



May 9, 2017

To Whom It May Concern:

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Notice Regarding the Medium-Term Management Plan 2019

Sumitomo Heavy Industries Ltd (hereinafter referred to as “SHI” or the “Company”) has completed the formulation of the next three-year medium-term management plan entitled “Medium Term Management Plan 2019 (MTMP19)” which will see initial implementation during FY2017.

FY2015 was the second year of implementation of the “Medium Term Management Plan 2016 (MTMP16)” that commenced in FY2014. During that year, most of the final-year financial targets set forth in the MTMP16 (sales of JPY700.0 billion, operating income of JPY52.5 billion) were achieved a year in advance. However, the Company was not able to sustain these levels in the final year of implementation mainly due to the slowdown of the Chinese economy and low growth figures in emerging markets. Nevertheless, SHI firmly believed that the pursuit of the basic policies of “Steady growth”, “Return to higher levels of profitability” and “Persistent efforts for operational quality improvements” was effective under any type of economic environment. With this in mind, the Company has promoted further globalization, expanded its service-related businesses, made focused investments into high-profit business areas, and formulated a new management philosophy which is currently being implemented. In order to produce results from these key policies, SHI has created the MTMP19.

DETAILS

1. Objectives of the MTMP19

The following targets for FY2019 have been set with respect to financial metrics:

- (1) FY2019 Sales – JPY800.0 billion
- (2) FY2019 Operating Income – JPY60.0 billion (Operating income ratio of 7.5%)

Please note that ROIC will continue to be the management indicator for the SHI Group. As a Company, the aim is to keep ROIC greater than WACC with a target figure of greater than 7.5% for ROIC.

2. Management Strategy Associated with MTMP19

In order to achieve the above financial targets, the Group has established five basic policies in the MTMP19 which are (1) look to achieve “Steady Growth” after carrying out a stringent examination of the external environment, (2) make the conversion to become a “High Profit Company”, (3) create first-class products and services through “A Tireless Commitment to Improving Operational Quality”, (4) actively participate in “Business integrations, M&A, and formation of business alliances with third-party entities”, and (5) “Actively Pursue CSR” activities. Ultimately, the aim is to continue to be a company that provides first class products to the world.

3. Investment Plan

The Group plans to make active investments in growth areas while maintaining financial discipline.

	Capital Investments	R&D Expenses	Domestic Hires	M&A
Key Points	Focused investments into areas of strength and information-related improvements.	Enhance product capabilities that target growth	Continue to actively fill positions in the technology and service related functions	Explore growth proposals from key business areas
Three-Year Total	JPY80.0 billion	JPY52.0 billion	1,400 people	JPY30.0 billion

4. Thoughts Regarding Capital Policy

The Company will prioritize growth related investments (capital investments, M&A) while maintaining a dividend payout ratio of 30% for shareholders return for the three-year period from FY2017. If the level of retained earnings is projected to become excessive, the Company will consider share buy-backs.

※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. WACC is an abbreviation for Weighted Average Cost of Capital and it represents the costs associated with shareholders' equity and interest-bearing liabilities.

END