

Sumitomo Heavy Industries, Ltd.

FIRST QUARTER CONSOLIDATED FINANCIAL REPORT

For the Three-Month Period from April 1 to June 30, 2019

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, 2019
Presented July 31, 2019**

Sumitomo Heavy Industries, Ltd.

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Scheduled reporting date for quarterly report	August 9, 2019
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 2019 First Quarter Consolidated Results (April 1, 2019, to June 30, 2019)

(1) Business Results

(Units: millions of yen)

	First Quarter April 1 to June 30, 2019		Previous First Quarter April 1 to June 30, 2018	
		% change		% change
Net sales	204,181	0.7	202,678	21.2
Operating income	13,531	(21.4)	17,214	45.3
Ordinary income	13,339	(21.7)	17,044	38.5
Net income attributed to shareholders of the parent company	8,907	(18.1)	10,871	26.3

Note: Comprehensive income

Fiscal quarter ended June 30, 2019: 10,057 million yen, 128.2%

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

	First Quarter April 1 to June 30, 2019	Previous First Quarter April 1 to June 30, 2018
Net income per share (yen)	72.69	88.71
Fully diluted net income per share (yen)	—	—

(2) Financial Position

(Units: millions of yen)

	End of First Quarter As of June 30, 2019	End of Previous Full Year As of March 31, 2019
Total assets	950,585	954,051
Total net assets	466,430	465,001
Equity ratio (%)	47.9	47.5

Reference: Equity

Fiscal quarter ended June 30, 2019: 455,120 million yen

Fiscal year ended March 31, 2019: 453,468 million yen

2. Dividends

(Units: yen)

	Year Ended March 31, 2019	Year Ending March 31, 2020	Year Ending March 31, 2020 (forecast)
Annual dividends per share			
First quarter	—	—	
Second quarter	50.00		56.00
Third quarter	—		—
End of term	62.00		56.00
Annual dividends	112.00		112.00

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

3. FY 2019 Consolidated Forecasts (April 1, 2019, to March 31, 2020)

(Units: millions of yen)

	Full Year April 1, 2019, to March 31, 2020	
		% change
Net sales	905,000	0.2
Operating income	72,000	(4.3)
Ordinary income	69,000	(5.0)
Net income attributed to shareholders of the parent company	46,000	0.8
Projected net income per share (yen)	375.43	

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.: | Applicable |
| (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 June 30, 2019 | 122,905,481 shares |
| As of March 31, 2019 | 122,905,481 shares |
- (ii) Amount of treasury stock at end of fiscal period
- | | |
|----------------------|----------------|
| As of June 30, 2019 | 381,022 shares |
| As of March 31, 2019 | 379,953 shares |
- (iii) Average number of shares during fiscal period (cumulative quarterly period)
- | | |
|---------------------|--------------------|
| As of June 30, 2019 | 122,524,923 shares |
| As of June 30, 2018 | 122,537,519 shares |

* 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.

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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, companies took a slightly cautious approach to capital investments in Japan despite their robust and high-level performance, and turning to overseas markets, the US economy recovered steadily but its manufacturing industry was affected by the trade issue and other factors while the Chinese economy showed a moderate slowdown. Due mainly to these factors, the global machinery market entered a correction phase. In addition, the global economy is still lacking clarity in its future direction mainly due to escalation of trade disputes between the US and China, ongoing geopolitical risks and the continued appreciation of the yen.

In the face of this business environment, the Group promoted the Medium-Term Management Plan 2019, and proactively pursued investments to drive growth through capital spending, research and development, etc., actively promoting CSR measures and moving forward with other key initiatives.

Under these conditions, orders decreased in the Precision Machinery, Construction Machinery, Ships and Environmental Facilities & Plants segments. On a consolidated basis, the Group posted an order figure of JPY191.8 billion, a 16% decrease as compared to the same period last year (hereinafter referred to as the "previous term"). Sales increased in the Machinery Components, Precision Machinery and Construction Machinery segments. In total, the Group posted a sales figure of JPY204.2 billion, a 1% increase as compared to the previous term.

Turning to income, there was a decrease in all segments with the exception of Precision Machinery. As a result, operating income was JPY13.5 billion, a 21% decrease as compared to the previous term, and ordinary income was JPY13.3 billion, a 22% decrease as compared to the previous term. Quarterly net income attributable to the shareholders of the parent company also decreased by 18% as compared to the previous term to finish at JPY8.9 billion.

With respect to improper inspections, etc. conducted in relation to products and services at the Company and other Group companies as publicized in the previous term, we once again take this opportunity to deeply apologize for the great inconvenience and anxieties caused to our shareholders. We take the incidents gravely and seriously and will implement recurrence prevention measures in a reliable manner in the current fiscal year as well, striving to further strengthen our quality management and compliance activities. By doing so, we will make every effort to restore confidence in the Group.

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

1. Machinery Components

Demand for small-to-medium scale gear reducers decreased in Japan and Europe. However, Lafert Group companies (such as Lafert S.p.A.) were consolidated into the Group as subsidiaries and as a result, both orders and sales increased as compared to the previous term. In actual figures, the segment received orders worth JPY34.1 billion, a rise of 11% as compared to the previous term, and posted sales of JPY31.9 billion, a rise of 18% as compared to the previous term. Further, the segment posted operating income of JPY1.9 billion.

2. Precision Machinery

With respect to plastics machinery, demand from the electric and electronic sector in China and from Japan and Europe decreased, and as a result, both orders and sales decreased as compared to the previous term. As for other precision machinery businesses, although demand for cryogenic equipment and semiconductor-related equipment showed positivity, the total orders decreased. However, sales increased because there was a backlog of orders from the previous term. In actual figures, the segment received orders worth JPY42.5 billion, a fall of 17% as compared to the previous term, and posted sales of JPY41.9 billion, a rise of 3% as compared to the previous term. Further, the segment posted operating income of JPY3.4 billion.

3. Construction Machinery

With regard to the hydraulic excavator business, due to factors such as a decline in demand from the ASEAN region, both orders and sales decreased as compared to the previous term. As for the mobile crane business, although orders decreased as compared to the previous term due to a decline in demand from the Japanese and North American markets, sales increased because there was a backlog of orders from the previous term. In actual figures, the segment received orders worth JPY70.6 billion, a fall of 7% as compared to the previous term, and posted sales of JPY71.2 billion (unchanged from the same period of the previous term). Further, the segment posted operating income of JPY5.8 billion.

4. Industrial Machinery

With respect to the material handling business, although orders increased due to strong demand from electric and steel companies, sales decreased because of customer delivery dates for order backlog. As for other industrial machinery businesses, although orders increased due to increased orders for industrial turbines, sales declined due to a decrease in order backlog for forging presses and other products. In actual figures, the segment received orders worth JPY20.4 billion, a rise of 12% as compared to the previous term, and posted sales of JPY18.2 billion, a fall of 12% as compared to the previous term. Further, the segment posted operating income of JPY0.6 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 first quarter of the current fiscal year. In addition, no vessel was delivered during the first quarter of the current fiscal year as compared to one vessel handed over in the previous term. In actual figures, the segment received orders worth JPY4.4 billion, a fall of 34% as compared to the previous term, and posted sales of JPY9.5 billion, a fall of 2% as compared to the previous term. Further, the segment posted operating income of JPY0.6 billion.

6. Environmental Facilities & Plants

With regard to the energy plant business, unlike the same period of the previous term, the Group won no large project for a biomass-fueled power generation plant in Japan in the first quarter of the current fiscal year. As a result, both orders and sales decreased as compared to the previous term. In the water treatment plant business, orders increased as compared to the previous term partly because the Group received orders for waste water treatment equipment and won waste material treatment equipment repair projects. However, sales dropped. In actual figures, the segment received orders worth JPY17.8 billion, a fall of 59% as compared to the previous term, and posted sales of JPY30.0 billion, a fall of 7% as compared to the previous term. Further, the segment posted an operating income of JPY0.9 billion.

7. Others

The others segment received orders worth JPY2.0 billion, a rise of 16% as compared to the previous term, and posted sales of JPY1.6 billion, a fall of 3% as compared to the previous term. Further, the segment posted operating income of JPY0.3 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, 2019) amounted to JPY950.6 billion, a decrease of JPY3.5 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to an increase of JPY18.4 billion in inventory assets offsetting decreases of JPY18.3 billion in trade notes and accounts receivable and JPY6.7 billion in cash and deposits.

Total liabilities fell to JPY484.2 billion, a decrease of JPY4.9 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to a decrease of JPY6.9 billion in notes and accounts payable.

Net assets to JPY466.4 billion, an increase of JPY1.4 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to increase of JPY1.1 billion in retained earnings.

As a result of the above, the shareholders' equity ratio increased by 0.3 points from the end of the previous consolidated fiscal year to finish at 47.9%.

2. Cash Flow Condition

The increase in cash flow from operating activities was JPY13.6 billion (as compared to an increase in cash flow of JPY25.0 billion in the previous term). When broken down, the main components of the JPY31.9 billion reduction in trade receivables and the proceeds were JPY13.3 billion in quarterly net income before tax and other adjustments. The main sources of the outflow of cash were the JPY18.0 billion increase in inventory assets and the JPY11.7 billion payment of corporate and other taxes.

The decrease in cash flow as a result of investing activities was JPY8.9 billion (as compared to a decrease in cash flow of JPY27.5 billion in the previous term). The main reason for the cash outflow was the JPY10.3 billion used to acquire property, plant and equipment.

The decrease in cash flow as a result of financing activities was JPY10.8 billion (as compared to a decrease in cash flow of JPY6.2 billion in the previous term). The main reason for the cash outflow was the JPY7.4 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 JPY64.7 billion, a decrease of JPY5.1 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, 2020, which was published along with the earnings summary on May 8, 2019.

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, 2019	End of First Quarter As of June 30, 2019
	Amount	Amount
Assets		
Cash and deposits	73,589	66,935
Notes and accounts receivable	291,578	273,284
Inventory assets	189,045	207,483
Other	33,185	34,843
Allowance for doubtful accounts	(3,829)	(3,730)
Current assets	583,568	578,816
Land	107,720	107,789
Other (net)	140,556	145,663
Total tangible assets	248,276	253,451
Goodwill	24,049	23,116
Other	41,022	37,956
Total intangible assets	65,071	61,072
Other	62,450	62,599
Allowance for doubtful accounts	(5,314)	(5,354)
Investments and other assets	57,136	57,246
Fixed assets	370,483	371,769
Total assets	954,051	950,585

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2019	End of First Quarter As of June 30, 2019
	Amount	Amount
Liabilities		
Notes and accounts payable	188,069	181,123
Short-term bank loans	23,444	23,750
Corporate bonds due within one year	10,000	10,000
Long-term loans due within one year	1,956	1,957
Commercial Paper	17,000	15,000
Allowance for guaranteed construction	13,339	13,624
Other allowance amount	6,309	5,052
Other	122,261	126,751
Current liabilities	382,378	377,258
Bonds	10,000	10,000
Long-term debt due after one year	10,912	10,643
Allowance	154	154
Defined benefit liability	46,082	45,965
Deferred income taxes on revaluation	20,713	20,713
Other	18,812	19,421
Total fixed liabilities	106,673	106,896
Total liabilities	489,051	484,155
Net assets		
Common stock	30,872	30,872
Capital surplus	26,071	26,071
Retained earnings	348,863	349,997
Treasury stock	(1,048)	(1,052)
Total shareholders' equity	404,757	405,887
Unrealized gains on securities	3,871	3,508
Profit (loss) on deferred hedge	(318)	(49)
Revaluation reserve for land	40,820	40,819
Foreign currency translation adjustments	8,879	9,273
Re-measurement of defined benefit plans	(4,542)	(4,319)
Total accumulated other comprehensive income	48,711	49,233
Non-controlling interest	11,533	11,310
Total net assets	465,001	466,430
Total liabilities and net assets	954,051	950,585

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

(Units: millions of yen)

	Previous First Quarter April 1, 2018, to June 30, 2018	Present First Quarter April 1, 2019, to June 30, 2019
	Amount	Amount
Net sales	202,678	204,181
Cost of sales	152,851	156,592
Gross income	49,827	47,589
Selling, general & administrative expenses	32,614	34,058
Operating income	17,214	13,531
Non-operating income		
Interest income	142	223
Dividend income	554	400
Other	630	598
Total non-operating income	1,325	1,221
Non-operating expenses		
Interest expense	238	247
Loss on foreign currency exchange	325	361
Other	931	804
Total non-operating expenses	1,495	1,412
Ordinary income	17,044	13,339
Extraordinary losses		
Loss on impaired assets	104	—
Total extraordinary losses	104	—
Income before income taxes	16,940	13,339
Corporate income taxes	5,160	3,826
Net income	11,780	9,513
Net income attributable to non-controlling interests	909	606
Net income attributed to shareholders of the parent company	10,871	8,907

Consolidated Statement of Comprehensive Income

(Units: millions of yen)

	Previous First Quarter April 1, 2018, to June 30, 2018	Present First Quarter April 1, 2019, to June 30, 2019
	Amount	Amount
Net income	11,780	9,513
Other comprehensive income		
Unrealized gains on securities	(433)	(362)
Profit (loss) on deferred hedge	(177)	267
Foreign currency translation adjustments	(7,211)	415
Adjustment to retirement benefits	445	222
Amount applied for equity method accounting of affiliates	3	2
Total other comprehensive income	(7,373)	544
Comprehensive income	4,406	10,057
(Breakdown)		
Comprehensive income relating to parent company shareholdings	3,761	9,430
Quarterly comprehensive income relating to non-controlling interests	645	627

(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)

(Application of Accounting Standard Codification (ASC) 606: Revenue from Contract with Customers)

At our overseas subsidiaries that have adopted US GAAP, ASC 606: Revenue from Contract with Customers has been applied starting from the first quarter of the current consolidated fiscal year under review.

Due to this, when promised goods or services are transferred to customers, we recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

With regard to the application of such accounting standard, we have adopted a method where cumulative effects of the application are recognized on the start date of application in accordance with the transitional treatment, and such effects were added to or deducted from retained earnings at the beginning of the first quarter of the current consolidated fiscal year under review.

As a result, the amount of retained earnings at the beginning of the first quarter of the current consolidated fiscal year under review decreased by JPY178 million. This change had a minimal impact on the results for the first quarter of the current consolidated fiscal year under review.

(Application of IFRS 16 "Leases")

At the Group's subsidiaries that have adopted IFRS, IFRS 16 "Leases" (publicized in January 2016) (hereinafter referred to as "IFRS 16") has been applied starting from the first quarter of the current consolidated fiscal year under review. In applying IFRS 16, the Group has adopted a method of recognizing cumulative effects of the application on the start date of application, which is accepted as a transitional measure.

As for leases that the Group as lessee previously classified as operating leases by applying IAS 17, these leases were recognized as right-of-use assets or lease liabilities on the start date of application.

In line with the application of the standard, other tangible assets, other current liabilities and other fixed liabilities in the consolidated balance sheet increased by JPY2,684 million, JPY1,146 million and JPY1,538 million, respectively. In addition, the portion of assets worth 2,830 million yen that was previously recorded as other intangible assets has also been included in other tangible assets starting from the first quarter of the current consolidated fiscal year under review. This change had a minimal impact on the results for the first quarter of the current consolidated fiscal year under review.

(Subsequent Events of Significant Importance)

On July 24, 2019, the Company issued the following unsecured bonds and received the proceeds on the same date.

- | | |
|--|---|
| 1. Name: | Sumitomo Heavy Industries Limited Series 5 Unsecured Bond (with Inter-Bond Pari Passu Clause) |
| 2. Total issuance amount: | JPY10,000,000,000 |
| 3. Issuance price: | JPY100 per JPY100 of face value |
| 4. Interest rate: | 0.130% per annum |
| 5. Redemption value: | JPY100 per JPY100 of face value |
| 6. Redemption period and repayment method: | July 24, 2024 (bullet maturity amortization) |
| 7. Purpose of loan: | Planned to be allocated as a part of funds for purchasing equipment by March 2020 |

3. Supplementary Information

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

Orders

(Units: millions of yen)

Segment	April 1, 2018, to June 30, 2018	April 1, 2019, to June 30, 2019	Y/Y Change	
	Amount	Amount	Amount	%
Machinery Components	30,802	34,085	3,282	10.7
Precision Machinery	51,266	42,527	(8,738)	(17.0)
Construction Machinery	75,622	70,567	(5,054)	(6.7)
Industrial Machinery	18,188	20,413	2,225	12.2
Ships	6,679	4,406	(2,273)	(34.0)
Environmental Facilities & Plants	43,287	17,791	(25,496)	(58.9)
Others	1,730	2,015	284	16.4
Total	227,574	191,804	(35,770)	(15.7)

Sales and Operating Income

(Units: millions of yen)

Segment	April 1, 2018, to June 30, 2018		April 1, 2019, to June 30, 2019		Y/Y Change	
	Sales	Operating Income	Sales	Operating Income	Sales	Operating Income
Machinery Components	27,064	2,139	31,912	1,881	4,848	(259)
Precision Machinery	40,577	3,227	41,923	3,441	1,347	214
Construction Machinery	70,957	6,559	71,151	5,792	193	(766)
Industrial Machinery	20,817	1,796	18,235	644	(2,582)	(1,152)
Ships	9,600	1,062	9,452	621	(147)	(441)
Environmental Facilities & Plants	32,058	1,951	29,954	886	(2,105)	(1,065)
Others	1,604	466	1,554	286	(51)	(180)
Adjustments	—	13	—	(21)	—	(34)
Total	202,678	17,214	204,181	13,531	1,503	(3,683)

Balance of Orders Received

(Units: millions of yen)

Segment	End of Previous Fiscal Year As of March 31, 2019	End of First Quarter As of June 30, 2019	Change	
	Amount	Amount	Amount	%
Machinery Components	37,215	39,387	2,172	5.8
Precision Machinery	82,950	83,554	604	0.7
Construction Machinery	72,919	72,336	(584)	(0.8)
Industrial Machinery	95,968	98,145	2,178	2.3
Ships	40,012	34,966	(5,046)	(12.6)
Environmental Facilities & Plants	271,413	259,250	(12,162)	(4.5)
Others	1,418	1,879	461	32.5
Total	601,895	589,518	(12,377)	(2.1)

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, 2018, to June 30, 2018	Present First Quarter April 1, 2019, to June 30, 2019	Y/Y Change
Income before income taxes	16,940	13,339	(3,601)
Depreciation	6,119	6,896	777
(Increase) decrease in notes and accounts receivable	20,095	31,863	11,768
(Increase) decrease in inventories	(14,325)	(18,020)	(3,695)
Increase (decrease) in notes and accounts payable	6,508	(7,222)	(13,730)
Payments for income taxes	(5,120)	(11,660)	(6,541)
Other	(5,187)	(1,612)	3,575
Net cash provided by operating activities	25,030	13,583	(11,447)
Payments for purchases of property, plant, and equipment	(7,329)	(10,349)	(3,020)
Other	(20,185)	1,483	21,668
Net cash used in investing activities	(27,514)	(8,865)	18,648
Net increase (decrease) in short-term loans	279	(2,259)	(2,537)
Cash dividends paid	(5,345)	(7,373)	(2,028)
Other	(1,091)	(1,122)	(31)
Net cash used in financing activities	(6,157)	(10,754)	(4,596)
Other	(922)	973	1,894
Cash and cash equivalents at beginning of period	85,503	69,776	(15,728)
Cash and cash equivalents at end of period	75,940	64,712	(11,228)