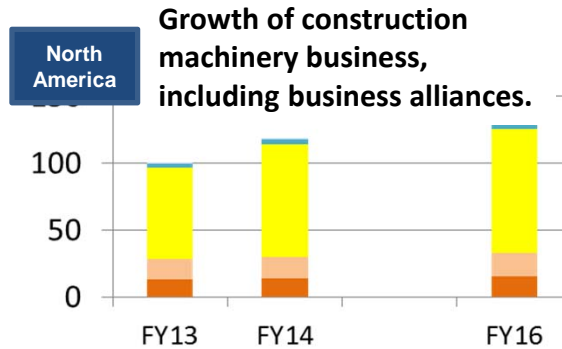
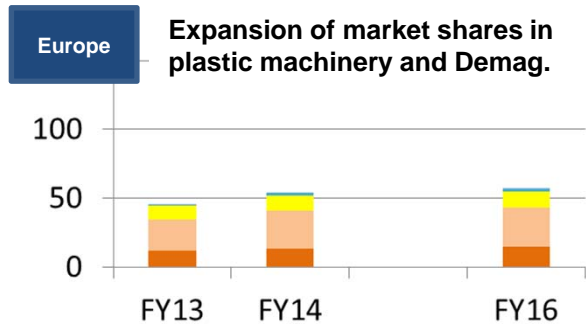
“Medium-Term Management Plan 2016”

Aiming for Steady Growth

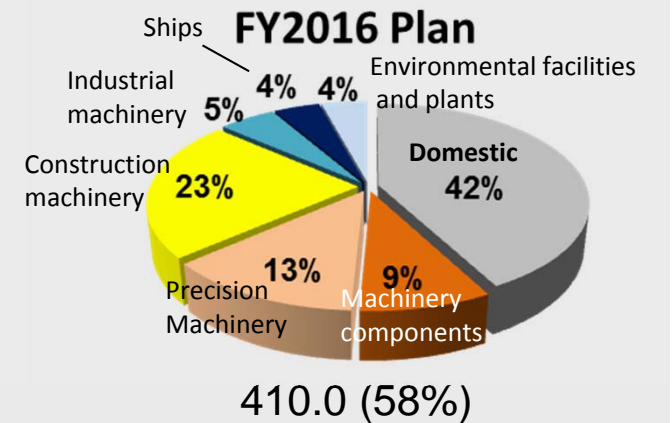
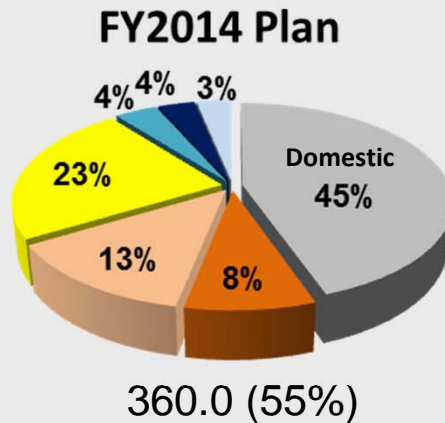
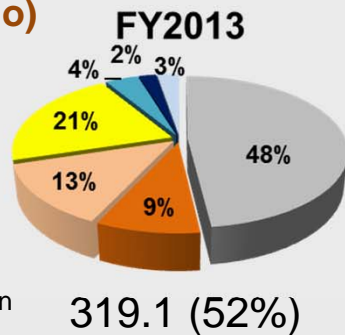
Keywords	Targets and Issues
Globalization (Expansion)	<ul style="list-style-type: none"> ● Enhancement of competitiveness of PTC (overseas) and Plastic Machinery. ● Enhancement of area marketing (PTC, Plastic Machinery and Construction Machinery). ● Development of human resources for global operation.
Innovation (Change)	<ul style="list-style-type: none"> ● Creation of first-class products. ● Enhancement of project management capability. ● Focus on after-market business. ● Reform of sales process.
Group Synergies (Connect)	<ul style="list-style-type: none"> ● Promotion of corporate group internal value chain. ● Differentiation through system control technology. ● Enhancement of collaboration within each business operation group (PTC, Plastic Machinery and Construction Machinery).
Focus on New Growth Fields	<ul style="list-style-type: none"> ● Reaching the top of the energy market niche and developing peripheral fields. ● Long-term growth in medical field.

“Medium-Term Management Plan 2016” Aiming for Steady Growth (Globalization)

Unit: JPY billion



Overseas Net Sales (Sales ratio)



Unit: JPY billion

May 9, 2014

“Medium-Term Management Plan 2016”

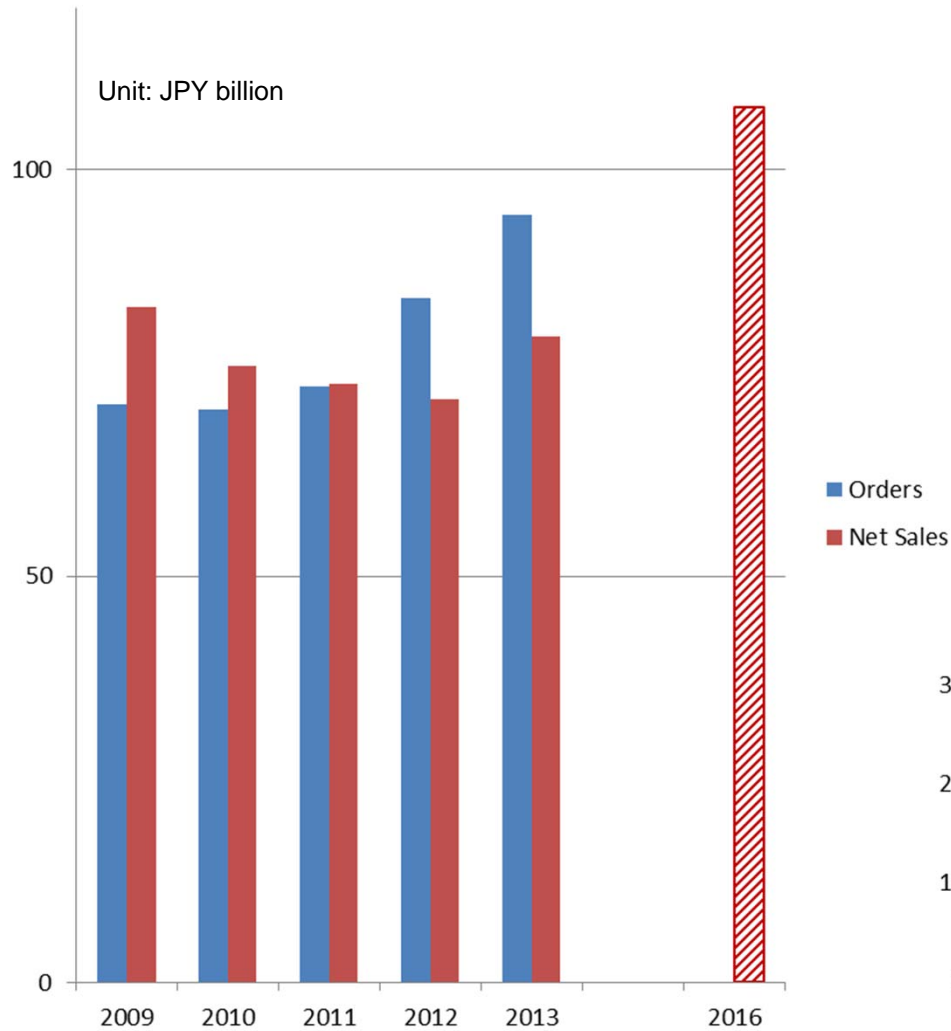
Aiming for Steady Growth

	Energy			Environment	
	Fuel	Power generation	Energy-saving	Water treatment	Exhaust gas treatment
Machinery components		Speed increaser, Speed reducer for wind turbine	High efficiency motor	Speed reducer	
Precision machinery		Turbine blade	EV series injection molding Machine		
Construction machinery			Hybrid excavator		Excavator Mobile crane
Industrial machinery	Chemical pump	Unloader Turbine	Hybrid crane		
Ships			Energy-saving tanker		
Environmental facilities & Plants	Reactor vessel Cokes machinery	Boiler	Cooling tower	Water treatment facility, operation and maintenance	Bag filter, electrostatic precipitator

	Medical			
	Manufacturing equipment	Component	Diagnosis and therapy system	Maintenance
Precision machinery	Injection molding machine	Cryogenic cooler for MRI		Maintenance for cryogenic cooler
Industrial machinery		Ion beam injector	PET system, Proton beam cancer therapy system, BNCT	Maintenance and sterilization for medical equipment

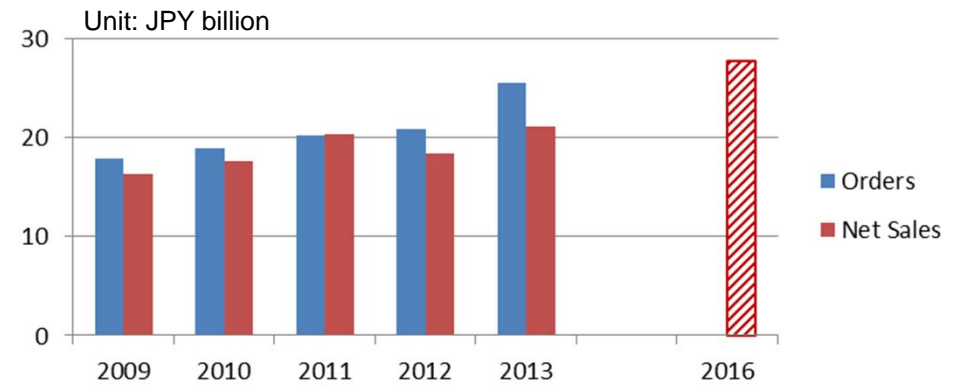
“Medium-Term Management Plan 2016” Aiming for Steady Growth

Energy and environment related orders received and net sales



Medical related orders received and net sales

* Aiming for long-term growth



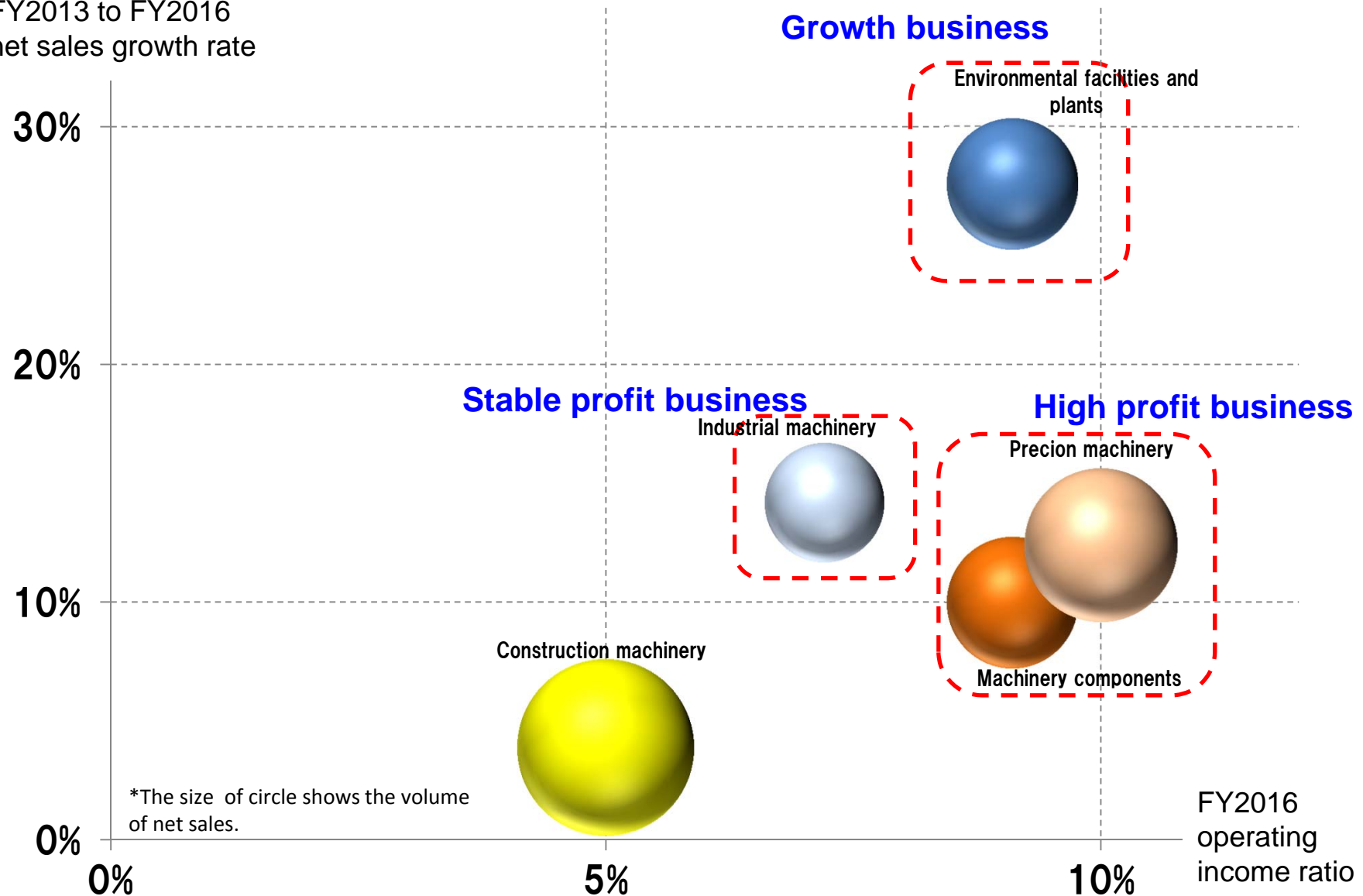
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Return to Higher Levels of Profitability

	Target	Applicable business operations
1	Operating income ratio target of around 10%	Leading business operation groups in the SHI Group (PTC, Plastic machinery, Precision equipment, Shin Nippon Machinery, etc.).
2	Focus on new growth fields	Energy and environment, medical (long-term).
3	(1) Operating income ratio of 5% or higher (2) Self-reliance of each business operation (3) Rejection of deficit orders	All business operations.
4	Review on how business operation should stand	Low profitability business operations and business operations not on value chains in the Group.

Position by Segments

FY2013 to FY2016
net sales growth rate



FY2016
operating
income ratio

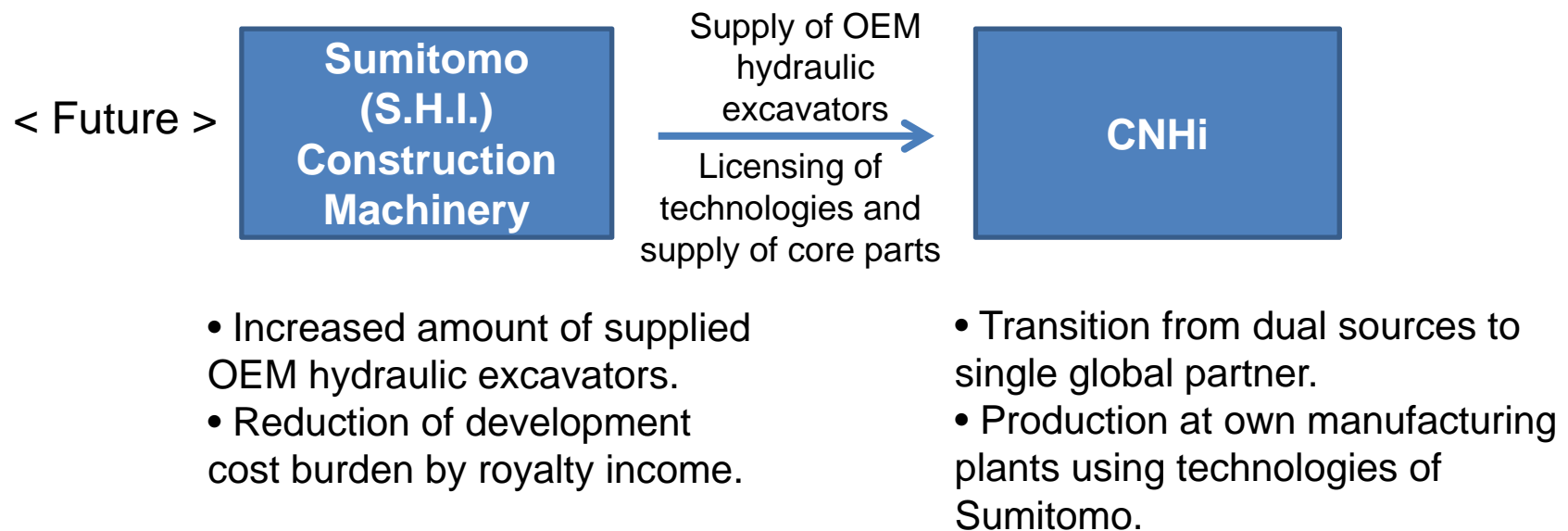
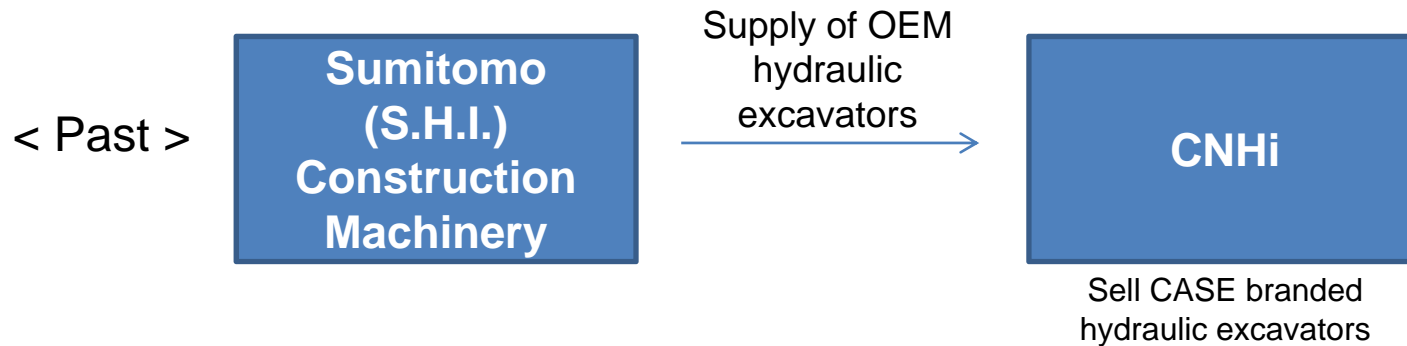
Principal Measures by Segment

Unit: JPY billion

Business Segment	Record FY2013		Plan FY2016		Principal Measures
	Net sales	Operating income	Net sales	Operating income	
Machinery components	100.0	5.9	110.0	10.0	<ul style="list-style-type: none"> • Early launch of new products in markets. • Rebuilding of manufacturing framework and enhancement of competitiveness in China. • Achievement of synergy with Hansen . • Restructuring of European business operation.
Precision machinery	133.5	8.7	150.0	15.0	<ul style="list-style-type: none"> • Early launch of new products in markets. • Achievement of synergy with Demag. • Acceleration of global network deployment.
Construction machinery	192.5	10.3	200.0	10.0	<ul style="list-style-type: none"> • Focus on key market segments. • Differentiation by enhancing product appeals of hybrid machines. • Strengthening of relationship with CNH. • Restoration of Chinese business. • Launch of new products.
Industrial machinery	78.8	4.1	90.0	6.5	<ul style="list-style-type: none"> • Pursuit of synergy in business operations of structural reforms and mergers. • Enhancement of foundations for stable growth. • Expansion of sales in energy fields.
Ships	14.8	(3.0)	30.0	0.5	<ul style="list-style-type: none"> • Early restoration to profitability under the minimized organization.
Environmental facilities and plants	86.2	6.2	110.0	10.0	<ul style="list-style-type: none"> • Responsive actions for brisk demands in Japan and develop overseas markets. • Utilization of all corporate resources. • Focus on after-market business.
Others	9.5	2.2	10.0	0.5	
Total	615.3	34.3	700.0	52.5	

Notes on Construction Machinery Business Operation

Strengthening of the Relationship with CNH Industrial N.V. (CNHi)



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.