

Sumitomo Heavy Industries, Ltd.

FIRST QUARTER CONSOLIDATED FINANCIAL REPORT

For the Three-Month Period from April 1 to June 30, 2018

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 First Quarter Ended June 30, 2018
Presented July 31, 2018**

Sumitomo Heavy Industries, Ltd.

Listed exchanges	Tokyo Stock Exchange
Stock code	6302
Head office	Tokyo
President	Shunsuke Betsukawa
URL	www.shi.co.jp
Inquiries	Michiko Watanabe General Manager, Corporate Communications Dept.
Telephone	+81 3 6737 2331
Scheduled reporting date for quarterly report	August 8, 2018
Scheduled date of payment of cash dividends	—
Availability of supplementary explanations for quarterly financial statement	None
Holding of meeting to explain quarterly financial statement	None

1. FY 2018 First Quarter Consolidated Results (April 1, 2018, to June 30, 2018)

(1) Business Results

(Units: millions of yen)

	First Quarter April 1 to June 30, 2018		Previous First Quarter April 1 to June 30, 2017	
		% change		% change
Net sales	202,678	21.2	167,299	9.8
Operating income	17,214	45.3	11,850	52.2
Ordinary income	17,044	38.5	12,310	72.4
Net income attributed to shareholders of the parent company	10,871	26.3	8,606	68.7

Note: Comprehensive income

Fiscal quarter ended June 30, 2018: 4,406 million yen, (25.1) %

Fiscal quarter ended June 30, 2017: 5,882 million yen), —%

	First Quarter April 1 to June 30, 2018	Previous First Quarter April 1 to June 30, 2017
Net income per share (yen)	88.71	70.22
Fully diluted net income per share (yen)	—	—

(Note) The Company carried out a 5-to-1 reverse stock split for its common shares with an effective date of October 1, 2017. The quarterly net income per share was calculated, under the assumption that such share consolidation was conducted at the beginning of the previous consolidated fiscal year.

(2) Financial Position

(Units: millions of yen)

	End of First Quarter As of June 30, 2018	End of Previous Full Year As of March 31, 2018
Total assets	905,618	894,835
Total net assets	443,296	444,964
Equity ratio (%)	47.4	48.2

Reference: Equity

Fiscal quarter ended June 30, 2018: 429,250 million yen

Fiscal year ended March 31, 2017: 431,008 million yen

2. Dividends

(Units: yen)

	Year Ended March 31, 2018	Year Ending March 31, 2019	Year Ending March 31, 2019 (forecast)
Annual dividends per share			
First quarter	—	—	
Second quarter	8.00		46.00
Third quarter	—		—
End of term	45.00		47.00
Annual dividends	—		93.00

Note 1: Changes from the most recent dividend forecast: None

Note 2: Because the Company carried out a 5-to-1 reverse stock split for its common shares with an effective date of October 1, 2017, the actual amount of second quarter-end dividend for the period ended March 2018 as calculated on a pre-consolidation basis is presented. The second quarter-end dividend and the total annual dividend for the period ended March 2018, taking into consideration of the share consolidation, are 40 yen and 85 yen, respectively.

3. FY 2018 Consolidated Forecasts (April 1, 2018, to March 31, 2019)

(Units: millions of yen)

	Full Year April 1, 2018, to March 31, 2019	
		% change
Net sales	850,000	7.5
Operating income	64,000	(8.5)
Ordinary income	61,800	(8.4)
Net income attributed to shareholders of the parent company	38,000	9.6
Projected net income per share (yen)	310.11	

Note: Changes from the most recent consolidated forecast: None

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:	Applicable
(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):	Applicable
(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 June 30, 2018	122,905,481 shares
As of March 31, 2018	122,905,481 shares
(ii) Amount of treasury stock at end of fiscal period	
As of June 30, 2018	368,275 shares
As of March 31, 2018	367,080 shares
(iii) Average number of shares during fiscal period (cumulative quarterly period)	
As of June 30, 2018	122,537,519 shares
As of June 30, 2017	122,555,431 shares

(Note) The Company carried out a 5-to-1 reverse stock split for its common shares with an effective date of October 1, 2017. The average number of shares during the fiscal period was calculated, under the assumption that such share consolidation was conducted at the beginning of the previous consolidated fiscal year.

* The Quarterly Summary of Financial Results is not subject to the Quarterly Review by a certified public accountant or a corporate auditor.

* 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.

Supplementary Materials – Table of Contents

1. Qualitative Information regarding Current Quarterly Consolidated Business Performance	6
(1) Explanation of Business Performance	6
(2) Explanation of the Group's Consolidated Financial Position	7
(3) Explanation of the Consolidated Earnings Forecast and Other Forward-Looking Estimates	8
2. Quarterly Consolidated Financial Statements and Key Explanatory Notes	9
(1) Quarterly Consolidated Balance Sheets	9
(2) Consolidated Income Statements and Consolidated Statement of Comprehensive Income.....	11
Consolidated Income Statements	11
Consolidated Statement of Comprehensive Income	12
(3) Notes regarding Consolidated Quarterly Financial Statements.....	13
(Notes on Premise of a Going Concern)	13
(Notes regarding Significant Fluctuations to Shareholders' Equity).....	13
(Application of Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements)	13
(Change in Accounting Policy)	13
(Additional Information)	13
(Subsequent Events of Significant Importance)	13
3. Supplementary Information	14
(1) Orders, Sales and Operating Income, and Balance of Orders by Segment	14
(2) (Summary) Consolidated Cash Flows Statement.....	16

1. Qualitative Information regarding Current Quarterly Consolidated Business Performance

(1) Explanation of Business Performance

As for the business environment surrounding the Group during the first quarter of the current consolidated fiscal year under review, capital investments trended positively as a result of improvement in corporate performance in Japan, and turning to overseas markets, the recovery of the US manufacturing industry continued due to the recovery of domestic and overseas demand and the industrial production in China continued to show stable growth. Due mainly to these factors, demand for machinery was on an upward trend globally. On the other hand, the global economy is still lacking clarity in its future direction mainly due to continued concerns over trade disputes and ongoing geopolitical risks in the Korean Peninsula and other places.

In this business environment, the Group started the Medium-Term Management Plan 2019, proactively pursue investments to drive growth through M&A, capital spending, etc., working to further improve the operational quality, actively promoting CSR measures and moving forward with other key initiatives. Under these conditions, orders increased across all segments of the Group with the exception of the Industrial Machinery, and Others segments. On a consolidated basis, the Group posted an order figure of JPY227.6 billion, a 23% increase as compared to the same period last year (hereinafter referred to as the "previous term"). Sales also increased across all segments with the exception of the Others segment. In total, the Group posted a sales figure of JPY202.7 billion, a 21% increase as compared to the previous term.

Turning to income, the drop in profits from the Precision Machinery and other segments was offset by increases from the Construction Machinery, Industrial Machinery and Environmental Facilities & Plants segments. As a result, operating income was JPY17.2 billion, a 45% increase as compared to the previous term, and ordinary income was JPY17.0 billion, a 38% increase as compared to the previous term. Quarterly net income attributable to the shareholders of the parent company also increased by 26% as compared to the previous term to finish at JPY10.9 billion.

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

1. Machinery Components

The market for small-to-medium and large scale gear reducers from the domestic, US, Europe and China markets showed positivity, along with the market for precision gear reducers for use in robots. As a result, orders and sales increased as compared to the previous term. In actual figures, the segment received orders worth JPY30.8 billion, a rise of 11% as compared to the previous term, and posted sales of JPY27.1 billion, a rise of 10% as compared to the previous term. Further, the segment posted operating income of JPY2.1 billion.

2. Precision Machinery

With respect to plastics machinery, demand from the electric and electronic sector in China continued to be strong and although demand for semiconductor-related equipment in relation to cryogenic equipment decreased, demand in other product areas showed positivity. Due to these and other factors, orders and sales increased as compared to the previous term. In actual figures, the segment received orders worth JPY51.3 billion, a rise of 18% as compared to the previous term, and posted sales of JPY40.6 billion, a rise of 9% as compared to the previous term. Further, the segment posted operating income of JPY3.2 billion.

3. Construction Machinery

With regard to the hydraulic excavator business, both orders and sales increased as compared to the previous term due to a rise in demand from the China and other overseas markets. As for the mobile crane business, both orders and sales increased as compared to the previous term mainly due to continued signs of recovery in the North American market and strong demand from the domestic market. In actual figures, the segment received orders worth JPY75.6 billion, a rise of 17% as compared to the previous term, and posted sales of JPY71.0 billion, a rise of 26% as compared to the previous term. Further, the segment posted operating income of JPY6.6 billion.

4. Industrial Machinery

Orders decreased as compared to the previous term as an increase in orders for medical-related products in the industrial machinery business was offset by the drop in orders for industrial turbines and in the material handling business. On the other hand, sales increased as compared to the previous term driven mainly by an increase in sales of medical-related products and forging presses in the industrial machinery business. In actual figures, the segment received orders worth JPY18.2 billion, a fall of 13% as compared to the previous term, and posted sales of JPY20.8 billion, a rise of 2% as compared to the previous term. Further, the segment posted operating income of JPY1.8 billion.

5. Ships

The slowdown in market conditions continued in the Ships segment which meant that no orders for new vessels were secured during the current quarter under review, equaling the total from the previous term. On the other hand, one vessel was delivered during the current quarter under review as compared to two vessels handed over in the previous term. In actual figures, the segment received orders worth JPY6.7 billion, a rise of 105% as compared to the previous term, and posted sales of JPY9.6 billion, a rise of 9% as compared to the previous term. Further, the segment posted operating income of JPY1.1 billion.

6. Environmental Facilities & Plants

Orders and sales in the energy plant business increased as compared to the previous term due to an increase in orders for biomass-fueled power generation plants and the subsidiarization of Sumitomo SHI FW Energie B.V. On the other hand, in the water treatment plant business, sales increased as compared to the previous term, but orders dropped slightly as compared to the previous term. In actual figures, the segment received orders worth JPY43.3 billion, a rise of 89% as compared to the previous term, and posted sales of JPY32.1 billion, a rise of 76% as compared to the previous term. Further, the segment posted an operating income of JPY2.0 billion.

7. Others

The Others segment received orders worth JPY1.7 billion, a fall of 7% as compared to the previous term, and posted sales of JPY1.6 billion, a fall of 6% as compared to the previous term. Further, the segment posted operating income of JPY0.5 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 first quarter of the current consolidated fiscal year under review (ended June 30, 2018) amounted to JPY905.6 billion, an increase of JPY10.8 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to increases of JPY15.0 billion in inventory assets and JPY16.6 billion in intangible assets offsetting a decrease of JPY14.0 billion in trade notes and accounts receivable.

Total liabilities rose to JPY462.3 billion, an increase of JPY12.5 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to increases of JPY8.3 billion in notes and accounts payable and a decrease of JPY4.6 billion in the balance of interest-bearing liabilities.

Net assets to JPY443.3 billion, a decrease of JPY1.7 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to decrease of JPY6.9 billion in the foreign currency translation adjustment account.

As a result of the above, the shareholders' equity ratio fell by 0.8 points from the end of the previous consolidated fiscal year to finish at 47.4%.

2. Cash Flow Condition

The increase in cash flow from operating activities was JPY25.0 billion (as compared to a increase in cash flow of JPY29.6 billion in the previous term). When broken down, the main components of the proceeds were JPY16.9 billion in quarterly net income before tax and other adjustments, and the JPY20.1 billion reduction in trade receivables. The main sources of the outflow of cash were the JPY14.3 billion increase in inventory assets and the JPY5.1 billion payment of corporate and other taxes.

The decrease in cash flow as a result of investing activities was JPY27.5 billion (as compared to a decrease in cash flow

of JPY18.7 billion in the previous term). The main reason for the cash outflow was the JPY19.3 billion used to acquire the shares of, and money invested in, a subsidiary, which results in a change in the scope of consolidation. The decrease in cash flow as a result of financing activities was JPY6.2 billion (as compared to a decrease in cash flow of JPY14.7 billion in the previous term). The main reason for the cash outflow was the JPY5.3 billion used to pay dividends.

As a result of the foregoing, the balance of cash and cash equivalents at the end of the first quarter of the current consolidated fiscal year under review totaled JPY75.9 billion, a decrease of JPY9.6 billion as compared to the end of the previous consolidated fiscal year.

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

No revisions have been made to the consolidated earnings forecast for the fiscal year ending March 31, 2019, which was published along with the earnings summary on May 8, 2018.

Please note that from the second quarter of the current consolidated fiscal year, the main exchange rates are assumed to be USD1 = JPY105 and EUR1 = JPY125.

2. Quarterly Consolidated Financial Statements and Key Explanatory Notes
(1) Quarterly Consolidated Balance Sheets

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2018	End of First Quarter As of June 30, 2018
	Amount	Amount
Assets		
Cash and deposits	88,233	77,479
Notes and accounts receivable	269,409	255,385
Inventory assets	167,400	182,435
Other	30,597	34,704
Allowance for doubtful accounts	(4,055)	(4,155)
Current assets	551,584	545,848
Land	107,826	108,035
Other (net)	131,770	131,741
Total tangible assets	239,596	239,776
Goodwill	18,030	34,705
Other	32,319	32,196
Total intangible assets	50,349	66,900
Other	58,830	58,574
Allowance for doubtful accounts	(5,524)	(5,480)
Investments and other assets	53,306	53,094
Fixed assets	343,251	359,770
Total assets	894,835	905,618

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2018	End of First Quarter As of June 30, 2018
	Amount	Amount
Liabilities		
Notes and accounts payable	184,227	192,556
Short-term bank loans	33,516	30,399
Long-term loans due within one year	7,801	8,394
Commercial Paper	—	6,000
Allowance for guaranteed construction	13,478	12,284
Other allowance amount	5,679	5,443
Other	102,984	104,803
Current liabilities	347,684	359,879
Bonds	20,000	20,000
Long-term debt due after one year	2,864	4,018
Allowance	155	153
Defined benefit liability	40,466	40,674
Deferred income taxes on revaluation	20,730	20,713
Other	17,972	16,884
Total fixed liabilities	102,187	102,443
Total liabilities	449,871	462,322
Net assets		
Common stock	30,872	30,872
Capital surplus	25,267	25,267
Retained earnings	314,296	319,670
Treasury stock	(1,000)	(1,004)
Total shareholders' equity	369,434	374,803
Unrealized gains on securities	5,406	4,974
Profit (loss) on deferred hedge	925	747
Revaluation reserve for land	40,831	40,813
Foreign currency translation adjustments	17,565	10,618
Re-measurement of defined benefit plans	(3,153)	(2,705)
Total accumulated other comprehensive income	61,574	54,447
Non-controlling interest	13,956	14,046
Total net assets	444,964	443,296
Total liabilities and net assets	894,835	905,618

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

(Units: millions of yen)

	Previous First Quarter April 1, 2017, to June 30, 2017	Present First Quarter April 1, 2018, to June 30, 2018
	Amount	Amount
Net sales	167,299	202,678
Cost of sales	126,522	152,851
Gross income	40,777	49,827
Selling, general & administrative expenses	28,927	32,614
Operating income	11,850	17,214
Non-operating income		
Interest income	136	142
Dividend income	423	554
Other	1,034	630
Total non-operating income	1,593	1,325
Non-operating expenses		
Interest expense	288	238
Loss on foreign currency exchange	79	325
Other	765	931
Total non-operating expenses	1,133	1,495
Ordinary income	12,310	17,044
Extraordinary losses		
Loss on impaired assets	72	104
Total extraordinary losses	72	104
Income before income taxes	12,238	16,940
Corporate income taxes	3,344	5,160
Net income	8,894	11,780
Net income attributable to non-controlling interests	288	909
Net income attributed to shareholders of the parent company	8,606	10,871

Consolidated Statement of Comprehensive Income

(Units: millions of yen)

	Previous First Quarter April 1, 2017, to June 30, 2017	Present First Quarter April 1, 2018, to June 30, 2018
	Amount	Amount
Net income	8,894	11,780
Other comprehensive income		
Unrealized gains on securities	419	(433)
Profit (loss) on deferred hedge	22	(177)
Revaluation reserve for land	7	—
Foreign currency translation adjustments	(3,536)	(7,211)
Adjustment to retirement benefits	92	445
Amount applied for equity method accounting of affiliates	(16)	3
Total other comprehensive income	(3,012)	(7,373)
Comprehensive income	5,882	4,406
(Breakdown)		
Comprehensive income relating to parent company shareholdings	4,725	3,761
Quarterly comprehensive income relating to non-controlling interests	1,157	645

**(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.

(Application of Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements)

(Calculation of tax expenses)

The effective tax rate expected to be imposed on pretax net income (after tax effect accounting) applicable to the consolidated fiscal year in which the first quarter of the current consolidated fiscal year under review is included was estimated based on reasonable assumptions, and tax expenses were calculated by multiplying the quarterly pretax net income by the estimated effective tax rate.

(Change in Accounting Policy)

(Change in calculation method for tax expenses)

Previously, tax expenses of the Company and its consolidated subsidiaries were calculated based on a method that was applied as a general rule. To further streamline operations for quarterly settlement of accounts for the Company and its consolidated subsidiaries, however, starting from the first quarter of the current consolidated fiscal year under review, the calculation method for the tax expenses has been changed so that the effective tax rate expected to be imposed on pretax net income (after tax effect accounting) applicable to the consolidated fiscal year is estimated based on reasonable assumptions, and tax expenses are calculated by multiplying the quarterly pretax net income by the estimated effective tax rate.

Note that because this change only has a minimal impact, the Company has decided not to make a retrospective application.

(Additional Information)

The Company has applied the "Partial Amendment to the 'Accounting Standard on Tax Effect Accounting'" (Corporate Accounting Standard No. 28; February 16, 2018), etc. from the first quarter of the current consolidated fiscal year under review. As a result, deferred tax assets are presented in the investments and other assets section and deferred tax liabilities are presented in the fixed liabilities section.

(Subsequent Events of Significant Importance)

There are no applicable items.

3. Supplementary Information

(1) Orders, Sales and Operating Income, and Balance of Orders by Segment

Orders

(Units: millions of yen)

Segment	April 1, 2017, to June 30, 2017	April 1, 2018, to June 30, 2018	Y/Y Change	
	Amount	Amount	Amount	%
Machinery Components	27,756	30,802	3,046	11.0
Precision Machinery	43,412	51,266	7,853	18.1
Construction Machinery	64,415	75,622	11,206	17.4
Industrial Machinery	20,959	18,188	(2,771)	(13.2)
Ships	3,263	6,679	3,416	104.7
Environmental Facilities & Plants	22,883	43,287	20,404	89.2
Others	1,852	1,730	(122)	(6.6)
Total	184,540	227,574	43,033	23.3

Sales and Operating Income

(Units: millions of yen)

Segment	April 1, 2017, to June 30, 2017		April 1, 2018, to June 30, 2018		Y/Y Change	
	Sales	Operating Income	Sales	Operating Income	Sales	Operating Income
Machinery Components	24,712	2,362	27,064	2,139	2,352	(223)
Precision Machinery	37,101	3,643	40,577	3,227	3,476	(415)
Construction Machinery	56,495	2,828	70,957	6,559	14,463	3,731
Industrial Machinery	20,312	1,464	20,817	1,796	505	332
Ships	8,778	1,075	9,600	1,062	821	(13)
Environmental Facilities & Plants	18,196	(31)	32,058	1,951	13,863	1,982
Others	1,704	500	1,604	466	(100)	(34)
Adjustments	—	9	—	13	—	4
Total	167,299	11,850	202,678	17,214	35,380	5,363

Balance of Orders Received

(Units: millions of yen)

Segment	End of Previous Fiscal Year As of March 31, 2018	End of First Quarter As of June 30, 2018	Change	
	Amount	Amount	Amount	%
Machinery Components	31,745	35,483	3,738	11.8
Precision Machinery	77,624	88,312	10,689	13.8
Construction Machinery	57,433	62,097	4,664	8.1
Industrial Machinery	98,936	96,306	(2,630)	(2.7)
Ships	49,828	46,907	(2,921)	(5.9)
Environmental Facilities & Plants	232,209	243,437	11,228	4.8
Others	1,484	1,610	126	8.5
Total	549,258	574,153	24,895	4.5

The Group's operating segments are categorized as follows:

Businesses	Main Products
Machinery Components	Power transmission and controls 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 First Quarter April 1, 2017, to June 30, 2017	Present First Quarter April 1, 2018, to June 30, 2018	Y/Y Change
Income before income taxes	12,238	16,940	4,702
Depreciation	5,320	6,119	800
(Increase) decrease in notes and accounts receivable	28,361	20,095	(8,267)
(Increase) decrease in inventories	(11,420)	(14,325)	(2,906)
Increase (decrease) in notes and accounts payable	2,965	6,508	3,543
Payments for income taxes	(7,503)	(5,120)	2,384
Other	(342)	(5,187)	(4,845)
Net cash provided by operating activities	29,618	25,030	(4,589)
Payments for purchases of property, plant, and equipment	(5,860)	(7,329)	(1,469)
Other	(12,795)	(20,185)	(7,390)
Net cash used in investing activities	(18,654)	(27,514)	(8,860)
Net increase (decrease) in short-term loans	(8,155)	279	8,434
Cash dividends paid	(5,328)	(5,345)	(17)
Other	(1,184)	(1,091)	93
Net cash used in financing activities	(14,667)	(6,157)	8,510
Other	(168)	(922)	(753)
Cash and cash equivalents at beginning of period	61,017	85,503	24,486
Cash and cash equivalents at end of period	57,146	75,940	18,794