# Sumitomo Heavy Industries, Ltd.

**CONSOLIDATED FINANCIAL REPORT**

**For the Full Year Ended March 31, 2015**

*All financial information has been prepared in accordance with generally accepted accounting principles in Japan. This document has been translated from the Japanese original as a guide to non-Japanese investors, and contains forward-looking statements that are based on management's estimates, assumptions, and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. Amounts shown in this financial statement have been rounded to the nearest million yen.*

# Summary of Consolidated Financial Results

**For the Full Year Ended March 31, 2015**
**Presented May 8, 2015**

# Sumitomo Heavy Industries, Ltd.

| | |
|---|---|
| Listed exchanges | Tokyo Stock Exchange |
| Stock code | 6302 |
| Head office | Tokyo |
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| Telephone | +81 3 6737 2331 |
| Scheduled date of ordinary shareholders' meeting | June 26, 2015 |
| Scheduled date of payment of cash dividends | June 29, 2015 |
| Scheduled date of securities report filing | June 26, 2015 |
| Availability of supplementary explanatory materials for financial statement | Yes |
| Holding of meeting to explain financial statement | Yes (for analysts) |

## 1. FY 2014 Consolidated Results *(April 1, 2014, to March 31, 2015)*

### (1) Business Results

(Unit: million yen)

| | Current Full Term April 1, 2015 to March 31, 2014 | | Previous Full Term April 1, 2014 to March 31, 2013 | |
|---|---|---|---|---|
| | | % change | | % change |
| Net sales | 667,099 | 8.4 | 615,271 | 5.0 |
| Operating income | 45,998 | 34.0 | 34,329 | 9.7 |
| Ordinary income | 45,113 | 36.7 | 33,000 | 6.5 |
| Net income | 24,348 | 36.1 | 17,891 | 205.1 |
| Net income per share (yen) | 39.71 | | 29.17 | |
| Fully diluted net income per share | — | | — | |
| Return on equity (ROE, %) | 7.1 | | 5.8 | |
| Return on assets (%) | 6.0 | | 4.8 | |
| Ordinary income to net sales (%) | 6.9 | | 5.6 | |

Note: Comprehensive income:
Fiscal year ended March 31, 2015: 39,922 million yen (-5.4%)
Fiscal year ended March 31, 2014: 42,210 million yen (167.4%)

Reference: Equity method investment profit and loss:
Fiscal year ended March 31, 2015: (1,549 million yen gain)
Fiscal year ended March 31, 2014: (1,201 million yen gain)

### (2) Financial Position

(Unit: million yen)

| | End of Current Full Year March 31, 2015 | End of Previous Full Year March 31, 2014 |
|---|---|---|
| Total assets | 786,027 | 724,182 |
| Net assets | 365,101 | 331,059 |
| Equity ratio (%) | 45.8 | 45.1 |
| Net assets per share (yen) | 587.37 | 532.28 |

Reference: Equity:
Fiscal year ended March 31, 2015: 360,079 million yen
Fiscal year ended March 31, 2014: 326,433 million yen

### (3) Cash Flows

(Unit: million yen)

| | Current Full Year April 1, 2014 to March 31, 2015 | Previous Full Year April 1, 2013 to March 31, 2014 |
|---|---|---|
| Cash flows from operating activities | 62,170 | 63,661 |
| Cash flows from investing activities | (14,112) | (27,622) |
| Cash flows from financing activities | (36,889) | (9,498) |
| Cash and cash equivalents at end of period | 90,324 | 76,418 |

## 2. Dividends

(Unit: yen)

| | Year Ended March 31, 2014 | Year Ended March 31, 2015 | Year Ending March 31, 2016 (forecast) |
|---|---|---|---|
| Annual dividends per share | | | |
| First quarter | — | — | — |
| Second quarter | 3.00 | 5.00 | 7.00 |
| Third quarter | — | — | — |
| End of term | 4.00 | 7.00 | 7.00 |
| Annual dividends | 7.00 | 12.00 | 14.00 |
| Total dividends (million yen) | 4,293 | 7,356 | |
| Payout ratio (consolidated, %) | 24.0 | 30.2 | 28.6 |
| Net assets dividend yield (consolidated, %) | 1.3 | 2.0 | |

## 3. FY 2015 Consolidated Forecasts *(April 1, 2015, to March 31, 2016)*

(Unit: million yen)

| | Second Quarter (Cumulative) April 1, 2015 to September 30, 2015 | | Full Year April 1, 2015 to March 31, 2016 | |
|---|---|---|---|---|
| | | % change | | % change |
| Net sales | 330,000 | 7.7 | 700,000 | 4.9% |
| Operating income | 20,000 | 0.3% | 52,500 | 14.1% |
| Ordinary income | 19,500 | (2.5%) | 50,000 | 10.8% |
| Full-year net income attributed to shareholders of the parent company | 11,000 | (10.4%) | 30,000 | 23.2% |
| Projected net income per share (yen) | 17.94 | | 48.94 | |

## Additional Notes

(1) Transfers of important subsidiaries during the fiscal period (moves of specific subsidiaries due to change in scope of consolidation): None

Newly consolidated: None

Excluded from consolidation: None

(2) Changes to accounting policies, changes to accounting estimates, and retrospective restatements

(i) Changes to accounting policies due to revisions to accounting standards: Yes

(ii) Changes to accounting policies not otherwise stated in (i): Yes

(iii) Changes to accounting estimates: Yes

(iv) Retrospective restatements: None

(3) Number of shares issued (common shares)

(i) Number of shares issued at end of fiscal period (including treasury stock):

| | |
|---|---|
| As of March 31, 2015 | 614,527,405 shares |
| As of March 31, 2014 | 614,527,405 shares |

(ii) Number of treasury shares at end of fiscal period:

| | |
|---|---|
| As of March 31, 2015 | 1,495,994 shares |
| As of March 31, 2014 | 1,248,184 shares |

(iii) Average number of shares during fiscal period:

| | |
|---|---|
| As of March 31, 2015 | 613,122,326 shares |
| As of March 31, 2014 | 613,410,540 shares |

Disclosure of Present Status of Audit Procedures

In compliance with the Financial Instruments and Exchange Act, audit procedures for financial statements are performed when the Consolidated Financial Results are announced.

Explanations and Other Special Items regarding the Pertinent Reasons for the Earnings Forecast

Earnings forecasts and outlooks concerning future financial results are believed to be reasonable based on information available at the time of publication. Actual financial results may vary from the above forecast and outlook due to a variety of factors. For information on the assumptions that form the basis of the earnings forecast and items to note concerning the use of earnings forecasts, please refer to the analysis of business performance in the *Supplementary Materials* section beginning on page 6.

## Supplementary Materials – Table of Contents

# I. Results of Operations

## 1. Analysis of Operating Results

**(1) Summary of Economic Climate during the Consolidated Fiscal Year**

The Japanese economy in the current consolidated fiscal year under review saw a delayed recovery from the slowdown in demand after the spike caused by the increase in sales tax (i.e. a rush to put in orders prior to the increase in sales tax). On the other hand, capital investment levels remained relatively strong as corporate financial performance improved with the weaker Japanese yen. Outside Japan, there were clear signs of economic recovery in the United States. On the other hand, the Eurozone slowed with the situation in Ukraine worsening, while the Chinese economy remained stagnant primarily due to the Chinese government's stronger stance on investment controls. As a result, the global economy as a whole trended towards a gradual slowdown.

Set against this economic backdrop, the Group launched its new "Medium-Term Management Plan 2016" during the current consolidated fiscal year under review and focused on the following core strategies in its business operations:

**(i) Achieve "Steady growth" to Ensure that a Foundation for Sustainable Growth is Established**

(a) "Globalization (Expansion)"

In the plastics machinery business, the ties with the Group's German subsidiary, Sumitomo (SHI) Demag Plastics Machinery, in the areas of sales and development were strengthened for electric injection molding machines. In the gear reducer business, the Group pushed forward with the integration of a product platform with its Belgium subsidiary, Hansen Industrial Transmissions NV. Finally, in the construction machinery business, the Group strengthened its partnership with CNH Industrial N.V. through the licensing of technology relating to hydraulic excavators.

(b) "Innovation (Change)"

Under this tagline, the Group continued to demonstrate its product development capabilities. For example, in the gear reducer business, the Group launched a gear motor that utilizes an energy-saving technique that satisfies the IE3 Class Premium Efficiency standard. In the industrial machinery business, the world's first small-scale vertically arranged proton therapy system was delivered to a treatment facility. Moreover, the Group made a full-fledged effort to strengthen its aftermarket business across all business segments, a key topic raised in the medium-term management plan.

(c) "Group Synergies (Connect)"

The Group was able to achieve sales expansion of hybrid hydraulic excavators through product differentiation, which is based on system control technologies that were internally developed over the years. Moreover, in order to enhance competitiveness levels across each business of the Group, a new R&D Center was established at the Ehime Works. By doing so, the Group established a foundation to further strengthen technological research activities in such areas as materials and surface treatments.

(d) "Growth of Energy Related Segments"

In regard to energy-related businesses, which has been designated a growth area in the medium-term management plan, the Group worked to increase order levels for products in this area. As a result, the Group received an order for Japan's largest and most efficient biomass-fueled power generating facility that utilizes wood chips as a fuel source.

**(ii) "Return to higher levels of profitability"**

In the plastics machinery business, the electric-driven injection molding machine specifically designed for light guiding plates that was introduced in the previous consolidated fiscal year saw a boost in sales to smart phone manufacturers. This contributed to the sales and income level and helped improve the profit margin of the Precision Machinery Segment.. The profit margin in overall segments of the Group improved as well..

**(iii) "Persistent efforts for operational quality improvements"**

In order to strengthen the Group's product quality management functions, an organizational change was made to upgrade the Department of Corporate Quality in the Head Office to the Corporate Quality Group. In the area of safety, the Group launched the second execution phase of the Health and Safety Reform Plan, with the aim to strengthen health and safety management capabilities and to eliminate workplace injuries.

**(iv) Thoroughly Implement Compliance Measures**

In line with the Group's guiding principle of "Prioritizing Compliance Above All Else", various efforts to ensure that the importance of compliance is understood across the entire Group were carried out. Outside of Japan, compliance training was conducted for employees of overseas affiliated companies in order to enhance the Group's focus on compliance. In Japan, training for personnel before overseas posting as well as educational seminars on both domestic and international anti-trust laws and anti-corruption laws were held.

As a result of these management strategies, orders for the current consolidated fiscal year under review increased by 12.5% as compared to the previous fiscal year to finish at a record-setting JPY740.8 billion. Sales also increased by 8.4% as compared to the previous fiscal year to finish at another record-setting JPY667.1 billion.

Turning to income, operating income finished at JPY46.0 billion, a 34% increase as compared to the previous fiscal year, and ordinary income finished at JPY45.1 billion, a 36.7% increase as compared to the previous fiscal year. Full-year net income also increased by 36.1% as compared to the previous fiscal year to finish at JPY24.3 billion. The improvements in profitability were mainly as a result of an increase in sales. Finally, the after-tax ROIC ended at 6.5%*.

On a non-consolidated basis, the fiscal year under review saw orders finish at JPY237.4 billion and sales finish at JPY192.2 billion. Further, the Group posted a non-consolidated operating income of JPY8.2 billion, a non-consolidated ordinary income of JPY17.9 billion and a non-consolidated net income of JPY10.9 billion for the fiscal year under review.

After considering the aforementioned financial performance and the Group's fiscal condition, the dividend from retained earnings for the current consolidated fiscal year under review has been set at JPY12 per share, an increase of JPY5 as compared to the previous fiscal year. It should be noted that this figure already includes the JPY5 per share that was announced as an interim dividend.

* ROIC is an abbreviation for Return on Invested Capital, and it measures the amount of profit generated from invested capital (the sum of shareholders' equity and interest-bearing liabilities) as well as profitability as compared to the cost of capital.

**(2) Group Results by Segment**

**(i) Machinery Components**

Although there was a slowdown in the Eurozone and China markets, there was continued growth in the domestic market and positive movement in market conditions for both North America and other regions. As a result, both orders and sales increased as compared to the previous fiscal year.

In actual figures, the segment as a whole saw orders increase by 6% as compared to the previous fiscal year to finish at JPY104.7 billion, and sales increase by 3% as compared to the previous fiscal year to finish at JPY102.6 billion. In addition, the segment posted an operating income of JPY6.6 billion, a 9% increase as compared to the previous fiscal year.

**(ii) Precision Machinery**

With respect to plastics machinery, strong demand from the IT industry in Asia as well as positive market conditions in Japan as well as the Eurozone resulted in increases in both orders and sales as compared to the previous fiscal year. In other product areas, orders and sales also increased as compared to the previous fiscal year mainly as a result of a recovery in demand for semiconductor-related equipment.

In actual figures, the segment as a whole saw orders increase by 15% as compared to the previous fiscal year to finish at JPY154.6 billion, and sales increase by 10% as compared to the previous fiscal year to finish at JPY146.4 billion. In addition, the segment posted an operating income of JPY13.5 billion, a 43% increase as compared to the previous fiscal year.

**(iii) Construction Machinery**

Despite reduced demand from the China market, the hydraulic excavator business was able to exceed previous fiscal year figures for orders and sales mainly due to strong demand from the domestic Japanese market as well as improved performance in the North American market after a round of inventory adjustments. With respect to the mobile crane business, although orders increased as compared to the previous fiscal year, sales were down mainly due to a slowdown in the North American market caused by the cold spell that gripped certain parts of the region at the beginning of the fiscal year.

In actual figures, the segment as a whole saw orders increase by 7% as compared to the previous fiscal year to finish at JPY206.5 billion, and sales increase by 5% as compared to the previous fiscal year to finish at JPY202.0 billion. In addition, the segment posted an operating income of JPY11.9 billion, a 25% increase as compared to the previous fiscal year.

**(iv) Industrial Machinery**

The material handling business posted improved results for orders as demand from the domestic shipbuilding sector showed signs of recovery. In the turbine/pump business, orders and sales increased as compared to the previous fiscal year as demand for turbines from the overseas power generation sector remained high.

In actual figures, the segment as a whole saw orders increase by 6% as compared to the previous fiscal year to finish at JPY89.6 billion, and sales fall by 4% as compared to the previous fiscal year to finish at JPY75.8 billion. In addition, the segment posted an operating income of JPY5.8 billion, a 46% increase as compared to the previous fiscal year.

**(v) Ships**

Although the overall shipping industry remained relatively flat, the recovery of the market for medium-size tankers which the Group specializes in and the weakening Japanese yen resulted in the segment receiving orders for nine vessels during the fiscal year, an improvement of four vessels as compared to the previous fiscal year. With regard to sales, three vessels were handed over during the current fiscal year, an increase of two vessels from the previous fiscal year.

In actual figures, the segment as a whole saw orders increase by 95% as compared to the previous fiscal year to finish at JPY61.9 billion, and sales increase by 76% as compared to the previous fiscal year to finish at JPY26.1 billion. In addition, the segment posted an operating loss of JPY1.2 billion.

**(vi) Environmental Facilities & Plants**

Orders and sales figures for the energy plant business were better than in the previous fiscal year as the number of biomass-fueled electricity generation boiler projects in Japan continued to rise. On the other hand, orders and sales for the water treatment plant business fell as compared to the previous term due to the lack of new O&M (Operation & Maintenance) service proposals.

In actual figures, the segment as a whole saw orders increase by 9% as compared to the previous fiscal year to finish at JPY113.4 billion, and sales increase by 22% as compared to the previous fiscal year to finish at JPY105.5 billion. In addition, the segment posted an operating income of JPY7.5 billion, a 24% increase as compared to the previous fiscal year.

**(3) Outlook for the Upcoming Fiscal Year (Ending March 31, 2016)**

The economic environment that forms the backdrop of the Group's operations remains murky. In the domestic market, expectations for a positive growth cycle are increasing primarily because strong corporate results have given promise to a recovery in capital investments and increased wages. Outside of Japan, although the U.S. market is expected to remain on a positive track, uncertainty factors such as the prolonged stagnation of the Chinese economy as well as geopolitical risks and debt problems in Europe continue to hinder expectations.

In this type of environment, the Group is accelerating the implementation of the various strategies set forth in the Medium Term Management Plan 2016 that was commenced in the previous fiscal year, with the aim to meet the final objectives in the plan one year in advance.

As of the publication date of this document, the outlook for the upcoming fiscal year ending March 31, 2016, is as follows:

| Consolidated Results | Amount | As Compared to FY 2014 |
|---|---|---|
| Sales | JPY700.0 billion | +4.9% |
| Operating income | JPY52.5 billion | +14.1% |
| Ordinary income | JPY50.0 billion | +10.8% |
| Net income attributed to shareholders of the parent company | JPY30.0 billion | +23.2% |

(The above figures are calculated at an exchange rate of JPY118 and JPY130 against the dollar and euro, respectively.)

* The above forecast concerning future financial results is believed to be reasonable based on information available at the time of publication. Actual financial results may vary from the above forecast due to a variety of factors.

## 2. Analysis of Financial Condition

### (1) Condition of Assets, Liabilities, and Net Assets

Total assets at the end of the consolidated fiscal year under review stood at JPY786.0 billion, an increase of JPY61.8 billion from the end of the previous consolidated fiscal year. This was mainly due to the JPY13.0 billion increase in trade notes and accounts receivable, the JPY25.0 billion increase in marketable securities, the JPY9.6 billion increase in inventory assets, and the JPY8.0 billion increase in tangible fixed assets exceeding the JPY10.4 billion decrease in cash and deposits.

Total liabilities rose to JPY420.9 billion, an increase of JPY27.8 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to the JPY16.2 billion increase in trade notes and accounts payable, and the JPY14.2 billion increase in advances received exceeding the JPY23.8 billion decrease in interest-bearing liabilities (interest-bearing liabilities as a ratio to total assets decreased by 4.2% to 10.6%).

Net assets at the end of the consolidated fiscal year under review stood at JPY365.1 billion, an increase of JPY34.0 billion from the end of the previous consolidated fiscal year. This was mainly due to increases of JPY18.7 billion in retained earnings, and JPY14.6 billion in the foreign currency translation adjustment.

Consequently, the shareholders' equity ratio for the consolidated fiscal year under review improved by 0.7 points from the end of the previous consolidated fiscal year to finish at 45.8%.

### (2) Cash Flow Conditions

The cash and cash equivalent balance at the end of the consolidated fiscal year under review stood at JPY90.3 billion, an increase of JPY13.9 billion as compared to the previous consolidated fiscal year.

The cash flow conditions in each area and the factors behind any changes are outlined below:

(Cash Flow from Operating Activities)

The increase in cash flow from operating activities was JPY62.2 billion (as compared to an increase in cash flow of JPY63.7 billion in the previous fiscal year). The main sources of cash flow were net income before taxes and other adjustments of JPY38.7 billion, depreciation of JPY16.3 billion and the JPY9.8 billion increase in trade payables. The main reason for cash outflow from operating activities was the JPY16.3 billion payment of corporate and other taxes.

(Cash Flow from Investing Activities)

The decrease in cash flow as a result of investing activities was JPY14.1 billion (as compared to a decrease in cash flow of JPY27.6 billion in the previous fiscal year). The main reasons for the cash outflow were the JPY17.3 billion used to acquire fixed assets and the JPY1.4 billion used for loans.

(Cash Flow from Financing Activities)

The decrease in cash flow as a result of financing activities was JPY36.9 billion (as compared to a decrease in cash flow of JPY9.5 billion in the previous fiscal year). The main reasons for the cash outflow were the JPY29.5 billion (net amount with cash inflow of loans) used to repay loans and the JPY5.5 billion used to pay dividends.

Trends in the Group's cash flow indices are provided below:

| | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 |
|---|---|---|---|---|---|
| Shareholders' equity ratio (%) | 42.6 | 40.3 | 44.6 | 45.1 | 45.8 |
| Shareholders' equity ratio on a market price basis (%) | 53.2 | 40.8 | 36.1 | 35.5 | 61.4 |
| Redemption period (years) | 1.9 | 4.1 | 37.0 | 1.7 | 1.3 |
| Interest coverage ratio (multiples) | 24.2 | 14.0 | 1.3 | 24.5 | 29.3 |

Shareholders' equity ratio = shareholders' equity / total assets

Shareholders' equity ratio on market price basis = total market value of shares / total assets

Redemption period = outstanding interest-bearing debt / operating cash flow

Interest coverage ratio = operating cash flow / interest expense

## 3. Basic Policy on Earnings Appropriation and Dividend for the Consolidated Fiscal Year Under Review as well as the Fiscal Year Ending March 31, 2016

The Group's basic stance on profit sharing is to pay a dividend amount commensurate to the income earned during the period, and to keep that amount as high as possible. However, the decision on the actual amount of the dividend is made after making considerations for the level of retained earnings necessary to ensure that the Group is able to sustain a stable business model in the long term. In the current medium-term management plan, the Group has set a target of 30% for the consolidated dividend payout ratio.

For the consolidated fiscal year under review, the Group is forecasting a dividend of JPY12 per share (inclusive of the JPY5 per share interim dividend), an increase of JPY5 per share from the previous year.

For the fiscal year ending March 2016, the Group is forecasting a dividend of JPY14 per share.

# II. Status of the Business Group

The main business areas of the Group and the positioning of major Group companies in these areas are outlined below.

## 1. Machinery Components

In the area of transmission power equipment, both Sumitomo Heavy Industries and Seisa Gear, Ltd. are responsible for the overall product manufacturing and distribution. The responsibility for global manufacturing and distribution of these products falls to Sumitomo Machinery Corporation of America in North America; Sumitomo (SHI) Cyclo Drive Germany GmbH and Hansen Industrial Transmissions NV in Europe; and Sumitomo (SHI) Cyclo Drive Asia Pacific Pte., Ltd. in Southeast Asia. In China, Sumitomo Heavy Industries (Tangshan) Ltd. carries out manufacturing while Sumitomo (SHI) Cyclo Drive China, Ltd. carries out manufacturing and is also responsible for the overall distribution of products in the country. Product distribution in Japan is the responsibility of Sumitomo Heavy Industries PTC Sales Co., Ltd.

## 2. Precision Machinery

In the area of plastics machinery equipment, Sumitomo Heavy Industries, Ltd. is responsible for the overall manufacturing, distribution, and after-sales service of the product line. Sumitomo (SHI) Demag Plastics Machinery North America, Inc. is responsible for the overall distribution of the product line in the North American market, and Sumitomo (SHI) Demag Plastics Machinery GmbH is responsible for manufacturing and distribution of the product line in Europe.

Sumitomo Heavy Industries, Ltd. is responsible for overall manufacturing and distribution of laser processing systems, cryocoolers, precision positioning equipment, control system equipment, and defense equipment.

In the area of semiconductor production equipment, both Sumitomo Heavy Industries and SEN Corporation[*1] are responsible for overall manufacturing and distribution.

Finally, Sumitomo Nacco Materials Handling Co., Ltd. is responsible for the overall manufacturing and distribution of forklift products.

[*1] As of April 1, 2015, SEN Corporation has been renamed Sumitomo Heavy Industries Ion Technology Co., Ltd.

## 3. Construction Machinery

In the area of hydraulic excavators and road construction machinery, Sumitomo (S.H.I.) Construction Machinery Co., Ltd. is responsible for the manufacturing and distribution of products to overseas markets; Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd. is responsible for the manufacturing of products in China; Sumiju SCE (Xiamen) Construction Machinery Co., Ltd. is responsible for the distribution of products in China, PT. Sumitomo S.H.I. Construction Machinery Indonesia is responsible for the manufacturing of products in Indonesia; and Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd. is responsible for the distribution of products in Japan.

In the area of mobile cranes, Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. is responsible for overall development, distribution, and manufacturing of products for the Japanese market, while Link-Belt Construction Equipment Company, L.P., LLLP mainly oversees the overall manufacturing and sales of products for the North American market.

## 4. Industrial Machinery

Sumitomo Heavy Industries is responsible for the overall manufacturing and distribution of accelerators, LCD display production equipment, and forging machines.

Sumitomo Heavy Industries Material Handling Systems Co., Ltd. is responsible for overall manufacturing and distribution of material handling systems, logistics and handling systems, and automated parking systems.

Shin Nippon Machinery Co., Ltd. is responsible for the overall manufacturing and distribution of industrial turbines and pumps.

## 5. Ships

In this segment, shipbuilding is carried out by Sumitomo Heavy Industries Marine & Engineering Co., Ltd., while Sumitomo Heavy Industries is responsible for the distribution of the finished product.

## 6. Environmental Facilities & Plants

In the areas of boiler systems, industrial waste treatment systems, pulp and paper machinery, and air pollution prevention equipment, both Sumitomo Heavy Industries and Nihon Spindle Manufacturing Co., Ltd. are responsible for overall manufacturing and distribution.

Sumitomo Heavy Industries Environment Co., Ltd. is responsible for the overall manufacturing and distribution of water treatment systems.

Further, the manufacturing and distribution of reactor vessels is handled by Sumitomo Heavy Industries and Sumitomo Heavy Industries Process Equipment Co., Ltd.

Finally, Izumi Food Machinery Co., Ltd. is responsible for the overall manufacturing and distribution of food machinery.

# III. Management Policies

## 1. Basic Management Policy

The Group is guided by the Sumitomo Business Spirit. The two components of the philosophy, namely "the placing of prime importance on conducting business with integrity and sound management" and "not pursuing easy gains or acting imprudently under any circumstances", form the basis of the Group's vision in any environment, regardless of the era or the state of the economy. The Group rigorously complies with the spirit of the philosophy, and actively pursues structural reforms to its business organization to ensure that it is able to build a strong corporate culture.

The Group also believes that by focusing on creating customer value, and thereby earning customers' long-term trust, it can achieve sustainable growth and increase overall corporate value. Further, succeeding in this task will also lead to the Group meeting its corporate citizenship responsibilities to its shareholders, employees, and surrounding communities.

To ensure a highly stable growth trajectory on the global stage, the Group is committed to becoming a "Systematic Knowledge-Creating Company" that is able to sustainably supply customers with first-class products. Moreover, the Group is actively strengthening its functional efficiencies in the areas of marketing, development, and production in pursuit of the ultimate level of workmanship.

## 2. Medium- to Long-Term Management Strategy, Target Management Benchmarks and Action Items for the Group

In overall terms, the economic environment that forms the backdrop of the Group's business in Japan is on the recovery track as the government continues to implement measures to stimulate the economy, the weaker Japanese yen drives export growth and capital investment levels increase as production levels return to prior levels. However, it will take some time for personal consumption and capital investment levels to return to a sufficient level. Overseas, the situation remains much murkier as although the U.S. economy has trended positively, emerging markets, in particular China that has been the engine of the global economy, have slowed down, and the delayed recovery of the Eurozone from its debt crisis has slowed the pace of an overall recovery.

### (1) "Medium-Term Management Plan 2016"

In the "Medium-Term Management Plan 2016" that was launched in the previous fiscal year, the Group established a target of JPY700.0 billion in sales, and an operating profit margin of 7.5% by FY2016. ROIC continues to be the Group's key performance indicator and the plan calls for ROIC to remain greater than 7%.

In order to achieve these targets, the Group is aiming to become a company to supply first-class products. However, the key point here is that the Group is not aiming to grow for the sake of growing. Rather, it will focus on achieving steady growth to build a foundation that ensures a return to high levels of profitability.

Also, across the wide range of businesses that the Group operates in order to meet the diverse needs of its customers, the Medium-Term Management Plan 2016 has specifically identified the energy-related sector as an area of demand expansion and growth. With this in mind, the Group is looking to actively develop this area of the business.

Moreover, as the Group acts on the plan, it will continue to maintain fiscal discipline while targeting a dividend payout ratio of 30% during the three-year implementation period of the plan.

### (2) Key Areas of Focus for the Fiscal Year Ending March 31, 2016

FY2015 is the second implementation year of the Medium-Term Management Plan 2016. As a result of solid order levels received in the previous fiscal year, a positive atmosphere of operational growth has enveloped the Group. As broader economic trends do not allow for optimism, the Group will focus on executing the following initiatives during the fiscal year.

(i) Achieve steady growth to ensure that a foundation for sustainable growth is established

As a business expansion strategy, the Group will aim to form organic synergies between the overseas network of the mass-produced machinery business where investments have primarily been made to date with other facilities and functions both domestically and outside of Japan. Through this, the Group will expand business opportunities. In addition, focused and timely investments will be made in necessary areas to ensure that synergies are strengthened in an accelerated manner. Although strategies will differ because of the external environment and business environment of each operation, an optimal scenario for the overall Group will be established and every effort will be made to make this a reality.

In order to expand the heavy machinery business, the unique technologies developed for each product type will be refreshed. At the same time, the strengthening of product capabilities will be promoted through the use of common technologies in areas such as materials and controls. Innovation activities in the manufacturing area will also be promoted. For example, innovation activities will be pursued in areas of production technologies such as bonding and processing, which form the foundations of the manufacturing process, with the aim to achieve sustainable improvement and manufacturing breakthroughs. In addition, innovation activities in engineering areas will also be pursued.

Moreover, the strengthening of aftermarket businesses has been positioned as a common goal across the entire Group as part of a broader strategy to form synergies across the various business groups. More specifically, the number of locations that services this function will be increased, and areas such as human resources and informatization, which form the basis of the service, will be strengthened. By doing so, sales process innovation that aims to expand the business will be promoted.

(ii) Return to higher levels of profitability

As part of the Group's portfolio management activities, the growth stage and external environment of each business group will be taken into account before clearly establishing target profitability levels and key priorities. With this understanding, management resources can be re-distributed accordingly and the business can be restructured in an appropriate manner. Aggressive target levels will be set for the Group's leading business groups such as machinery components and precision machinery in order to drive high profit levels. At the same time, baseline targets for all businesses, segments, product types and regions will be established. Through this, the Group will aim to transform itself into a highly profitable company.

(iii) Persistent efforts for operational quality improvements

(a) Improvements to Product Quality

The Group will implement a management style that puts quality first through such efforts as creating stronger cooperation between the Head Office and the various businesses to ensure that every effort is being made to increase product quality.

(b) Thorough Implementation of Compliance Measures

The Group firmly believes that ensuring compliance across all of its business activities is one of the most, if not the most, important responsibilities that it has. With this in mind, various compliance-related activities are carried out across the Group, both in Japan and internationally. During the upcoming period, education and training to improve awareness levels among the directors and employees of all Group companies will be continued to ensure that recognition of the importance of compliance permeates across the entire Group.

(c) Safety-Related Activities

FY2015 marks the second year of implementing the second phase of the Group's Basic Health and Safety Improvement Plan. The Group plans to set detailed objectives to achieve the overall goals of the plan, strengthen health and safety management functions, and work to eliminate occupational injuries during the fiscal year.

# IV. Selection of Accounting Standards

The Group plans to continue utilizing Japanese accounting standards for the foreseeable future. With regard to the use of international accounting standards in the future, the Group will take into account the situation across various domestic and international markets and take appropriate action if deemed necessary.

# V. Consolidated Financial Statements

## 1. Consolidated Balance Sheets

(Unit: million yen)

| | End of Full Year As of March 31, 2014 | End of Full Year As of March 31, 2015 |
|---|---|---|
| | Amount | Amount |
| Assets | | |
| Current assets | | |
| Cash and deposits | 67,826 | 57,423 |
| Notes and accounts receivable | 181,961 | 194,916 |
| Marketable securities | 10,000 | 35,000 |
| Products | 63,819 | 67,920 |
| Works in progress | 49,144 | 54,762 |
| Raw materials and stock | 31,286 | 31,154 |
| Deferred income taxes | 13,201 | 17,176 |
| Other | 18,934 | 34,852 |
| Allowance for doubtful accounts | (1,217) | (1,202) |
| Total current assets | 434,954 | 492,000 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures | 125,920 | 130,291 |
| Accumulated depreciation | (75,945) | (79,737) |
| Buildings and structures (net) | 49,975 | 50,553 |
| Machinery and transportation tools | 143,501 | 155,703 |
| Accumulated depreciation | (93,949) | (101,286) |
| Machinery and transportation tools (net) | 49,552 | 54,417 |
| Land | 109,265 | 108,749 |
| Construction in progress | 2,884 | 3,288 |
| Other | 36,486 | 41,143 |
| Accumulated depreciation | (27,877) | (29,849) |
| Other (net) | 8,609 | 11,294 |
| Total tangible fixed assets | 220,284 | 228,302 |
| Intangible fixed assets | | |
| Other | 8,648 | 9,333 |
| Total intangible fixed assets | 8,648 | 9,333 |
| Investments and other assets | | |
| Investment securities | 26,745 | 29,509 |
| Long-term loans | 13,786 | 8,340 |

| | End of Full Year As of March 31, 2014 | End of Full Year As of March 31, 2015 |
|---|---|---|
| | Amount | Amount |
| Deferred income taxes | 10,118 | 9,607 |
| Other | 11,134 | 11,121 |
| Allowance for doubtful accounts | (1,486) | (2,184) |
| Total investments and other assets | 60,296 | 56,392 |
| Total Fixed assets | 289,228 | 294,027 |
| Total assets | 724,182 | 786,027 |

(Unit: million yen)

| | End of Full Year As of March 31, 2014 | End of Full Year As of March 31, 2015 |
|---|---|---|
| | Amount | Amount |
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable | 124,211 | 140,436 |
| Short-term bank loans | 52,817 | 42,110 |
| Long-term loans due within one year | 16,855 | 15,201 |
| Corporate bonds redeemable within one year | 10,000 | — |
| Income tax payable | 6,903 | 8,590 |
| Advance payments received on contracts | 30,493 | 44,698 |
| Allowance for guaranteed construction | 6,780 | 7,985 |
| Provision for loss on construction orders | 1,691 | 1,518 |
| Provision for loss on operations | 1,936 | 3,542 |
| Provision for loss on operation transfers | — | 742 |
| Allowance for compensatory damages | — | 565 |
| Other | 37,446 | 47,385 |
| Total current liabilities | 289,130 | 312,771 |
| Fixed Liabilities | | |
| Bonds | — | 10,000 |
| Long-term debt due after one year | 27,761 | 16,333 |
| Provision for loss on operation transfers | 461 | 161 |
| Provision for loss on product liability claims | 36 | 42 |
| Defined benefit liability | 40,037 | 46,162 |
| Deferred income taxes on revaluation | 24,608 | 22,293 |
| Other | 11,090 | 13,163 |
| Total fixed liabilities | 103,993 | 108,155 |
| Total liabilities | 393,123 | 420,926 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 30,872 | 30,872 |
| Capital surplus | 23,789 | 23,789 |
| Retained earnings | 221,101 | 239,815 |
| Treasury stock | (632) | (764) |
| Total Shareholders' equity | 275,130 | 293,712 |
| Accumulated other comprehensive income | | |
| Unrealized gains on securities | 3,753 | 5,437 |
| Profit (loss) on deferred hedge | (379) | (2,229) |

| | End of Full Year As of March 31, 2014 | End of Full Year As of March 31, 2015 |
|---|---|---|
| | Amount | Amount |
| Revaluation reserve for land | 38,272 | 40,476 |
| Foreign currency translation adjustments | 11,993 | 26,641 |
| Re-measurement of defined benefit plans | (2,336) | (3,957) |
| Total accumulated other comprehensive income | 51,304 | 66,367 |
| Minority interests | 4,626 | 5,022 |
| Total net assets | 331,059 | 365,101 |
| Total liabilities and net assets | 724,182 | 786,027 |

## 2. Consolidated Income Statements and Consolidated Statement of Comprehensive Income

### Consolidated Income Statements

(Unit: million yen)

| | Previous Full Year April 1, 2013 to March 31, 2014 | Current Full Year April 1, 2014 to March 31, 2015 |
|---|---|---|
| | Amount | Amount |
| Net sales | 615,271 | 667,099 |
| Cost of sales | 483,104 | 516,735 |
| Gross income | 132,166 | 150,364 |
| Selling, general and administrative expenses | 97,837 | 104,366 |
| Operating income | 34,329 | 45,998 |
| Non-operating income | | |
| Interest income | 337 | 473 |
| Dividend income | 1,013 | 986 |
| Investment gain on equity method | 1,201 | 1,549 |
| Gain on foreign currency exchange | 998 | 1,807 |
| Other | 2,731 | 2,028 |
| Total non-operating income | 6,280 | 6,843 |
| Non-operating expenses | | |
| Interest expenses | 2,637 | 2,148 |
| Other | 4,973 | 5,580 |
| Total non-operating expenses | 7,609 | 7,728 |
| Ordinary income | 33,000 | 45,113 |
| Extraordinary losses | | |
| Loss on impaired assets | 1,690 | 3,463 |
| Business structure improvement costs | — | 1,852 |
| Compensation expenses | — | 1,071 |
| Total extraordinary losses | 1,690 | 6,386 |
| Income before income taxes | 31,309 | 38,727 |
| Corporate income tax current | 12,977 | 16,622 |
| Corporate income tax deferred | 526 | (2,235) |
| Total corporate income taxes | 13,503 | 14,387 |
| Net income before adjusting for profit (loss) from minority interests | 17,807 | 24,339 |
| Profit (loss) of minority interests | (84) | (9) |
| Net income | 17,891 | 24,348 |

## Consolidated Statement of Comprehensive Income

(Unit: million yen)

| | Previous Full Year April 1, 2013 to March 31, 2014 | Current Full Year April 1, 2014 to March 31, 2015 |
|---|---|---|
| | Amount | Amount |
| Net income before adjusting for profit (loss) from minority interests | 17,807 | 24,339 |
| Other comprehensive income | | |
| Unrealized gains on securities | 1,049 | 1,682 |
| Profit (loss) on deferred hedge | 168 | (1,889) |
| Revaluation reserve for land | — | 2,275 |
| Foreign currency translation adjustments | 22,303 | 15,096 |
| Adjustment to retirement benefits | — | (1,628) |
| Adjustment regarding pension obligations of consolidated overseas subsidiaries | 858 | — |
| Amount applied for equity method accounting of affiliates | 25 | 44 |
| Total other comprehensive income | 24,403 | 15,582 |
| Comprehensive income | 42,210 | 39,922 |
| (Breakdown) | | |
| Comprehensive income attributed to shareholders of the parent company | 41,442 | 39,483 |
| Comprehensive income attributed to minority interests | 768 | 438 |

## 3. Consolidated Statements of Changes to Stockholders' Equity

### Previous Full Year April 1, 2013 to March 31, 2014

(Unit: million yen)

| | Stockholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total Stockholders' equity |
| Balance at beginning of period | 30,872 | 23,789 | 207,580 | (455) | 261,786 |
| Cumulative effects of changes in accounting policies | | | | | — |
| Restated balance | 30,872 | 23,789 | 207,580 | (455) | 261,786 |
| Fluctuation in the period | | | | | |
| Dividends | | | (4,295) | | (4,295) |
| Net income | | | 17,891 | | 17,891 |
| Acquisition of treasury stock | | | | (180) | (180) |
| Disposal of treasury stock | | | (1) | 4 | 4 |
| Difference from transfer of revaluation reserve for land | | | (75) | | (75) |
| Increase from addition of consolidated subsidiaries accompanying changes in scope of consolidation | | | | | — |
| Fluctuations other than stockholders' equity in the period (net) | | | | | |
| Total fluctuation in the period | — | — | 13,520 | (176) | 13,344 |
| Balance at end of period | 30,872 | 23,789 | 221,101 | (632) | 275,130 |

| | Accumulated other comprehensive income | | | | | | | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|
| | Unrealized gains on securities | Profit (loss) on deferred hedge | Revaluation reserve for land | Foreign currency translation adjustments | Re-measurement of defined benefit plans | Adjustment regarding pension obligations of consolidated overseas subsidiaries | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 2,694 | (562) | 38,197 | (9,458) | — | (3,808) | 27,064 | 3,977 | 292,826 |
| Cumulative effects of changes in accounting policies | | | | | | | | | — |
| Restated balance | 2,694 | (562) | 38,197 | (9,458) | — | (3,808) | 27,064 | 3,977 | 292,826 |
| Fluctuation in the period | | | | | | | | | |
| Dividends | | | | | | | | | (4,295) |
| Net income | | | | | | | | | 17,891 |
| Acquisition of treasury stock | | | | | | | | | (180) |
| Disposal of treasury stock | | | | | | | | | 4 |
| Difference from transfer of revaluation reserve for land | | | | | | | | | (75) |
| Increase from addition of consolidated subsidiaries accompanying changes in scope of consolidation | | | | | | | | | — |
| Fluctuations other than stockholders' equity in the period (net) | 1,059 | 183 | 75 | 21,451 | (2,336) | 3,808 | 24,240 | 649 | 24,889 |
| Total fluctuation in the period | 1,059 | 183 | 75 | 21,451 | (2,336) | 3,808 | 24,240 | 649 | 38,233 |
| Balance at end of period | 3,753 | (379) | 38,272 | 11,993 | (2,336) | — | 51,304 | 4,626 | 331,059 |

### Current Full Year April 1, 2014 to March 31, 2015

(Unit: million yen)

| | Stockholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total Stockholders' equity |
| Balance at beginning of period | 30,872 | 23,789 | 221,101 | (632) | 275,130 |
| Cumulative effects of changes in accounting policies | | | (1,475) | | (1,475) |
| Restated balance | 30,872 | 23,789 | 219,626 | (632) | 273,655 |
| Fluctuation in the period | | | | | |
| Dividends | | | (5,519) | | (5,519) |
| Net income | | | 24,348 | | 24,348 |
| Acquisition of treasury stock | | | | (135) | (135) |
| Disposal of treasury stock | | | 0 | 3 | 3 |
| Difference from transfer of revaluation reserve for land | | | 72 | | 72 |
| Increase from addition of consolidated subsidiaries accompanying changes in scope of consolidation | | | 1,287 | | 1,287 |
| Fluctuations other than stockholders' equity in the period (net) | | | | | |
| Total fluctuation in the period | — | — | 20,189 | (132) | 20,057 |
| Balance at end of period | 30,872 | 23,789 | 239,815 | (764) | 293,712 |

| | Accumulated other comprehensive income | | | | | | | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|---|---|
| | Unrealized gains on securities | Profit (loss) on deferred hedge | Revaluation reserve for land | Foreign currency translation adjustments | Re-measurement of defined benefit plans | Adjustment regarding pension obligations of consolidated overseas subsidiaries | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 3,753 | (379) | 38,272 | 11,993 | (2,336) | — | 51,304 | 4,626 | 331,059 |
| Cumulative effects of changes in accounting policies | | | | | | | | | (1,475) |
| Restated balance | 3,753 | (379) | 38,272 | 11,993 | (2,336) | — | 51,304 | 4,626 | 329,584 |
| Fluctuation in the period | | | | | | | | | |
| Dividends | | | | | | | | | (5,519) |
| Net income | | | | | | | | | 24,348 |
| Acquisition of treasury stock | | | | | | | | | (135) |
| Disposal of treasury stock | | | | | | | | | 3 |
| Difference from transfer of revaluation reserve for land | | | | | | | | | 72 |
| Increase from addition of consolidated subsidiaries accompanying changes in scope of consolidation | | | | | | | | | 1,287 |
| Fluctuations other than stockholders' equity in the period (net) | 1,683 | (1,850) | 2,203 | 14,648 | (1,621) | — | 15,063 | 396 | 15,460 |
| Total fluctuation in the period | 1,683 | (1,850) | 2,203 | 14,648 | (1,621) | — | 15,063 | 396 | 35,516 |
| Balance at end of period | 5,437 | (2,229) | 40,476 | 26,641 | (3,957) | — | 66,367 | 5,022 | 365,101 |

## 4. Consolidated Cash Flows Statement

(Unit: million yen)

| | Previous Full Year April 1, 2013 to March 31, 2014 | Current Full Year April 1, 2014 to March 31, 2015 |
|---|---|---|
| Cash flows from operating activities | | |
| Income before income taxes | 31,309 | 38,727 |
| Depreciation | 18,617 | 16,281 |
| Loss on impaired assets | 1,690 | 3,463 |
| Business structure improvement costs | — | 1,852 |
| Compensation expenses | — | 1,071 |
| Interest and dividend income | (1,350) | (1,459) |
| Interest expenses | 2,637 | 2,148 |
| Increase (decrease) in reserve amount | 2,638 | 3,075 |
| (Increase) decrease in notes and accounts receivable | 6,091 | 6,458 |
| (Increase) decrease in inventories | 10,177 | (4,526) |
| Increase (decrease) in notes and accounts payable | 2,306 | 9,750 |
| Other | 414 | 1,984 |
| Subtotal | 74,529 | 78,825 |
| Interest and dividends received | 1,398 | 1,791 |
| Interest expenses | (2,595) | (2,121) |
| Payments for income taxes | (9,671) | (16,324) |
| Net cash provided by operating activities | 63,661 | 62,170 |
| Cash flows from investing activities | | |
| Cash outflow due to the acquisition of tangible and intangible fixed assets | (19,050) | (17,349) |
| Cash flow from the sale of tangible and intangible fixed assets | 1,407 | 1,420 |
| Proceeds from sale of securities | 1,747 | 841 |
| (Increase) decrease in short-term loans | 1,385 | 1,297 |
| Payments of loans receivable | (12,624) | (1,388) |
| Cash flow from loan recoveries | 14 | 1,779 |
| Other | (502) | (710) |
| Net cash used in investing activities | (27,622) | (14,112) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans | (5,736) | (15,432) |
| Increase (decrease) in the amount of commercial paper | (10,000) | — |
| Proceeds from long-term debt | 15,032 | 4,771 |
| Repayments for long-term debt | (2,236) | (18,859) |
| Cash flow from the issuance of corporate bonds | — | 10,000 |
| Cash outflow due to the repayment of corporate bonds | — | (10,000) |
| Cash dividends paid | (4,307) | (5,533) |
| Payment of dividends to minority stockholders | (260) | (42) |
| Other | (1,991) | (1,793) |
| Net cash used in financing activities | (9,498) | (36,889) |
| Effect of exchange rate changes on cash and cash equivalents | 3,401 | 2,812 |

| | Previous Full Year April 1, 2013 to March 31, 2014 | Current Full Year April 1, 2014 to March 31, 2015 |
|---|---|---|
| Net increase (decrease) in cash and cash equivalents | 29,942 | 13,980 |
| Cash and cash equivalents at beginning of year | 46,476 | 76,418 |
| Increase due to new consolidated companies | — | 46 |
| Decrease in cash and cash equivalents due to the exclusion of consolidated subsidiaries | — | (120) |
| Cash and cash equivalents at end of year | 76,418 | 90,324 |

## 5. Items of Special Note Concerning the Consolidated Financial Statements

### (Significant Events or Conditions that Question the Premise of a Going Concern)

There are no applicable items.

### (Changes to Accounting Policies)

(The Implementation of Accounting Standards for Retirement Benefits)

With regard to the “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (ASBJ) Accounting Standard – ASBJ Statement No. 26 dated May 17, 2012; hereinafter referred to as the “Accounting Standards for Retirement Benefits”) and the “Guidance on the Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 dated May 17, 2012; hereinafter referred to as the “Implementation Guidance for the Retirement Benefit Accounting Standard”), Item 35 of the Accounting Standards for Retirement Benefits and Item 67 of the Implementation Guidance for Retirement Benefit Accounting Standards has been adopted from the current consolidated fiscal year under review.

The Group reviewed the calculation methodology for retirement benefit obligations and service costs. As a result of this review the period attribution method for retirement benefit projections was changed from straight-line attribution to the benefit formula. In addition, the method to set the discount rate was changed to a method that utilizes a single weighted average discount rate that reflects the payment projection period for retirement benefits and the amount for each payment projection period.

The implementation of the Accounting Standards for Retirement Benefits has been done in accordance with Item 37 of the Implementation Guidance for the Retirement Benefit Accounting Standard where transitional treatment is allowed. As such, at the end of the current consolidated fiscal year under review, the amount impacted by this change in the calculation methodology for retirement benefit obligations and service costs has been subtracted from retained earnings.

Consequently, retirement benefit liabilities at the end of the current consolidated fiscal year under review increased by JPY1,861 million, and retained earnings fell by JPY1,475 million. Please note that the impact of this change to operating income, ordinary income and net income before taxes and other adjustments for the current consolidated fiscal year under review is minimal.

### (Changes to Accounting Estimates and Changes to Accounting Policies that are Difficult to Differentiate)

In the past, Sumitomo Heavy Industries, Ltd. and its domestic consolidated subsidiaries utilized the declining-balance method to depreciate tangible fixed assets (straight-line method was used for buildings acquired after April 1, 1998). However, from the current consolidated fiscal year under review, the depreciation method was changed to the straight-line method.

The current consolidated fiscal year under review marks the first year of implementing the medium-term management plan. In accordance with the plan, the Group is looking to distribute resources to overseas locations in response to the anticipated growth of overseas markets. At the same time, for domestic locations, a shift in investment was made to ensure a sustainable and stable production platform. In consideration of this, the Group decided to review the depreciation method currently utilized and changed it to the aforementioned straight-line method as it allowed for the more accurate reflection of the operating condition of assets as domestic production facilities shift to a stable operating platform. Moreover, the new method ensures that cost allocations can be made more rationally.

As a result of this change, operating income, ordinary income and net income before taxes and other adjustments for the current consolidated fiscal year under review has increased by JPY2,651 million as compared to using the previous calculation methodology.

## (Segment Information)

### 1. Summary of Reporting Segments

The Group's reporting segments are based on those units within the Group where separate financial information is available and where the Group's Board of Directors periodically deliberates over such matters as the distribution of management resources and the financial performance of such segments.

The Group formulates a comprehensive international and domestic strategy for individual products and services for the head office and for each consolidated subsidiary, and executes such strategies at the operating level. Consequently, the Group comprises segments that are split by categories of products and services offered by the head office and consolidated subsidiaries. More specifically, the six reporting segments of the Group are "Machinery Components", "Precision Machinery", "Construction Machinery", "Industrial Machinery", "Ships", and "Environmental Facilities & Plants".

| Businesses | Main Products |
|---|---|
| Machinery Components | Power transmission and control equipment |
| Precision Machinery | Plastic injection molding machines, film forming machines, semiconductor production equipment, laser processing systems, cryocoolers, precision positioning equipment, precision forgings, control components, defense equipment, machining tools |
| Construction Machinery | Hydraulic excavators, mobile cranes, road machinery |
| Industrial Machinery | Ion accelerators, medical machines and equipment, plasma coating systems for FPDs, forging press machines, material handling systems, logistics systems, automated parking systems, turbines, pumps |
| Ships | Ships |
| Environmental Facilities & Plants | Private power generation facilities, boilers, industrial waste treatment facilities, air pollution control equipment, water and sewage treatment systems, process equipment, pressure vessels, mixing vessels, air-conditioning equipment, food processing machinery |

### 2. Method of Calculating Net Sales, Income or Loss, Assets and Liabilities for each Reporting Segment

(The Implementation of Accounting Standards for Retirement Benefits)

As mentioned previously in the "Changes to Accounting Policies" section, the methodology used to calculate retirement benefit obligations and service costs was changed from the current consolidated fiscal year under review. At the same time, the methodology used to calculate retirement benefit obligations and service costs was also changed at the business segment level.

The impact of this change to segment income for the current consolidated fiscal year under review is minimal.

(Change in Methodology to Depreciate Tangible Fixed Assets)

As mentioned previously in the "Changes to Accounting Estimates and Changes to Accounting Policies that are Difficult to Differentiate" section, the methodology to depreciate tangible fixed assets was changed from the current consolidated fiscal year. At the same time, the depreciation methodology was also changed at the business segment level.

As a result of this change, segment income for the current consolidated fiscal year increased as compared to the previous calculation method. More specifically net income for machinery components increased by JPY308 million, net income for precision machinery increased by JPY816 million, net income for construction machinery increased by JPY920 million, net income for industrial machinery increased by JPY294 million, segment income for environmental plant and facilities increased by JPY199 million, net income for others increased by JPY61 million, and the net loss in the Ships segment improved by JPY52 million.

(Change in Methodology to Calculate the Profit or Loss of Business Segments)

From the current consolidated fiscal year under review, a new allocation method for research and development expenses has been utilized. This was to enable the Group to more accurately measure segment performance. The segment-related profit and loss figures for the previous consolidated fiscal year are calculated and displayed based on the new methodology.

**3. Information Regarding Net Sales, Profits, Assets, Liabilities, and Other Items by Reporting Segment**

**Previous Full Year *(April 1, 2013, to March 31, 2014)***

(Unit: million yen)

| Item \ Segment | A | B | C | D | E | F | Subtotal | Other[1] | Total | G[2] | H |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | | | | | | | | | | | |
| (1) Sales to external customers | 99,994 | 133,518 | 192,511 | 78,793 | 14,814 | 86,166 | 605,796 | 9,475 | 615,271 | — | 615,271 |
| (2) Internal sales between segments or exchanges | 1,726 | 1,077 | 27 | 760 | 151 | 371 | 4,113 | 2,958 | 7,071 | (7,071) | — |
| Total | 101,720 | 134,595 | 192,538 | 79,553 | 14,965 | 86,538 | 609,910 | 12,432 | 622,342 | (7,071) | 615,271 |
| Segment profit (loss)[3] | 6,106 | 9,456 | 9,534 | 3,954 | (2,996) | 6,087 | 32,141 | 2,053 | 34,194 | 135 | 34,329 |
| Segment assets | 113,972 | 124,893 | 200,519 | 65,672 | 48,608 | 63,603 | 617,266 | 54,906 | 672,172 | 52,009 | 724,182 |
| Other categories | | | | | | | | | | | |
| Depreciation expense | 4,510 | 4,518 | 6,377 | 1,711 | 307 | 866 | 18,288 | 329 | 18,617 | — | 18,617 |
| Increase in tangible and intangible assets | 3,344 | 4,564 | 9,435 | 986 | 485 | 774 | 19,588 | 741 | 20,329 | — | 20,329 |

Segments:

A: Machinery Components
B: Precision Machinery
C: Construction Machinery
D: Industrial Machinery
E: Ships
F: Environmental Facilities & Plants
G: Adjustments
H: Value included on the consolidated income statement

Notes:

1. "Other" represents businesses that are not included in the reporting segments. This includes the Group's real-estate businesses, software-related business, and other businesses.
2. Mainly due to the deletion of intersegment transactions
3. Segment profits have been adjusted with operating income recorded in the consolidated income statement.

**Current Full Year *(April 1, 2014, to March 31, 2015)***

(Unit: million yen)

| Item \ Segment | A | B | C | D | E | F | Subtotal | Other[1] | Total | G[2] | H |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | | | | | | | | | | | |
| (1) Sales to external customers | 102,624 | 146,424 | 202,002 | 75,817 | 26,085 | 105,539 | 658,491 | 8,608 | 667,099 | — | 667,099 |
| (2) Internal sales between segments or exchanges | 2,060 | 1,497 | 16 | 1,020 | 103 | 614 | 5,309 | 3,073 | 8,382 | (8,382) | — |
| Total | 104,683 | 147,921 | 202,018 | 76,836 | 26,188 | 106,153 | 663,800 | 11,681 | 675,481 | (8,382) | 667,099 |
| Segment profit (loss)[3] | 6,635 | 13,527 | 11,949 | 5,758 | (1,249) | 7,537 | 44,158 | 1,874 | 46,031 | (34) | 45,998 |
| Segment assets | 110,995 | 147,656 | 230,131 | 61,668 | 51,407 | 72,648 | 674,504 | 52,339 | 726,843 | 59,184 | 786,027 |
| Other categories | | | | | | | | | | | |
| Depreciation expense | 4,320 | 3,219 | 6,655 | 859 | 289 | 672 | 16,015 | 266 | 16,281 | — | 16,281 |
| Increase in tangible and intangible assets | 2,899 | 4,464 | 9,317 | 1,115 | 552 | 1,609 | 19.958 | 712 | 20.670 | — | 20,670 |

Segments:

- A: Machinery Components
- B: Precision Machinery
- C: Construction Machinery
- D: Industrial Machinery
- E: Ships
- F: Environmental Facilities & Plants
- G: Adjustments
- H: Value included on the consolidated income statement

Notes:

1. "Other" represents businesses that are not included in the reporting segments. This includes the Group's real-estate businesses, software-related business, and other businesses.
2. Mainly due to the deletion of intersegment transactions
3. Segment profits have been adjusted with operating income recorded in the consolidated income statement.

### (Per Share Information)

| | Previous Full Year April 1, 2013 to March 31, 2014 | Current Full Year April 1, 2014 to March 31, 2015 |
|---|---|---|
| Net assets per share | 532.28 yen | 587.37 yen |
| Net income per share | 29.17 yen | 39.71 yen |

Notes:

1. The diluted net income per share is not listed because there are no dilutive shares.
2. As noted in the "Changes to Accounting Policies" section, the implementation of the Accounting Standards for Retirement Benefits has been done in accordance with Item 37 of the Implementation Guidance for the Retirement Benefit Accounting Standard where transitional treatment is allowed. As a result of this, net assets per share for the current consolidated fiscal year under review decreased by JPY2.41. Please note that the impact of this change to net income per share is minimal.
3. The basis for calculating the net income per share is outlined below:

| Item | Previous Full Year April 1, 2013 to March 31, 2014 | Current Full Year April 1, 2014 to March 31, 2015 |
|---|---|---|
| Net income for the period | 17,891 million yen | 24,348 million yen |
| Value not attributable to common stockholders | — | — |
| Net income for common stock | 17,891 million yen | 24,348 million yen |
| Average number of outstanding shares for the term | 613,411,000 shares | 613,122,000 shares |

### (Subsequent Events of Significant Importance)

There are no applicable items.

# VI. Supplemental Information

## Orders Received, Sales, and Balance of Orders Received, by Segment

### (1) Orders Received

(Unit: million yen)

| Segment | April 1, 2013 to March 31, 2014 | | April 1, 2014 to March 31, 2015 | | Y/Y Change | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| Machinery Components | 98,502 | 15.0 | 104,690 | 14.1 | 6,188 | 6.3 |
| Precision Machinery | 134,511 | 20.4 | 154,625 | 20.9 | 20,114 | 15.0 |
| Construction Machinery | 193,330 | 29.4 | 206,461 | 27.9 | 13,130 | 6.8 |
| Industrial Machinery | 84,509 | 12.8 | 89,623 | 12.1 | 5,114 | 6.1 |
| Ships | 31,736 | 4.8 | 61,923 | 8.3 | 30,187 | 95.1 |
| Environmental Facilities & Plants | 104,244 | 15.9 | 113,406 | 15.3 | 9,162 | 8.8 |
| Others | 11,400 | 1.7 | 10,096 | 1.4 | (1,304) | (11.4) |
| Total | 658,233 | 100.0 | 740,824 | 100.0 | 82,590 | 12.5 |

### (2) Sales

(Unit: million yen)

| Segment | April 1, 2013 to March 31, 2014 | | April 1, 2014 to March 31, 2015 | | Y/Y Change | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| Machinery Components | 99,994 | 16.3 | 102,624 | 15.4 | 2,630 | 2.6 |
| Precision Machinery | 133,518 | 21.7 | 146,424 | 21.9 | 12,906 | 9.7 |
| Construction Machinery | 192,511 | 31.3 | 202,002 | 30.3 | 9,491 | 4.9 |
| Industrial Machinery | 78,793 | 12.8 | 75,817 | 11.4 | (2,976) | (3.8) |
| Ships | 14,814 | 2.4 | 26,085 | 3.9 | 11,271 | 76.1 |
| Environmental Facilities & Plants | 86,166 | 14.0 | 105,539 | 15.8 | 19,372 | 22.5 |
| Others | 9,475 | 1.5 | 8,608 | 1.3 | (867) | (9.1) |
| Total | 615,271 | 100.0 | 667,099 | 100.0 | 51,828 | 8.4 |

### (3) Balance of Orders Received

(Unit: million yen)

| Segment | End of Full Year As of March 31, 2014 | | End of Full Year As of March 31, 2015 | | Y/Y Change | |
|---|---|---|---|---|---|---|
| | Amount | % | Amount | % | Amount | % |
| Machinery Components | 30,099 | 9.4 | 32,166 | 8.2 | 2,066 | 6.9 |
| Precision Machinery | 42,632 | 13.3 | 50,832 | 12.9 | 8,201 | 19.2 |
| Construction Machinery | 27,614 | 8.6 | 32,073 | 8.1 | 4,458 | 16.1 |
| Industrial Machinery | 80,188 | 25.0 | 93,994 | 23.9 | 13,806 | 17.2 |
| Ships | 28,546 | 8.9 | 64,384 | 16.3 | 35,838 | 125.5 |
| Environmental Facilities & Plants | 107,507 | 33.6 | 115,374 | 29.3 | 7,868 | 7.3 |
| Others | 3,765 | 1.2 | 5,253 | 1.3 | 1,488 | 39.5 |
| Total | 320,351 | 100.0 | 394,076 | 100.0 | 73,725 | 23.0 |