

Sumitomo Heavy Industries, Ltd.

CONSOLIDATED FINANCIAL REPORT

For the Nine-Month Period from April 1 to December 31, 2020

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 Nine-Month Period from April 1 to December 31, 2020
 Presented January 29, 2021

Sumitomo Heavy Industries, Ltd.

Listed exchanges	Tokyo Stock Exchange
Stock code	6302
Head office	Tokyo
President	Shinji Shimomura
URL	www.shi.co.jp
Inquiries	Michiko Watanabe General Manager, Corporate Communications Dept.
Telephone	+81 3 6737 2331
Scheduled date for submitting quarterly report	February 8, 2021
Scheduled date of payment of cash dividends	—
Availability of supplementary explanations for quarterly financial statement	No
Holding of meeting to explain quarterly financial statement	No

1. FY2020 Third Quarter Consolidated Results (April 1, 2020, to December 31, 2020)

(1) Business Results

(Units: millions of yen)

	Third Quarter April 1 to December 31, 2020		Third Quarter April 1 to December 31, 2019	
		% change		% change
Net sales	599,871	(4.1)	625,682	(3.2)
Operating profit	36,341	(3.9)	37,834	(27.8)
Ordinary profit	33,561	(5.9)	35,669	(29.0)
Profit attributable to owners of parent	20,635	(9.8)	22,867	(26.3)
Profit attributable to owners of parent ratio (yen)	168.43		186.64	
Fully diluted profit attributable to owners of parent ratio	—		—	

Note: Comprehensive income:

Third quarter ended December 31, 2020: 19,165 million yen, 36.2 %

Third quarter ended December 31, 2019: 14,072 million yen, (50.6%)

(2) Financial Position

(Units: millions of yen)

	End of Third Quarter As of December 31, 2020	End of Previous Full Year March 31, 2020
Total assets	1,002,325	996,111
Total net assets	491,936	477,648
Equity ratio (%)	47.7	46.6

Reference: Equity:

Third quarter ended December 31, 2020: 478,518 million yen
Fiscal year ended March 31, 2020: 464,457 million yen

(Note) In the nine months ended December 31, 2020, a provisional accounting treatment related to a business combination was finalized and consolidated financial statements for the previous consolidated fiscal year reflect the finalized provisional accounting treatment.

2. Dividends

(Unit: yen)

	Year Ended March 31, 2020	Year Ending March 31, 2021	Year Ending March 31, 2021 (forecast)
Annual dividends per share			
First quarter	—	—	
Second quarter	56.00	9.00	
Third quarter	—	—	
End of term	35.00		45.00
Annual dividends	91.00		54.00

(Note) Changes from the most recent dividend forecast: Yes

3. FY 2020 Consolidated Forecasts (April 1, 2020, to March 31, 2021)

(Units: millions of yen)

	Full Year April 1, 2020, to March 31, 2021	
		% change
Net sales	850,000	(1.7)
Operating profit	46,000	(19.0)
Ordinary profit	41,500	(21.2)
Profit attributable to owners of parent	22,000	(32.9)
Profit attributable to owners of parent ratio (yen)	179.00	

(Note) Changes from the most recent consolidated forecast: Yes

Additional Notes

(1) Transfers of important subsidiaries during the nine months ended December 31, 2020: None

(moves of specific subsidiaries due to change in scope of consolidation)

Newly consolidated: —

Excluded from consolidation: —

(2) Special accounting measures applied in the quarterly consolidated financial report: Applicable

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

(i) Changes to accounting policies due to revisions to accounting standards: None

(ii) Changes to accounting policies not otherwise stated in (i): None

(iii) Changes to accounting estimates: None

(iv) Retrospective restatements: None

(4) Number of shares issued (share capital)

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

As of December 31, 2020 122,905,481 shares

As of March 31, 2020 122,905,481 shares

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

As of December 31, 2020 395,859 shares

As of March 31, 2020 389,392 shares

(iii) Average number of shares during fiscal period (cumulative quarterly period):

As of December 31, 2020 122,512,730 shares

As of December 31, 2019 122,520,706 shares

* The Quarterly Summary of Financial Results is not subject to the Quarterly Review by a Certified Public Accountant or an Independent Auditor

※Explanations and Other Special Items regarding the Proper Use 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 *Explanation of the Consolidated Earnings Forecast and Other Forward-Looking Estimates* in the *Supplementary Materials* section beginning on page 9.

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I. Qualitative Information regarding Current Quarterly Consolidated Business Performance

1. Explanation of Business Performance

As for the business environment surrounding the Group during the third quarter of the current consolidated fiscal year under review, the spread of COVID-19 infections resulted in issuance of a declaration of an emergency situation in Japan, which dampened economic activities, and turning to overseas regions, pandemic lockdowns were enforced, leading to a deterioration in the economic environment. These and other factors prompted a global downturn in demand for machinery. Also, uncertainty over the global economy increased mainly due to escalation of trade disputes between the US and China, ongoing geopolitical risks, fluctuations in oil prices and their slump in addition to the aforementioned factors.

In this business environment, the Group moved forward with responsive measures to COVID-19, such as securing safety of employees and providing the maximum cooperation to meet social demands, and worked to implement a short-term business continuity plan (BCP) including maintenance of production in the case of an employee being infected, maintain the business amid declining orders, ensure continuation of factory operations, and carry out other activities.

Under these conditions, orders decreased in all segments except for Ships and Environmental Facilities & Plants and amounted to JPY561.8 billion, a 7% decrease as compared to the previous fiscal year. In addition, sales declined in the Machinery Components, Precision Machinery and Construction Machinery segments. In total, the Group posted a sales figure of JPY599.9 billion, a 4% decrease as compared to the previous fiscal year.

Turning to income, profits decreased in the Machinery Components, Construction Machinery and Ships segments. As a result, operating profit was JPY36.3 billion, a 4% decrease as compared to the previous fiscal year, and ordinary profit was JPY33.6 billion, a 6% decrease as compared to the previous fiscal year. Quarterly profit attributable to the shareholders of the parent company also decreased by 10% as compared to the previous fiscal year to finish at JPY20.6 billion.

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

(i) Machinery Components

Orders, sales and operating profit all decreased as the impact of spread of COVID-19 infections was seen all around the world. As a result, orders decreased by 4% as compared to the previous fiscal year to finish at JPY91.6 billion, while sales decreased by 8% as compared to the previous fiscal year to finish at JPY89.3 billion. Further, the segment posted operating profit of JPY1.5 billion (down 71% from the previous fiscal year).

(ii) Precision Machinery

For the plastic machinery business, orders increased due to recovery in demand from the electric and electronic sector in China and an increase in demand from the US and Europe. Meanwhile, both sales and operating profit decreased due to a lead time from order receipt to sales. With regard to other product areas, orders decreased because demand for semiconductor-related products entered an adjustment phase, but sales and operating profit increased due to a backlog of orders. As a result, orders decreased by 19% as compared to the previous fiscal year to finish at JPY113.4 billion, sales came to JPY128.6 billion, down 5% from the previous fiscal year, and operating profit increased by 31% as compared to the previous fiscal year to finish at JPY14.3 billion.

(iii) Construction Machinery

With regard to the hydraulic excavator business, the spread of COVID-19 infections dampened demand from across the world, and due mainly to this, all of orders, sales and operating profit decreased. As the new coronavirus also impacted the mobile crane business, prompting a drop in demand, and a slump in oil prices resulted in weaker demand from the North America. Thus, orders, sales and operating profit all decreased. As a result of the above, orders across the segment decreased by 14% as compared to the previous fiscal year to finish at JPY164.5 billion, while sales decreased by 14% as compared to the previous fiscal year to finish at JPY172.3 billion. The segment posted an operating profit of JPY6.0 billion, a 52% decrease as compared to the previous fiscal year.

(iv) Industrial Machinery

With regard to the material handling business, orders decreased as there was a tendency to postpone orders due to the spread of COVID-19 infections, but both sales and operating profit increased because of a backlog of orders. For other product areas, all of orders, sales and operating profit decreased due to the spread of COVID-19 infections. As a result of the above, orders across the segment decreased by 16% as compared to the previous fiscal year to finish at JPY54.1 billion, while sales increased by 10% as compared to the previous fiscal year to finish at JPY68.3 billion. The segment posted an operating profit of JPY6.4 billion, a 68% increase as compared to the previous fiscal year.

(v) Ships

Amid the continuing sluggish market during the third quarter of the current consolidated fiscal year under review, the segment booked an order for three new vessels, one vessel more than in the previous fiscal year. The segment delivered two vessels, one vessel more than in the previous fiscal year, resulting in increased sales, but operating loss was recorded as in the previous fiscal year. As a result of the above, orders across the segment increased by 15% as compared to the previous fiscal year to finish at JPY26.1 billion, while sales increased by 8% as compared to the previous fiscal year to finish at JPY23.1 billion. The segment posted an operating loss of JPY3.1 billion.

(vi) Environmental Facilities & Plants

Orders in the energy plant business increased partly because orders were received for large-scale projects for biomass-fueled power generation plants in Japan and Europe, and sales and operating profit increased due primarily to a backlog of orders in Japan. With respect to the water treatment plant business, orders decreased partly because the number of projects for waste water treatment equipment declined from the previous fiscal year. However, sales and operating profit increased because of a backlog of orders. As a result of the above, orders across the segment increased by 27% as compared to the previous fiscal year to finish at JPY107.7 billion, while sales increased by 10% as compared to the previous fiscal year to finish at JPY113.8 billion. The segment posted an operating profit of JPY10.0 billion, a 59% increase as compared to the previous fiscal year.

(vii) Others

Orders decreased by 22% to JPY4.3 billion, sales decreased by 16% to JPY4.5 billion, and operating profit decreased by 22% to JPY1.3 billion from the previous fiscal year, respectively.

2. Explanation of the Group's Consolidated Financial Position

1. Condition of Assets, Liabilities, and Net Assets

Total assets at the end of the third quarter of the current consolidated fiscal year under review (ended December 31, 2020) amounted to JPY1,002.3 billion, an increase of JPY6.2 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to increases of JPY13.9 billion in inventory assets and JPY9.9 billion in tangible fixed assets, while cash and deposits decreased by JPY16.2 billion.

Total liabilities declined to JPY510.4 billion, a decrease of JPY8.1 billion as compared to the end of the previous consolidated fiscal year. This was attributable to decreases of JPY13.1 billion in notes and accounts payable-trade and JPY3.0 billion in advances received, while interest-bearing liabilities increased by JPY12.2 billion.

Net assets amounted to JPY491.9 billion, an increase of JPY14.3 billion as compared to the end of the previous consolidated fiscal year. This was due to an increase of JPY16.7 billion in retained earnings, while foreign currency translation adjustments decreased by JPY5.3 billion.

As a result of the above, the shareholders' equity ratio increased by 1.1 points from the end of the previous consolidated fiscal year to finish at 47.7%.

2. Cash Flow Condition

Cash and cash equivalents at the end of the third quarter of the current consolidated fiscal year under review came to JPY68.3 billion, a decrease of JPY15.3 billion from the end of the previous consolidated fiscal year. Cash flows for the nine months ended December 31, 2020 and the factors contributing to increases or decreases in cash flows are as follows.

(Cash Flow from Operating Activities)

Cash flow from operating activities increased by JPY16.0 billion during the nine months ended December 31, 2020 and increased by JPY4.9 billion from the same period of the previous fiscal year. This is because an increase in inventory assets and a decrease in trade payables slowed down.

(Cash Flow from Investing Activities)

Cash flow from investing activities decreased by JPY34.9 billion during the nine months ended December 31, 2020 and cash outflow decreased by JPY5.6 billion from the same period of the previous fiscal year. This is partly attributable to a decrease in expenses for acquiring the shares of, and money invested in, a subsidiary, which results in a change in the scope of consolidation.

(Cash Flow from Financing Activities)

Cash flow from financing activities increased by JPY4.0 billion during the nine months ended December 31, 2020 and cash inflow decreased by JPY32.5 billion from the same period of the previous fiscal year. This is partly because an increase in interest-bearing liabilities slowed down.

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

Consolidated earnings forecasts for the fiscal year ending March 31, 2021 which were announced in October 30, 2020 have been changed. For details, please see the "Notice Regarding Changes in Earnings Forecasts and Dividend Forecast" announced today (January 29, 2021).

Note that the earnings forecasts have been prepared based on information available as of the date of publication and actual results may differ from these forecasts due to various factors that may arise in the future.

II. Quarterly Consolidated Financial Statements and Key Explanatory Notes

1. Quarterly Consolidated Balance Sheets

(Units: millions of yen)

	End of Full Year As of March 31, 2020	End of Third Quarter As of December 31, 2020
	Amount	Amount
Assets		
Current assets		
Cash and deposits	87,067	70,845
Notes and accounts receivable	271,406	266,597
Inventory assets	200,978	214,889
Other	36,673	37,599
Allowance for doubtful accounts	(3,341)	(3,345)
Total current assets	592,784	586,584
Fixed assets		
Tangible fixed assets		
Land	107,535	108,092
Other (net)	160,530	169,912
Total tangible fixed assets	268,066	278,004
Intangible fixed assets		
Goodwill	28,831	30,584
Other	45,280	45,461
Total intangible fixed assets	74,111	76,044
Investments and other assets		
Other	65,448	65,914
Allowance for doubtful accounts	(4,297)	(4,222)
Total investments and other assets	61,151	61,692
Total Fixed assets	403,327	415,740
Total assets	996,111	1,002,325

(Units: millions of yen)

	End of Full Year As of March 31, 2020	End of Third Quarter As of December 31, 2020
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable - trade	158,489	145,400
Short-term loans payable	28,139	33,616
Current portion of long-term loans payable	4,499	3,276
Commercial Papers	35,000	15,000
Provision for construction warranties	13,742	13,222
Other provision amount	4,233	3,733
Other	121,554	113,802
Total current liabilities	365,657	328,048
Fixed Liabilities		
Bonds payable	30,000	50,000
Long-term debt due after one year	27,032	34,927
Allowance	154	152
Defined benefit liability	53,628	54,950
Deferred income taxes on revaluation	20,628	20,628
Other	21,365	21,682
Total non-current liabilities	152,806	182,340
Total liabilities	518,463	510,388
Net assets		
Shareholders' equity		
Capital stock	30,872	30,872
Capital surplus	26,070	26,071
Retained earnings	367,229	383,923
Treasury shares	(1,080)	(1,095)
Total Shareholders' equity	423,091	439,770
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,410	4,132
Deferred gains or losses on hedges	(532)	90
Revaluation reserve for land	40,626	40,626
Foreign currency translation adjustments	4,911	(425)

	End of Full Year As of March 31, 2020	End of Third Quarter As of December 31, 2020
	Amount	Amount
Remeasurements of defined benefit plans	(6,049)	(5,676)
Total accumulated other comprehensive income	41,366	38,749
Non-controlling interests	13,191	13,418
Total net assets	477,648	491,936
Total liabilities and net assets	996,111	1,002,325

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

Quarterly Consolidated Income Statements

Nine months ended December 31, 2020

(Units: millions of yen)

	Previous Third Quarter April 1, 2019 to December 31, 2019	Present Third Quarter April 1, 2020 to December 31, 2020
	Amount	Amount
Net sales	625,682	599,871
Cost of sales	486,070	465,380
Gross income	139,613	134,492
Selling, general and administrative expenses	101,779	98,151
Operating profit	37,834	36,341
Non-operating profit		
Interest income	729	652
Dividend income	573	284
Other	1,725	1,451
Total non-operating profit	3,028	2,386
Non-operating expenses		
Interest expenses	886	732
Foreign exchange losses	1,347	1,331
Other	2,959	3,103
Total non-operating expenses	5,192	5,166
Ordinary profit	35,669	33,561
Profit before income taxes	35,669	33,561
Income taxes	11,277	11,714
Profit	24,392	21,847
Profit attributable to no-controlling interests	1,525	1,213
Profit attributable to owners of parent	22,867	20,635

Quarterly Consolidated Statement of Comprehensive Income
Nine months ended December 31, 2020

(Units: millions of yen)

	Previous Third Quarter April 1, 2019 to December 31, 2019	Present Third Quarter April 1, 2020 to December 31, 2020
	Amount	Amount
Profit	24,392	21,847
Other comprehensive income		
Valuation difference on available-for-sale securities	209	1,722
Deferred gains or losses on hedges	(479)	621
Foreign currency translation adjustments	(12,061)	(5,396)
Adjustment to retirement benefits	2,005	364
Share of other comprehensive income of entities accounted for using equity method	6	7
Total other comprehensive income	(10,320)	(2,682)
Comprehensive income	14,072	19,165
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	13,001	18,017
Quarterly comprehensive income attributable to non-controlling interests	1,071	1,148

3. Items of Special Note Concerning the Quarterly Consolidated Financial Statements

(Significant Events or Conditions that Question the 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 profit (after tax effect accounting) applicable to the consolidated fiscal year in which the third 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 profit by the estimated effective tax rate.

(Subsequent Events of Significant Importance)

There are no applicable items.

III. Supplemental Information

1. Orders Received, Sales and operating profit/loss, and Balance of Orders Received, by Segment

(1) Orders Received

(Units: millions of yen)

Segment	April 1, 2019 to December 31, 2019	April 1, 2020 to December 31, 2020	Y/Y Change	
	Amount	Amount	Amount	%
Machinery Components	95,303	91,607	(3,696)	(3.9)
Precision Machinery	140,816	113,369	(27,447)	(19.5)
Construction Machinery	191,839	164,540	(27,299)	(14.2)
Industrial Machinery	64,371	54,124	(10,247)	(15.9)
Ships	22,657	26,080	3,423	15.1
Environmental Facilities & Plants	84,649	107,736	23,087	27.3
Others	5,523	4,324	(1,199)	(21.7)
Total	605,158	561,780	(43,378)	(7.2)

(2) Sales and operating profit/loss

(Units: millions of yen)

Segment	April 1, 2019 to December 31, 2019		April 1, 2020 to December 31, 2020		Y/Y Change	
	Sales	Operating profit/loss	Sales	Operating profit/loss	Sales	Operating profit/loss
Machinery Components	96,723	5,116	89,253	1,470	(7,470)	(3,647)
Precision Machinery	135,160	10,903	128,627	14,281	(6,533)	3,379
Construction Machinery	201,364	12,385	172,334	5,977	(29,030)	(6,408)
Industrial Machinery	62,154	3,826	68,275	6,412	6,121	2,586
Ships	21,391	(2,367)	23,106	(3,094)	1,715	(727)
Environmental Facilities & Plants	103,543	6,267	113,809	9,961	10,266	3,694
Others	5,347	1,730	4,467	1,412	(879)	(318)
Adjustment	—	(26)	—	(78)	—	(52)
Total	625,682	37,834	599,871	36,341	(25,811)	(1,492)

(3) Balance of Orders Received

(Units: millions of yen)

Segment	End of Full Year As of March 31, 2020	End of Third Quarter As of December 31, 2020	Y/Y Change	
	Amount	Amount	Amount	%
Machinery Components	33,511	35,865	2,354	7.0
Precision Machinery	87,505	72,246	(15,259)	(17.4)
Construction Machinery	58,803	51,010	(7,794)	(13.3)
Industrial Machinery	97,275	83,124	(14,151)	(14.5)
Ships	36,917	39,891	2,974	8.1
Environmental Facilities & Plants	248,958	242,885	(6,073)	(2.4)
Others	1,298	1,155	(143)	(11.0)
Total	564,268	526,176	(38,091)	(6.8)

Business segments of the Company are categorized as follows.

Businesses	Main Products
Machinery Components	Power transmission, control equipment, motors, inverters
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) Quarterly Consolidated Cash Flows Statement

(Units: millions of yen)

	April 1, 2019 to December 31, 2019	April 1, 2020 to December 31, 2020	Y/Y Change
Profit before income taxes	35,669	33,561	(2,108)
Depreciation	20,718	22,272	1,554
(Increase) decrease in notes and accounts receivable	29,368	1,049	(28,319)
(Increase) decrease in inventories	(29,831)	(16,869)	12,962
Increase (decrease) in notes and accounts payable - trade	(20,194)	(13,231)	6,964
Payments for income taxes	(20,494)	(12,375)	8,119
Other	(4,162)	1,567	5,729
Cash flows from operating activities	11,074	15,974	4,900
Purchase of fixed assets	(29,727)	(30,614)	(887)
Other	(10,694)	(4,243)	6,451
Cash flows from investing activities	(40,421)	(34,857)	5,564
Increase (decrease) in loans payable	52,463	11,523	(40,940)
Cash dividends paid	(14,430)	(5,394)	9,036
Other	(1,489)	(2,110)	(621)
Cash flows from financing activities	36,544	4,019	(32,525)
Other	(3,054)	(476)	2,578
Cash and cash equivalents at beginning of year	69,776	83,630	13,854
Cash and cash equivalents at end of quarter	73,919	68,290	(5,629)