

Sumitomo Heavy Industries, Ltd.

SECOND QUARTER CONSOLIDATED FINANCIAL REPORT

For the Six-Month Period from April 1 to September 30, 2016

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 Second Quarter Ended September 30, 2016
Presented October 31, 2016**

Sumitomo Heavy Industries, Ltd.

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Scheduled reporting date for quarterly report	November 8, 2016
Scheduled date of payment of cash dividends	December 1, 2016
Availability of supplementary explanations for quarterly financial statement	Yes
Holding of meeting to explain quarterly financial statement	Yes (for analysts)

1. FY 2016 Second Quarter Consolidated Results (April 1, 2016, to September 30, 2016)

(1) Business Results

(Units: millions of yen)

	Second Quarter April 1 to September 30, 2016		Previous Second Quarter April 1 to September 30, 2015	
		% change		% change
Net sales	317,828	(1.5)	322,517	5.3
Operating income	18,620	1.4	18,372	(7.9)
Ordinary income	18,238	8.5	16,815	(15.9)
Net income attributed to shareholders of the parent company	13,102	14.3	11,458	(6.7)
Net income per share (yen)	21.38		18.69	
Fully diluted net income per share (yen)	—		—	

Note: Comprehensive income

Fiscal quarter ended September 30, 2016: (5,244 million yen), (151.0%)

Fiscal quarter ended September 30, 2015: 10,272 million yen, 57.8%

(2) Financial Position

(Units: millions of yen)

	End of Second Quarter As of September 30, 2016	End of Previous Full Year As of March 31, 2016
Total assets	729,927	782,859
Total net assets	371,996	382,817
Equity ratio (%)	50.2	48.1

Reference: Equity

Fiscal quarter ended September 30, 2016: 366,304 million yen

Fiscal year ended March 31, 2016: 376,619 million yen

2. Dividends

(Units: yen)

	Year Ended March 31, 2016	Year Ended March 31, 2017	Year Ended March 31, 2017 (forecast)
Annual dividends per share			
First quarter	—	—	
Second quarter	7.00	7.00	
Third quarter	—		—
End of term	9.00		7.00
Annual dividends	16.00		14.00

Note: Changes from the most recent dividend forecast: None

3. FY 2016 Consolidated Forecasts (April 1, 2016, to March 31, 2017)

(Units: millions of yen)

	Full Year April 1, 2016, to March 31, 2017	
		% change
Net sales	660,000	(5.8)
Operating income	43,000	(15.0)
Ordinary income	40,000	(18.6)
Net income attributed to shareholders of the parent company	26,000	(21.5)
Projected net income per share (yen)	42.43	

Note: Changes from the most recent consolidated forecast: Yes

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) Special accounting measures applied in the quarterly consolidated financial report: None
- (3) Changes to accounting policies, changes to accounting estimates, and restatements
- (i) Changes to accounting policies resulting from revisions to accounting standards, etc.: None
- (ii) Changes other than (i): None
- (iii) Changes to accounting estimates: None
- (iv) Restatements: None
- (4) Number of shares issued (common shares)
- (i) Number of shares issued at end of fiscal period (including treasury stock):
- | | |
|--------------------------|--------------------|
| As of September 30, 2016 | 614,527,405 shares |
| As of March 31, 2016 | 614,527,405 shares |
- (ii) Amount of treasury stock at end of fiscal period
- | | |
|--------------------------|------------------|
| As of September 30, 2016 | 1,702,542 shares |
| As of March 31, 2016 | 1,647,819 shares |
- (iii) Average number of shares during fiscal period (cumulative quarterly period)
- | | |
|--------------------------|--------------------|
| As of September 30, 2016 | 612,855,233 shares |
| As of September 30, 2015 | 612,973,689 shares |

Recording of Implementation Conditions regarding Quarterly Review Procedures

This quarterly financial summary does not fall within the scope of the Quarterly Review Procedures referenced in the Financial Instruments and Exchange Act. At the time of disclosure of the quarterly financial summary, the Group was in the process of implementing the quarterly review procedures for its quarterly financial statements.

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 because of 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 see the *Explanation of the Consolidated Earnings Forecast and Other Forward-Looking Estimates* in the *Supplementary Materials* on page 8.

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1. Qualitative Information regarding Current Quarterly Consolidated Business Performance

(1) Explanation of Business Performance

During the first second of the current consolidated fiscal year under review, the feeling of stagnation across the domestic economy continued mainly as a result of the downward pressure from the stronger Japanese Yen on corporate income levels. Despite continued improvements in the employment and wage environment, the decline in stock prices had a dampening impact on the wealth effect and as a result, personal consumption levels only recovered slightly. On the corporate side, despite a steady level of investments being made into labor-saving plant and equipment as well as updates to aging plant and equipment as facility dilapidation progressed and labor shortages remained a problem, in overall terms, a sense of cautiousness prevailed.

In overseas markets, the recovery of the US economy continued to progress as personal consumption levels remained steady, and corporate performance showed signs of improvement. In Europe, although the economy was showing a sustained level of recovery, the United Kingdom's decision to leave the EU (i.e. the Brexit) has created a higher level of economic uncertainty for the future. As for China, public investment looks to be propping up the economy. However, the burden of excessive debt and investments on privately-held companies is resulting in a further slowdown in the pace of private investments. Finally, the bottoming out of resource prices and exchange rate stability in other emerging markets has resulted in improved economic conditions for these areas. In overall terms, the global economy is in a state of gentle decline, with a stronger sense of opaqueness in the future mainly due to the risk of political uncertainty in the US and Europe and the risk of a slowdown of the Chinese economy.

Under these conditions, orders decreased across all segments of the Group with the exception of the Environmental Facilities and Plant segment. On a consolidated basis, the Group posted an order figure of JPY336.6 billion, a 6% decline as compared to the same period last year (hereinafter referred to as the "previous term"). Sales increased in the Industrial Machinery, Ships, and Environmental Facilities and Plant segments, while sales fell in all other segments. In total, the Group posted a sales figure of JPY317.8 billion, a decrease of 1% as compared to the previous term.

Turning to income, the drop in profits from the Precision Machinery and Construction Machinery segments was offset by increases from other segments. As a result, operating income was JPY18.6 billion, a 1% increase as compared to the previous term, and ordinary income was JPY18.2 billion, an 8% increase as compared to the previous term. Quarterly net income attributable to the shareholders of the parent company also increased by 14% as compared to the previous term to finish at JPY13.1 billion.

Conditions in each business segment of the Group were as follows:

1. Machinery Components

Both orders and sales declined as compared to the previous term. This was mainly due to the softer market environment for large and medium-scale gear reducers in Japan, as well as the continued market downturn for large-scale gear reducers in Europe and other overseas markets. In actual figures, the segment received orders worth JPY50.7 billion, a fall of 6% as compared to the previous term, and posted sales of JPY48.9 billion, a fall of 7% as compared to the previous term. Further, the segment posted operating income of JPY4.1 billion.

2. Precision Machinery

With respect to plastics machinery, although there was an increase in demand from the European markets, IT-related investments in China and other markets came to a halt, reducing overall demand. As a result, both orders and sales fell as compared to the previous term. In other product areas, although orders in the semiconductor-related equipment business fell as compared to the previous term, sales continued to rise. In actual figures, the segment received orders worth JPY72.8 billion, a fall of 3% as compared to the previous term, and posted sales of JPY69.6 billion, a fall of 8% as compared to the previous term. Further, the segment posted operating income of JPY7.2 billion.

3. Construction Machinery

Although the trend of falling demand from China looks to be bottoming out, demand for hydraulic excavators from other markets such as Japan and North America continued to fall. As a result, orders for hydraulic excavators fell as compared to the previous term. In the mobile crane business, the continuing long-term slowdown of the North American market resulted in sales declining as compared to the previous term. In actual figures, the segment received orders worth JPY80.2 billion, a fall of 14% as compared to the previous term, and posted sales of JPY88.8 billion, a fall of 10% as compared to the previous term. Further, the segment posted an operating loss of JPY0.7 billion.

4. Industrial Machinery

In the material handling business, there was an increase in orders mainly due to the agreement to merge Mitsubishi Heavy Industries' industrial crane business into the Group. However, the number of orders for medical-related devices was low in the area of industrial equipment. As a result, orders across the whole segment decreased as compared to the previous term. In terms of sales, steady progress was made on the completion of material handling and industrial equipment projects, which resulted in an increase as compared to the previous term. In actual figures, the segment received orders similar to the previous term at JPY47.3 billion, and posted sales of JPY47.5 billion, a gain of 36% as compared to the previous term. Further, the segment posted operating income of JPY4.5 billion.

5. Ships

The Ships segment was not able to secure any orders during the current quarter under review mainly due to a slowdown in the market as well as the stronger Japanese Yen. This compares to receiving an order for two new vessels in the previous term. With regard to sales, two vessels were handed over as compared to one vessel in the previous term. In actual figures, the segment received orders worth JPY7.9 billion, a fall of 58% as compared to the previous term, and posted sales of JPY14.8 billion, a gain of 14% as compared to the previous term. Further, the segment posted operating income of JPY0.6 billion.

6. Environmental Facilities & Plants

The energy plant business was able to secure an order for Japan's largest biomass-fueled power generation plant as well as a large-scale ash treatment plant. As a result, order levels increased as compared to the previous term. However, orders fell in the water treatment plant business mainly because of the lack of orders for new large-scale refurbishment projects. In actual figures, the segment received orders worth JPY74.0 billion, a gain of 17% as compared to the previous term, and posted sales of JPY44.4 billion, a gain of 4% as compared to the previous term. Further, the segment posted an operating income of JPY2.1 billion.

7. Other

In this segment, orders and sales both dropped as compared to the previous term. In actual figures, the segment received orders worth JPY3.8 billion, a fall of 14% as compared to the previous term, and posted sales of JPY3.8 billion, a fall of 32% as compared to the previous term. Further, the segment posted operating income of JPY0.9 billion.

(2) Explanation of the Group's Consolidated Financial Position

1. Condition of Assets, Liabilities, and Net Assets

Total assets at the end of the second quarter of the current consolidated fiscal year under review (ended September 30, 2016) amounted to JPY729.9 billion, a decrease of JPY52.9 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to decreases of JPY27.3 billion in trade notes and accounts receivable, JPY6.0 billion in tangible fixed assets, and JPY5.0 billion in marketable securities.

Total liabilities fell to JPY357.9 billion, a decrease of JPY42.1 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to decreases of JPY15.1 billion in notes and accounts payable, and JPY13.0 billion in the balance of interest-bearing liabilities.

Net assets fell by JPY10.8 billion as compared to the end of the previous consolidated fiscal year to finish at JPY372.0 billion. This was mainly due to the JPY2.1 billion decrease in the foreign currency translation adjustment account.

As a result of the above, the shareholders' equity ratio improved by 2.1% from the end of the previous consolidated fiscal year to finish at 50.2%.

2. Cash Flow Condition

The increase in cash flow from operating activities was JPY17.8 billion (as compared to a decrease in cash flow of JPY7.8 billion in the previous term). When broken down, the main components of the proceeds were JPY18.2 billion in quarterly net income before tax and other adjustments, and the JPY20.3 billion reduction in trade receivables. The main sources of the outflow of cash were the JPY9.9 billion increase in inventory assets and the JPY9.7 billion payment of corporate and other taxes.

The decrease in cash flow as a result of investing activities was JPY10.1 billion (as compared to a decrease in cash flow of JPY8.2 billion in the previous term). The main reason for the cash outflow was the JPY10.4 billion used to acquire fixed assets.

The decrease in cash flow as a result of financing activities was JPY13.7 billion (as compared to a decrease in cash flow of JPY175 billion in the previous term). The main reasons for the cash outflow were the JPY7.0 billion (net amount with cash inflow of loans) used to repay loans and the JPY5.5 billion used to pay dividends.

As a result of the foregoing, the balance of cash and cash equivalents at the end of the second quarter of the current consolidated fiscal year under review totaled JPY58.6 billion, an increase of JPY1.0 billion as compared to the end of the previous consolidated fiscal year.

(3) Explanation of the Consolidated Earnings Forecast and Other Forward-Looking Estimates

The consolidated earnings forecast for the full-year ending March 31, 2017 that was previously released in conjunction with the Financial Report dated May 10, 2016 has been revised as follows:

(Full-Year Ending March 31, 2017)

(Units: millions of yen)

	Previous Forecast (A)	Current Forecast (B)	Increase or Decrease (B-A)	Percent Increase or Decrease (%)	Previous Year Performance (for reference)
Net sales	700,000	660,000	(40,000)	(5.7)	700,838
Operating income	47,000	43,000	(4,000)	(8.5)	50,568
Ordinary income	44,500	40,000	(4,500)	(10.1)	49,131
Net income attributed to shareholders of the parent company	28,000	26,000	(2,000)	(7.1)	33,133
Projected net income per share (yen)	45.69	42.43	—	—	54.06

As a result of a change in the projected currency exchange rates due to the strengthening of the Japanese Yen, and the continued market decline in the Construction Machinery segment, the FY2016 (ending March 2017) full-year forecasts for sales, operating income, ordinary income and net income attributable to the shareholders of the parent company have been revised downwards from the figures previously announced on May 10, 2016.

Please note that from the third quarter of the current consolidated fiscal year, the main exchange rates are assumed to be USD1 = JPY100 and EUR1 = JPY110.

2. Notes regarding Summarized Information (Explanatory Notes)

(1) Changes Involving Important Subsidiaries during the Current Consolidated Year-to-Date Quarterly Period

There are no applicable items.

(2) Special Accounting Procedures Adopted during the Development of the Quarterly Consolidated Financial Report

There are no applicable items.

(3) Additional Information

(Adoption of the Implementation Guidance on the Recoverability of Deferred Tax Assets)

The “Implementation Guidance on the Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Revised Guidance – ASBJ Guidance No. 26 dated March 28, 2016) has been adopted from the first quarter of the current consolidated fiscal year under review.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2016	End of Second Quarter As of September 30, 2016
	Amount	Amount
Assets		
Cash and deposits	65,804	60,616
Notes and accounts receivable	219,929	192,665
Marketable securities	5,000	—
Inventory assets	156,270	152,608
Other	47,673	45,755
Allowance for doubtful accounts	(1,674)	(2,758)
Current assets	493,002	448,885
Land	108,285	107,710
Other (net)	119,484	114,090
Total tangible assets	227,769	221,800
Other	11,219	11,066
Total intangible assets	11,219	11,066
Other	55,239	54,153
Allowance for doubtful accounts	(4,371)	(5,977)
Investments and other assets	50,868	48,177
Fixed assets	289,857	281,043
Total assets	782,859	729,927

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2016	End of Second Quarter As of September 30, 2016
	Amount	Amount
Liabilities		
Notes and accounts payable	142,304	127,240
Short-term bank loans	42,708	34,198
Long-term loans due within one year	7,300	3,040
Allowance for guaranteed construction	9,092	8,849
Other allowance amount	5,709	3,243
Other	87,806	79,754
Current liabilities	294,919	256,324
Bonds	10,000	10,000
Long-term debt due after one year	8,224	7,955
Allowance	160	154
Defined benefit liability	51,623	48,936
Deferred income taxes on revaluation	21,027	21,027
Other	14,089	13,536
Total fixed liabilities	105,123	101,608
Total liabilities	400,042	357,931
Net assets		
Common stock	30,872	30,872
Capital surplus	25,354	25,354
Retained earnings	265,588	273,174
Treasury stock	(861)	(887)
Total shareholders' equity	320,953	328,513
Unrealized gains on securities	2,355	2,357
Profit (loss) on deferred hedge	(121)	1,901
Revaluation reserve for land	41,481	41,481
Foreign currency translation adjustments	21,558	511
Re-measurement of defined benefit plans	(9,607)	(8,458)
Total accumulated other comprehensive income	55,667	37,791
Non-controlling interest	6,197	5,692
Total net assets	382,817	371,996
Total liabilities and net assets	782,859	729,927

(2) Consolidated Income Statements and Consolidated Statement of Comprehensive Income
Consolidated Income Statements

(Units: millions of yen)

	Previous Second Quarter April 1, 2015, to September 30, 2015	Present Second Quarter April 1, 2016, to September 30, 2016
	Amount	Amount
Net sales	322,517	317,828
Cost of sales	249,553	244,886
Gross income	72,965	72,941
Selling, general & administrative expenses	54,593	54,321
Operating income	18,372	18,620
Non-operating income		
Interest income	249	214
Dividend income	381	537
Investment gain on equity method	1,002	952
Other	753	958
Total non-operating income	2,386	2,660
Non-operating expenses		
Interest expense	1,020	735
Loss on foreign currency exchange	356	304
Other	2,566	2,004
Total non-operating expenses	3,943	3,042
Ordinary income	16,815	18,238
Extraordinary losses		
Loss on impaired assets	199	16
Total extraordinary losses	199	16
Income before income taxes	16,616	18,222
Corporate income taxes	5,827	5,402
Net income	10,789	12,820
Net income (or loss) attributable to non-controlling interests	(670)	(282)
Net income attributed to shareholders of the parent company	11,458	13,102

Consolidated Statement of Comprehensive Income

(Units: millions of yen)

	Previous Second Quarter April 1, 2015, to September 30, 2015	Present Second Quarter April 1, 2016, to September 30, 2016
	Amount	Amount
Net income	10,789	12,820
Other comprehensive income		
Unrealized gains on securities	(1,874)	2
Profit (loss) on deferred hedge	211	2,049
Revaluation reserve for land	55	—
Foreign currency translation adjustments	1,545	(21,236)
Adjustment to retirement benefits	(454)	1,144
Amount applied for equity method accounting of affiliates	2	(23)
Total other comprehensive income	(516)	(18,064)
Comprehensive income	10,272	(5,244)
(Breakdown)		
Comprehensive income relating to parent company shareholdings	10,887	(4,773)
Comprehensive income relating to non- controlling interests	(614)	(471)

**(3) Notes regarding Consolidated Quarterly Financial Statements
(Notes on Premise of a Going Concern)**

There are no applicable items.

(Notes regarding Significant Fluctuations to Shareholders' Equity)

There are no applicable items.

(Subsequent Events of Significant Importance)

There are no applicable items.

4. Supplementary Information

(1) Orders, Sales and Operational Profit, and Balance of Orders by Segment

Orders Received

(Units: millions of yen)

Segment	April 1, 2015, to September 30, 2015	April 1, 2016, to September 30, 2016	Y/Y Change	
	Amount	Amount	Amount	%
Machinery Components	54,033	50,651	(3,382)	(6.3)
Precision Machinery	75,013	72,754	(2,259)	(3.0)
Construction Machinery	93,746	80,159	(13,587)	(14.5)
Industrial Machinery	47,532	47,304	(228)	(0.5)
Ships	18,599	7,896	(10,702)	(57.5)
Environmental Facilities & Plants	63,029	74,029	11,000	17.5
Other	4,389	3,786	(604)	(13.8)
Total	356,341	336,579	(19,762)	(5.5)

Sales and Operational Profit

(Units: millions of yen)

Segment	April 1, 2015, to September 30, 2015		April 1, 2016, to September 30, 2016		Y/Y Change	
	Sales	Operational Profit	Sales	Operational Profit	Sales	Operational Profit
Machinery Components	52,332	3,567	48,900	4,084	(3,432)	516
Precision Machinery	75,483	9,385	69,638	7,167	(5,845)	(2,218)
Construction Machinery	98,342	2,205	88,796	(665)	(9,545)	(2,870)
Industrial Machinery	34,945	2,601	47,514	4,534	12,569	1,933
Ships	13,003	(3)	14,760	575	1,757	578
Environmental Facilities & Plants	42,737	(88)	44,386	2,061	1,649	2,149
Other	5,675	736	3,833	881	(1,842)	145
Adjustments	—	(31)	—	(16)	—	15
Total	322,517	18,372	317,828	18,620	(4,690)	249

Balance of Orders Received

(Units: millions of yen)

Segment	End of Previous Fiscal Year As of March 31, 2016	End of Second Quarter As of September 30, 2016	Change	
	Amount	Amount	Amount	%
Machinery Components	25,864	27,615	1,751	6.8
Precision Machinery	44,512	47,628	3,116	7.0
Construction Machinery	27,657	19,020	(8,637)	(31.2)
Industrial Machinery	115,095	114,885	(210)	(0.2)
Ships	58,557	51,693	(6,864)	(11.7)
Environmental Facilities & Plants	109,672	139,315	29,643	27.0
Other	1,939	1,892	(47)	(2.4)
Total	383,296	402,048	18,751	4.9

The Group's operating segments are categorized as follows:

Businesses	Main Products
Machinery Components	Power transmission and control equipment
Precision Machinery	Plastics machinery, film forming machines, semiconductor production equipment, laser processing systems, cryogenic equipment, 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, 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) (Summary) Consolidated Cash Flows Statement

(Units: millions of yen)

	Previous Second Quarter April 1, 2015 to September 30, 2015	Present Second Quarter April 1, 2016, to September 30, 2016	Y/Y Change
Income before income taxes	16,616	18,229	1,613
Depreciation	9,556	9,976	420
(Increase) decrease in notes and accounts receivable	8,797	20,293	11,497
(Increase) decrease in inventories	(17,206)	(9,924)	7,282
Increase (decrease) in notes and accounts payable	(8,846)	(6,624)	2,222
Payments for income taxes	(10,928)	(9,664)	1,264
Other	(5,760)	(4,515)	1,245
Net cash provided by operating activities	(7,772)	17,771	25,543
Payments for purchases of property, plant, and equipment	(9,973)	(10,414)	(441)
Other	1,817	303	(1,515)
Net cash used in investing activities	(8,156)	(10,112)	(1,956)
Net increase (decrease) in short-term loans	(12,249)	(6,979)	5,270
Cash dividends paid	(4,290)	(5,509)	(1,218)
Other	(986)	(1,178)	(192)
Net cash used in financing activities	(17,526)	(13,666)	3,860
Other	802	(3,985)	(4,786)
Cash and cash equivalents at beginning of period	90,324	68,625	(21,699)
Cash and cash equivalents at end of period	57,672	58,634	962