

Financial Summary for FY2015 and Projections for FY2016

May 11, 2016

 **Sumitomo Heavy Industries, Ltd.**

President and CEO
Shunsuke Betsukawa

I N D E X

01 Financial Summary for FY2015

02 Performance Forecast for FY2016

**03 Progress Status of “Medium-Term
Management Plan 2016”**

01 Financial Summary for FY2015

01

Financial Summary

➤ Key points

(1) Orders

- Growth in Industrial Machinery segment, while declines in Construction Machinery, Ships and Environmental Facilities and Plant segments. Overall order figures fell.
- Machinery Components and Precision Machinery was flat.
- Orders for two vessels received as compared to nine in the previous FY.

(2) Sales

- Record breaking year. Achieved both increase in sales and profits.
- All segments showed growth with the exception of Construction Machinery.
- Injection molding machines in the Precision Machinery segment and Industrial Cranes in the Industrial Machinery segments showed significant growth.
- Boiler sales increased in the Environmental Facilities and Plant segment.

(3) Operating Income

- Drops in Construction Machinery and Environmental Plant and Facilities segments. Growth in Machinery Components, Precision Machinery, Industrial Machinery and Ships segments.

Unit: JPY billion

	FY2014	FY2015	Change
Orders	740.8	685.9	(54.9)
Net sales	667.1	700.8	33.7
Operating income	46.0	50.6	4.6
Operating income ratio	6.9%	7.2%	0.3%
Ordinary income	45.1	49.1	4.0
Ordinary income ratio	6.8%	7.0%	0.2%
Extraordinary income or loss	(6.4)	(2.0)	4.4
Current net income before tax adjustments	38.7	47.2	8.4
Current net income	24.3	33.1	8.8
Current net income ratio	3.6%	4.7%	1.1%



01

Operating Income by Segment

Unit: JPY billion

➤ Comparison with same term previous fiscal year

<Machinery Components>

Drop in demand globally for large-scale gear reducers. However, profits increased due to growth from the Japan, North American and Eurozone (for small to medium scale units) markets.

<Precision Machinery>

Sales growth and improved profit margins achieved in injection molding machines. Significant rise in profits for semiconductor-related equipment due to sales growth and other factors.

<Construction Machinery>

Drop in profits of hydraulic excavators due to worsening conditions in the Chinese market.

<Industrial Machinery>

Increase in profits due to sales growth in industrial cranes and turbines.

<Ships>

Three new vessels handed over (same as previous fiscal year).

Return to operating profitability due to improvements in capacity utilization rate.

<Environmental Facilities & Plants>

Drop in profits due to cost increases arising from boiler-related construction delays.

	FY2014	FY2015	Change
Machinery components	6.6	8.9	2.3
Precision machinery	13.5	18.7	5.2
Construction machinery	11.9	4.4	(7.5)
Industrial machinery	5.8	10.0	4.2
Ships	(1.2)	1.0	2.2
Environmental facilities & plants	7.5	5.8	(1.7)
Others	1.8	1.8	(0.0)
Total	46.0	50.6	4.6



01

Consolidated Balance Sheet

Unit: JPY billion

	March 2015	March 2016	Change		March 2015	March 2016	Change
Current assets	492.0	493.0	1.0	Liabilities	420.9	400.0	(20.9)
Cash and deposits *	92.4	70.8	(21.6)	Notes and accounts payable	140.4	142.3	1.9
Notes and accounts receivable	194.9	219.9	25.0	Advanced payments received	44.7	35.2	(9.5)
Inventories	153.8	156.3	2.4	Interest-bearing debts	83.6	68.2	(15.4)
Others	50.8	46.0	(4.8)	Others	152.1	154.3	2.2
Fixed assets	294.0	289.9	(4.2)	Net assets	365.1	382.8	17.7
Tangible assets	228.3	227.8	(0.5)	Common equity	293.7	321.0	27.2
Intangible assets	9.3	11.2	1.9	Total accumulated other comprehensive income	66.4	55.7	(10.7)
Investments and other assets	56.4	50.9	(5.5)	Minority interests	5.0	6.2	1.2
Total	786.0	782.9	(3.2)	Total	786.0	782.9	(3.2)
				Net ratio of interest-bearing debts	(1.1%)	(0.3%)	0.8%
				Stockholders' equity ratio	45.8%	48.1%	2.3%

* Cash and deposits include cash and cash equivalents.



01

Consolidated Cash Flow Statement

- Working capital increased due to a rise in sales. Secured positive FCF.

Unit: JPY billion

Category	FY2014	FY2015	Change
Operating activities	62.2	18.3	(43.9)
Income before income taxes	38.7	47.2	8.4
Depreciation	16.3	19.7	3.4
Working capital	11.7	(34.6)	(46.3)
Others (taxes etc.)	(4.5)	(14.0)	(9.5)
Investing activities	(14.1)	(15.4)	(1.2)
Free cash flow	48.1	3.0	(45.1)
Financing activities	(36.9)	(23.8)	13.1
Change in cash and cash equivalents	14.0	(22.4)	(36.4)
Cash and cash equivalents at end of fiscal term	90.3	68.6	(21.7)



02 Performance Forecast for FY2016



02

Performance Forecast for FY2016

- Dividend for FY2015 was JPY16, JPY2 higher than the initial dividend forecast of JPY14.
- Projecting a drop in profits for FY2016 with main factors being the foreign exchange rate and a drop in IT-related demand for injection molding machines.
- Annual dividend forecast is set at JPY14.

Unit: JPY billion

	Record 1H-FY15	Record 2H-FY15	Forecast 1H-FY16	Forecast 2H-FY16	Record FY2015	Forecast FY2016
Orders	356.3	329.6	360.0	350.0	685.9	710.0
Net Sales	322.5	378.3	330.0	370.0	700.8	700.0
Operating income	18.4	32.2	17.0	30.0	50.6	47.0
Operating income ratio	5.7%	8.5%	5.2%	8.1%	7.2%	6.7%
Ordinary income	16.8	32.3	16.0	28.5	49.1	44.5
Ordinary income ratio	5.2%	8.5%	4.8%	7.7%	7.0%	6.4%
Extraordinary income / loss	(0.2)	(1.8)	(1.5)	(1.0)	(2.0)	(2.5)
Current net income	11.5	21.6	10.0	18.0	33.1	28.0
Current net income ratio	3.6%	5.7%	3.0%	4.9%	4.7%	4.0%
Dividends	JPY7	JPY9	JPY7	JPY7	JPY16	JPY14
Dividend payout ratio					29.6%	30.6%
ROIC (after tax)					7.6%	7.1%
Projected currency exchange rate (US dollars)					JPY116	JPY110

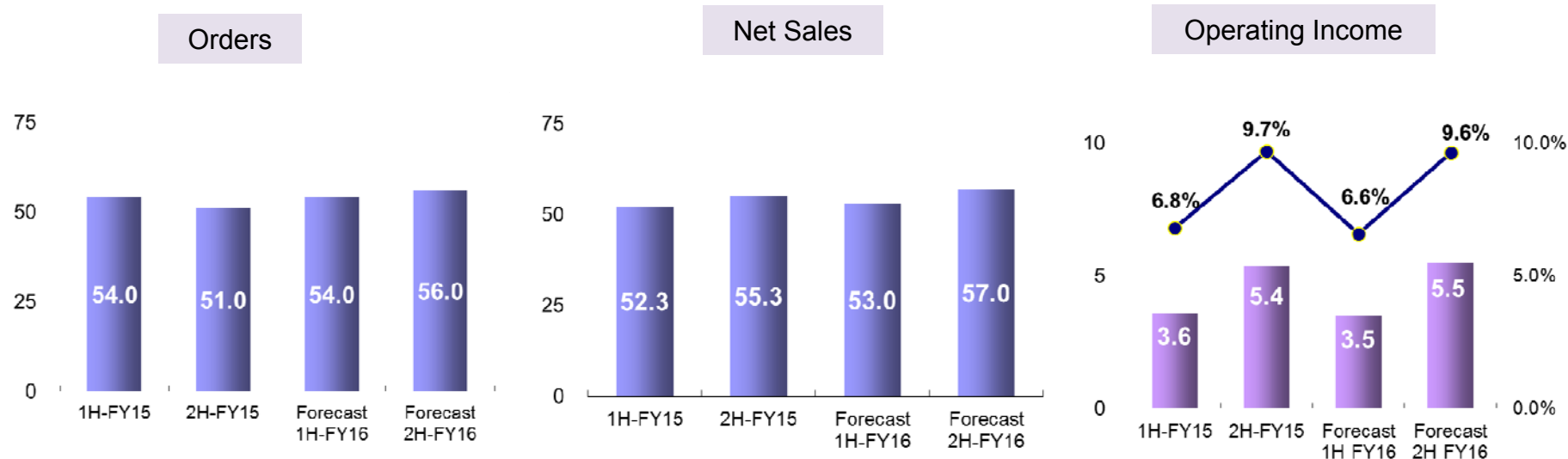
02

Machinery Components

FY2015 : Market decline continued for large-scale gear reducers targeted for the China and resource-related markets. The domestic market for small-to-medium scale units and precision gear reducers weakened during the second half of the fiscal year. However, the North American and Eurozone markets continued to trend positively. As a result, the segment posted the second consecutive year of record-setting orders and sales figures. Profitability of the segment also showed a positive trend.

FY2016 : Although uncertainty is rising, the domestic, North American and Eurozone markets are forecast to grow. On the other hand, the market for large scale units as well as demand for China is expected to continue to decline in the long-term. Aim is to maintain growth through the launch of new products and enhancing service-related activities.

Unit: JPY billion



02

Precision Machinery

<Plastic machinery>

FY2015 : IT-related demand from Asia slowed after Q2. Growth was seen from the auto-related market in the US and the overall Southeast Asian market. Segment was able to post record-setting orders and sales figures as the domestic and Eurozone markets trended positively. Significant growth in operating profits was also achieved.

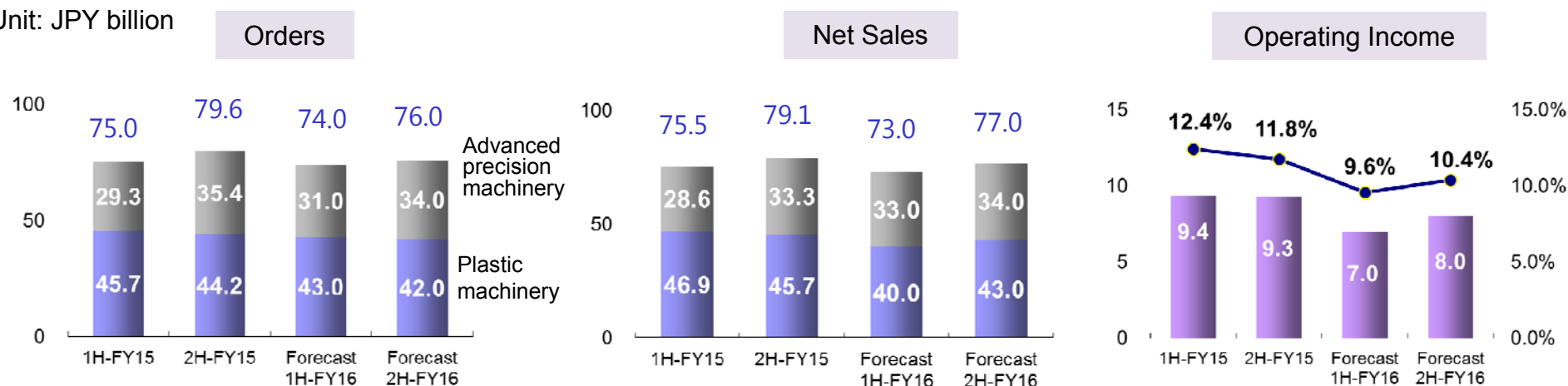
FY2016 : A drop in profits is expected due to the continued decline of IT-related demand. However, this drop is expected to be offset by the domestic, U.S. and Asia markets. Segment will also look to strengthen its auto-related market offerings.

<Advanced precision machinery>

FY2015 : Orders and sales for cryogenic coolers for medical devices were flat as compared to the previous fiscal year. Orders for semiconductor-related equipment fell, however sales and profits increased and trended positively as compared to the previous period.

FY2016 : Demand for cryogenic coolers for medical devices and semiconductor-related equipment will continue to remain positive.

Unit: JPY billion



02

Construction Machinery

<Hydraulic excavators>

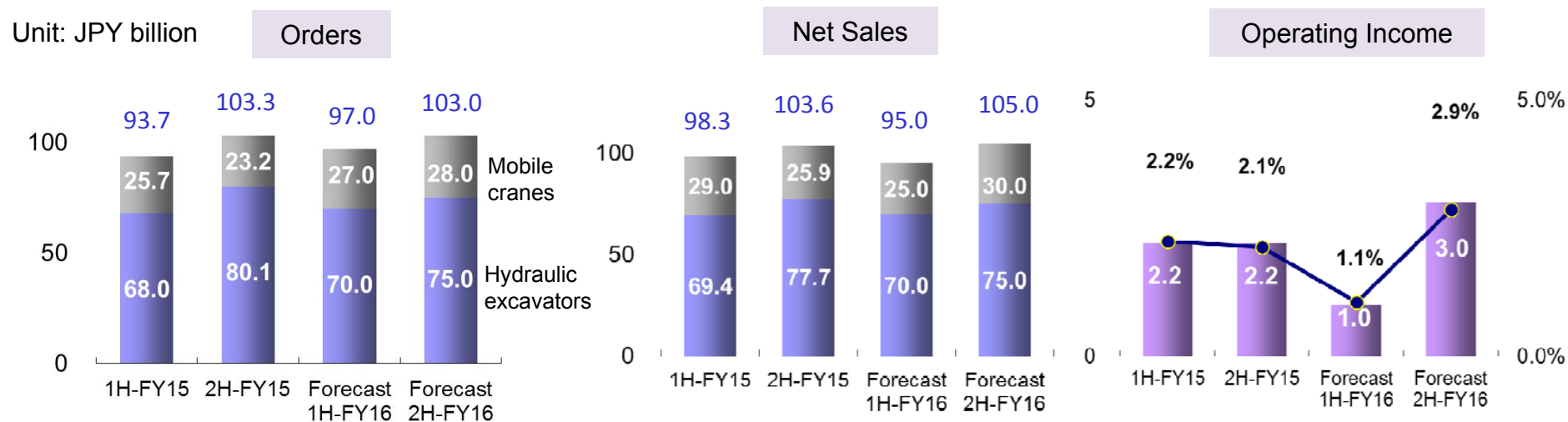
FY2015 : Orders and sales in this segment fell as compared to the previous fiscal year. This was mainly due to a significant drop in demand from the China market, as well as a slowdown in domestic sales following the temporary jump in demand arising from the rush to purchase models prior to the implementation of new emission regulations in the previous fiscal year.

FY2016 : Continued downward pressure of financial performance of the segment due to stagnant Chinese economy. Aim to improve market share in the domestic market where there is steady demand, and the North American and Eurozone markets that show comparatively stronger growth trends.

<Mobile cranes>

FY2015 : Orders fell as compared to the previous fiscal year due to the delayed recovery of oil industry related demand in North America. Sales, however, grew.

FY2016 : A gentle recovery in the North American market is expected during the second half of the fiscal year.



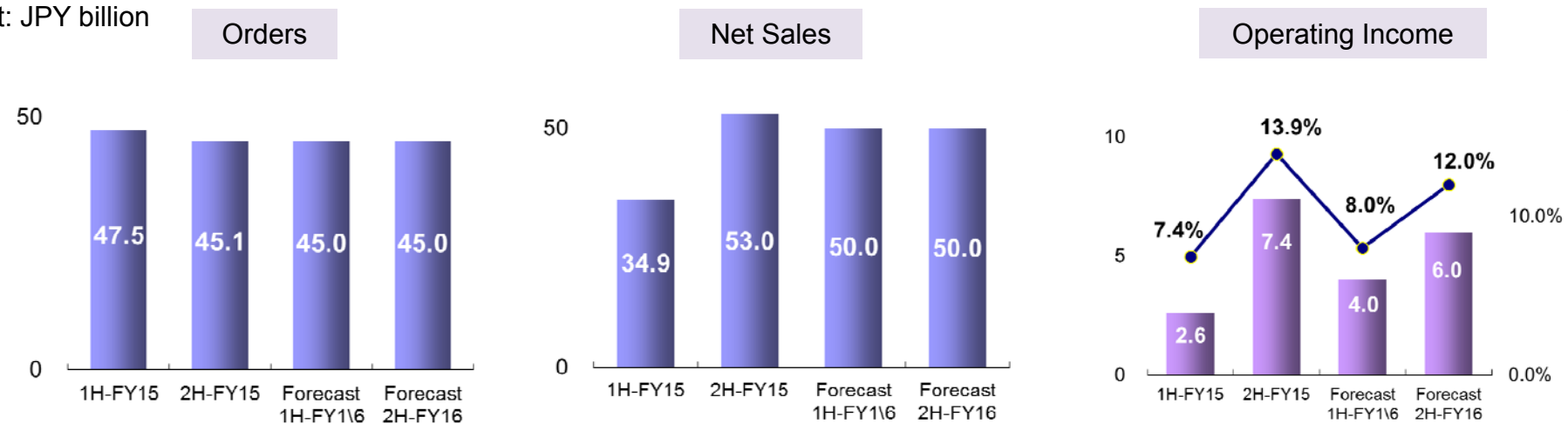
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Industrial Machinery

FY2015 : Strong demand for industrial cranes seen from the domestic shipbuilding market. In addition, the segment was able to secure an order for a proton cancer therapy equipment. As such, order levels improved as compared to the previous year. Significant growth in sales and profits as compared to the previous year was achieved due to an increase in industrial cranes and turbines businesses.

FY2016 : Demand for turbines from the domestic and overseas power generation markets is expected to be strong. Demand from the shipbuilding industry for industrial cranes will see a decline. However, positive effects from the merger with Mitsubishi Heavy Industries' industrial crane business are expected to give rise to continued growth for the business.

Unit: JPY billion



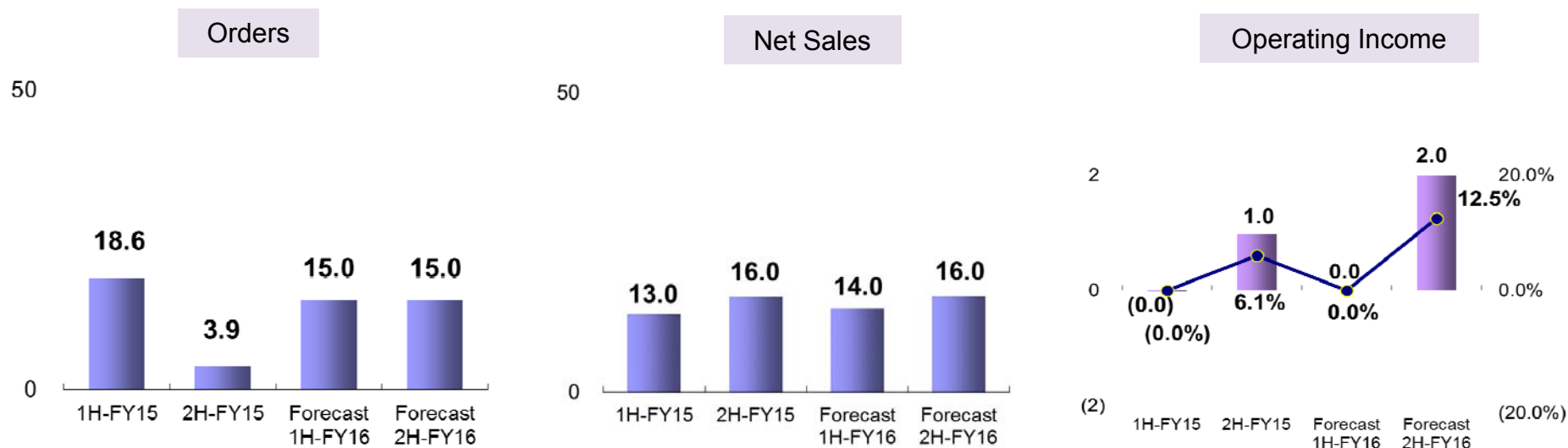
02

Ships

FY2015 : Due to new emission regulations, there was a rush to place orders during 2014 and 2015. Ship owners pulled back from making new orders from January 2016 onwards. Total orders fell by seven vessels as compared to the previous fiscal year to two vessel orders. Three new vessels were handed over during the fiscal year; the same amount as the previous fiscal year. The segment returned to an operating profit due to improved capacity utilization..

FY2016 : Severe conditions in the overall shipbuilding market are expected to continue. However, the demand for medium-scale tankers is expected to be comparatively better. Operating profits are expected to grow due to improved profitability at the time of taking the order.

Unit: JPY billion

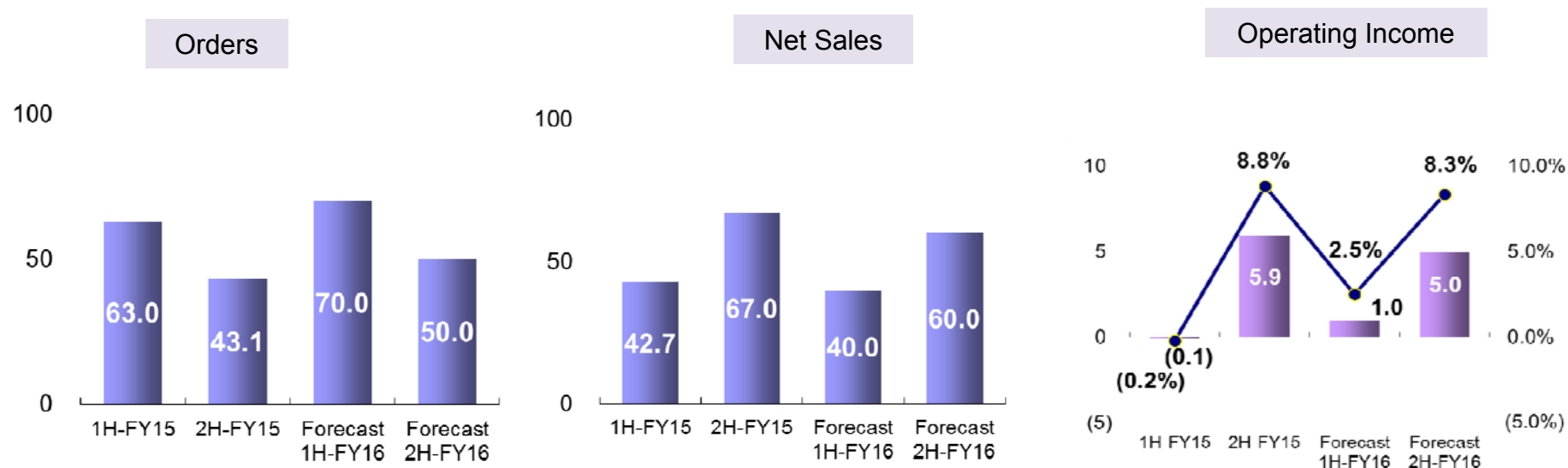


02 Environmental Facilities and Plants

FY2015 : Only two orders for boilers were received in the first half due to slippage of order-receiving timing to next fiscal year. Orders in the water treatment plant business rose as compared to the previous fiscal year due to securing a large-scale refurbishment project. Sales increased mainly due to the order for a boiler for power generation. However, profits fell due to increased costs arising from construction delays.

FY2016 : Although the boiler market will remain strong, sales are expected to decline due to the progress rate of construction. Sales in the water treatment business are expected to rise due to a growth in orders in the previous fiscal year.

Unit: JPY billion



02

Performance Forecast for FY2016 by Segment

Unit: JPY billion

		Record 1H-FY15	Record 2H-FY15	Forecast 1H-FY16	Forecast 2H-FY16	Record FY2015	Forecast FY2016
Machinery components	Orders	54.0	51.0	54.0	56.0	105.0	110.0
	Net sales	52.3	55.3	53.0	57.0	107.6	110.0
	Operating income	3.6	5.4	3.5	5.5	8.9	9.0
Precision machinery	Orders	75.0	79.6	74.0	76.0	154.6	150.0
	Net sales	75.5	79.1	73.0	77.0	154.6	150.0
	Operating income	9.4	9.3	7.0	8.0	18.7	15.0
Construction machinery	Orders	93.7	103.3	97.0	103.0	197.1	200.0
	Net sales	98.3	103.6	95.0	105.0	201.9	200.0
	Operating income	2.2	2.2	1.0	3.0	4.4	4.0
Industrial machinery	Orders	47.5	45.1	45.0	45.0	92.6	90.0
	Net sales	34.9	53.0	50.0	50.0	87.9	100.0
	Operating income	2.6	7.4	4.0	6.0	10.0	10.0
Ships	Orders	18.6	3.9	15.0	15.0	22.5	30.0
	Net sales	13.0	16.0	14.0	16.0	29.0	30.0
	Operating income	(0.0)	1.0	0.0	2.0	1.0	2.0
Environmental facilities & plants	Orders	63.0	43.1	70.0	50.0	106.1	120.0
	Net sales	42.7	67.0	40.0	60.0	109.7	100.0
	Operating income	(0.1)	5.9	1.0	5.0	5.8	6.0
Others	Orders	4.4	3.7	5.0	5.0	8.1	10.0
	Net sales	5.7	4.5	5.0	5.0	10.1	10.0
	Operating income	0.7	1.1	0.5	0.5	1.8	1.0
Total	Orders	356.3	329.6	360.0	350.0	685.9	710.0
	Net sales	322.5	378.3	330.0	370.0	700.8	700.0
	Operating income	18.4	32.2	17.0	30.0	50.6	47.0



03

Progress Status of “Medium-Term Management Plan 2016”



03

Progress Status of “MTMP16” (Overall)

Unit : JPY billion

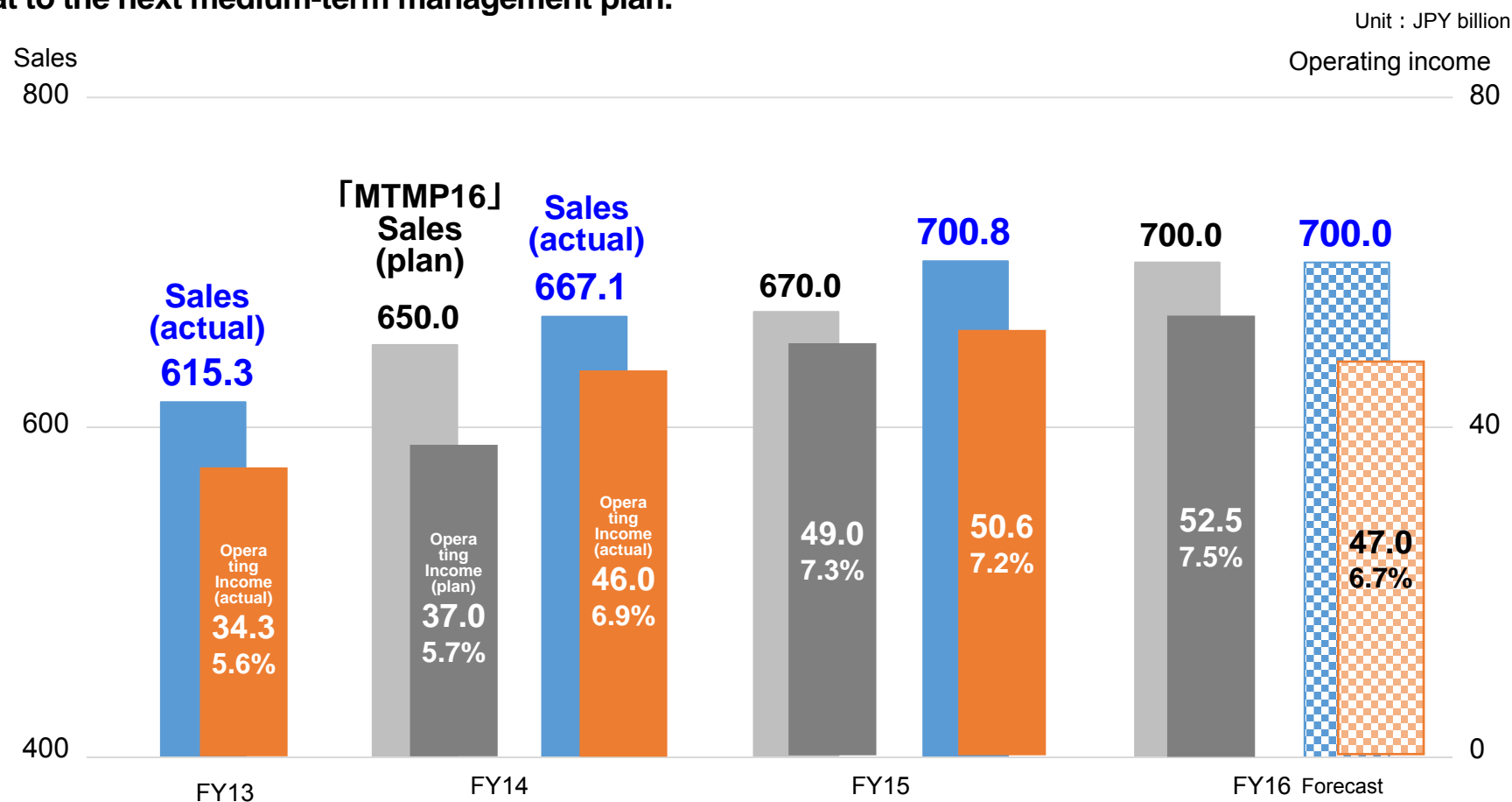
		FY13 actual	FY14 actual	FY15 actual	MTMP16 plan	FY16 forecast
① “Steady growth” to establish a strong foundation for sustainable growth	Sales	615.3	667.1	700.8	700.0	700.0
	CAPEX	19.1	(FY14~FY16 3 years)		50.0	70.0
	R&D	18.6			45.0	44.0
	Recruiting	152			600 persons	Approx. 900
② “Return to higher levels of profitability”	Operating income	34.3	46.0	50.6	52.5	47.0
	Operating income ratio	5.6%	6.9%	7.2%	7.5%	6.7%
	R O I C	4.8%	6.5%	7.6%	7.0% or more	7.1%
	Dividend payout ratio	24.0%	30.2%	29.6%	30%	30.6%
③ “Persistent efforts for operational quality improvements”			Activities to push-up the level of compliance, safety and product quality will continue to be carried out.			



03

Progress on Achieving the “MTMP16” Objectives

- Group was able to achieve the MTMP16 objectives one year in advance in FY2015. However, progress by division showed discrepancies.
- Focus will be on implementing measures to achieve a “Return to higher levels of profitability” and to link that to the next medium-term management plan.



※ FY2015 objectives were those values set forth at the time of formulating the MTMP16 during FY2013.



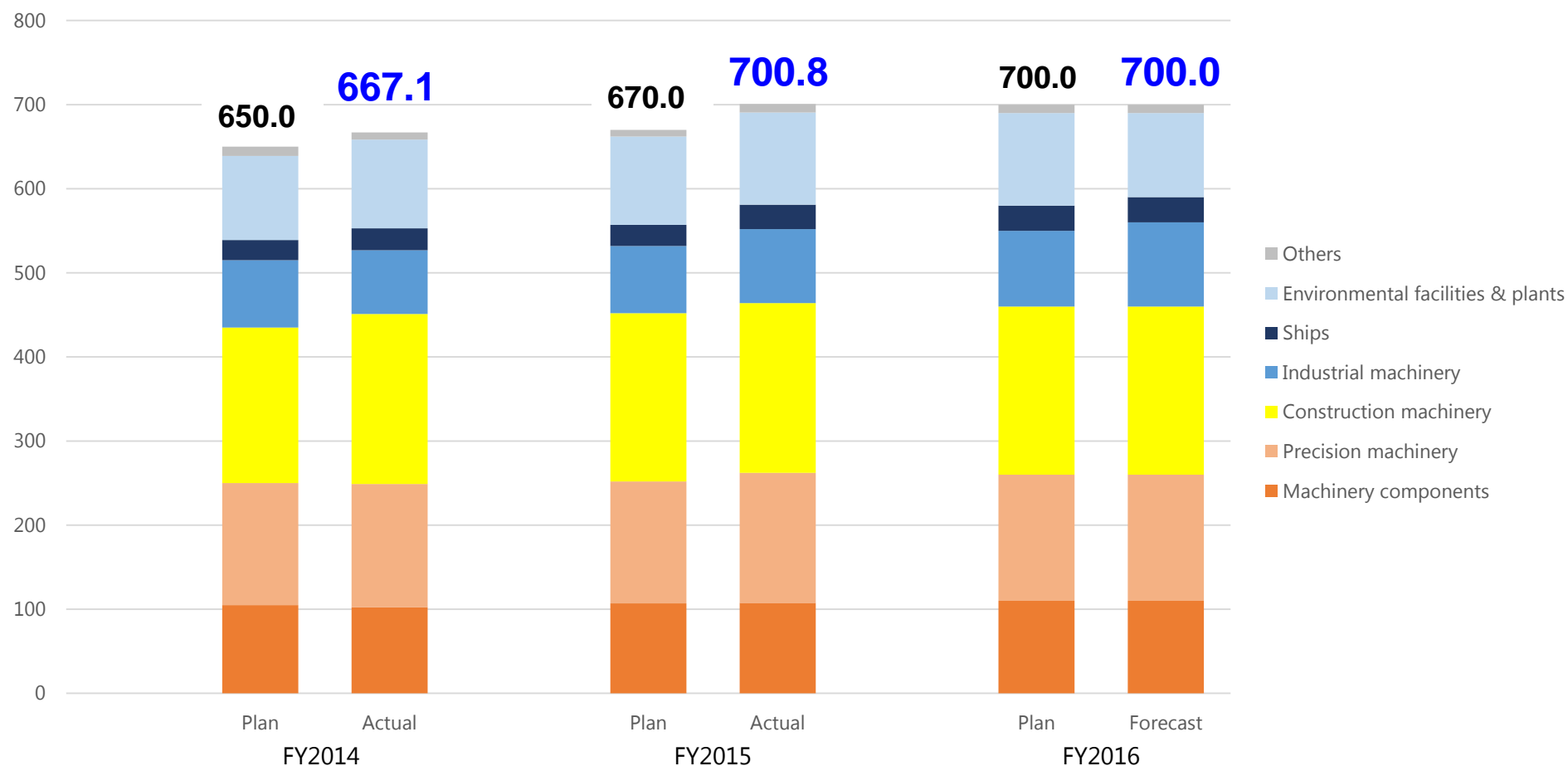
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Progress on Achieving the “MTMP16” Objectives (Sales trend by segment)

May 11, 2016

- With regard to achieving “Steady growth”, sales across all segments are generally as per plan.

Unit : JPY billion

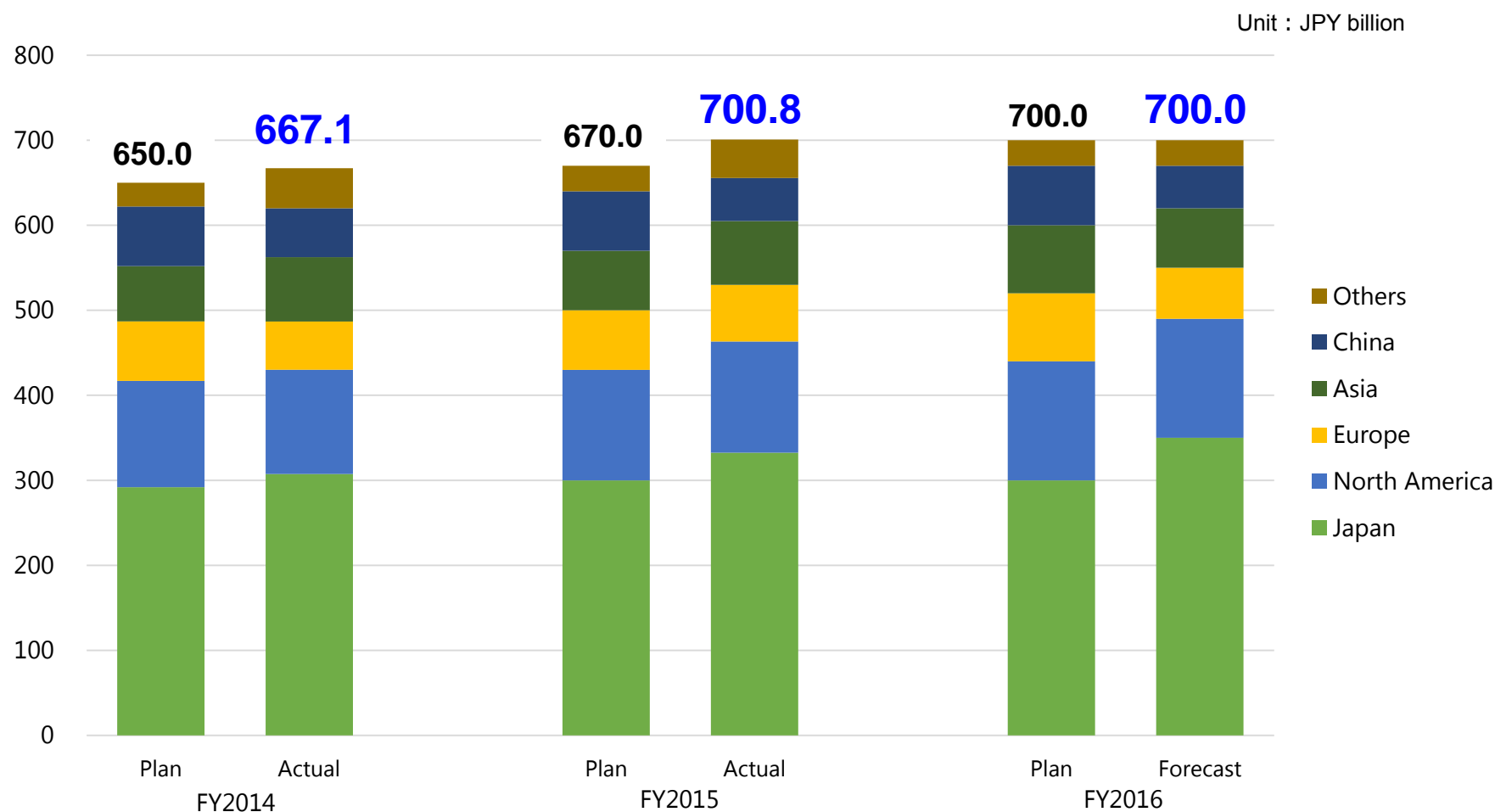


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Progress on Achieving the “MTMP16” Objectives (Sales trend by region)

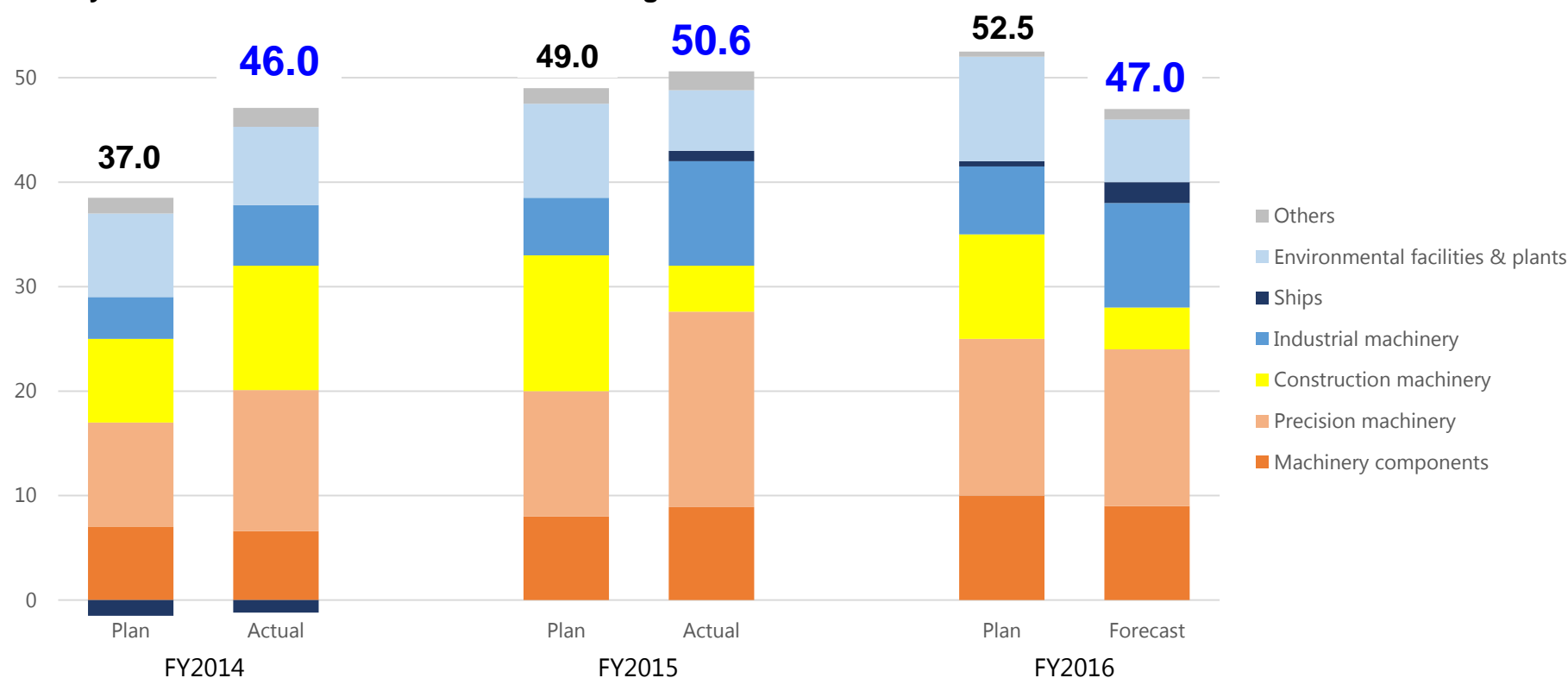
May 11, 2016

- FY2014: All regions generally met plan figures with the exception of China.
- FY2015: Exceeded plan figures by covering the drop-off in China through Japan.
- FY2016: Japan will continue to grow while other regions will remain flat.



- **FY2014:** Strong earnings in the Precision Machinery and Construction Machinery segments. Significantly exceeded first-year targets set forth in the MTMP16.
- **FY2015:** Despite the impact of a slowdown in the Chinese economy and a decline in profitability of a specific product in the Environmental Facilities and Plant segment, the plan was achieved due to a strong earnings growth in the Precision Machinery and Industrial Machinery segments.
- **FY2016:** The final year target for profits in the MTMP16 is not expected to be met due to a shortfall from the Construction Machinery and Environmental Facilities and Plants segments.

Unit : JPY billion



Region	Initial Forecast in MTMP16	Actual Condition
Domestic(Japan)	Approximately flat	Sustained growth in markets due to economic recovery
China	Although bubble concerns exist, hydraulic excavator market has bottomed out	Significant drop in demand for hydraulic excavators due to the slowdown of the Chinese market
Asia (excluding China)	Growth through energy-related industries where there is active demand	Slowdown in growth due to the impact of the stagnation in the Chinese market
Europe	Gentle economic recovery followed by a period of strong growth	Although murky conditions remain due to volatility in the financial markets, performance has been steady
North America		

(Exchange Rate)	FY2014	FY2015	FY2016	FY2014	FY2015	FY2016
USD 1	JPY100			JPY107	JPY116	JPY110
EUR 1	JPY135			JPY136	JPY131	JPY125

03

Current Positioning of Business Areas in “MTMP16”

<div>Role</div> <div>Positioning</div>	Growth and High Profitability	Improve Profitability	Need to Stabilize Profitability
	Aim to achieve growth while maintaining high profitability levels (10% or greater)	Improve profitability	Ensure a stable profit margin
Next Generation Businesses	Cryogenic Coolers		Medical-related Equipment
Device-Related Businesses	Gear Speed Reducers Injection Molding Machines	Semiconductor Manufacturing Equipment Mechatronics	Hydraulic Excavators Forging Presses
Infrastructure-Related Businesses	Industrial Cranes Turbines	Mobile Cranes Ships Water Treatment	Boilers



03

Progress of Achieving Issues Outlined in “MTMP16”

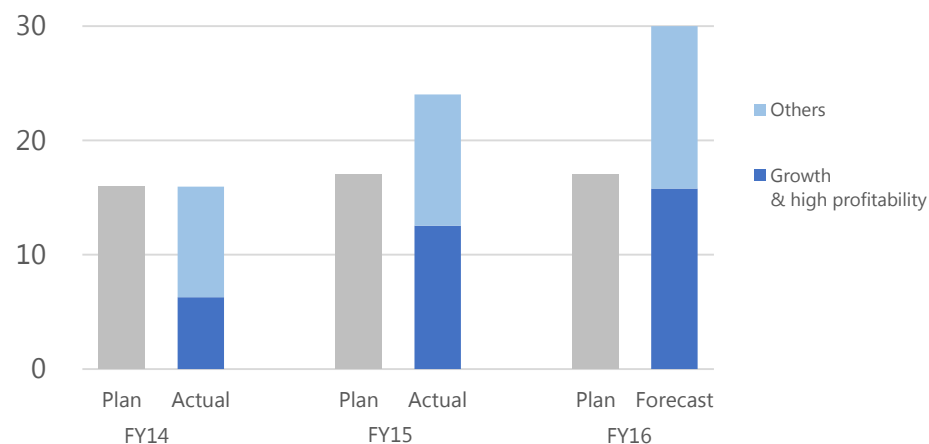
Implementation Condition	Issues
Exceeded plan	<ul style="list-style-type: none"> • <u>Focused investment in business areas with potential for growth and high profitability</u> (Facilities, R&D, Human Resources, M&A / Industrial Crane) • <u>Improve Profitability</u> (Injection molding machines, industrial cranes, turbines) • <u>Grow service-related businesses</u>
According to plan	<ul style="list-style-type: none"> • <u>Introduce new products to the market</u> (Gear speed reducers, injection molding machines) • Re-energize domestic manufacturing plants, and improve competitiveness (Gear speed reducers, injection molding machines, hydraulic excavators, industrial cranes, turbines) • <u>Re-establish and strengthen global supply chain</u> (Gear speed reducers / Europe and Brazil; Injection molding machines / Europe)
Did not meet plan (need for plan continuation)	<ul style="list-style-type: none"> • Decline in profitability due to product quality issues (boilers, medical-related equipment) → Need to strengthen profitability and engineering capabilities



Unit : JPY billion

40

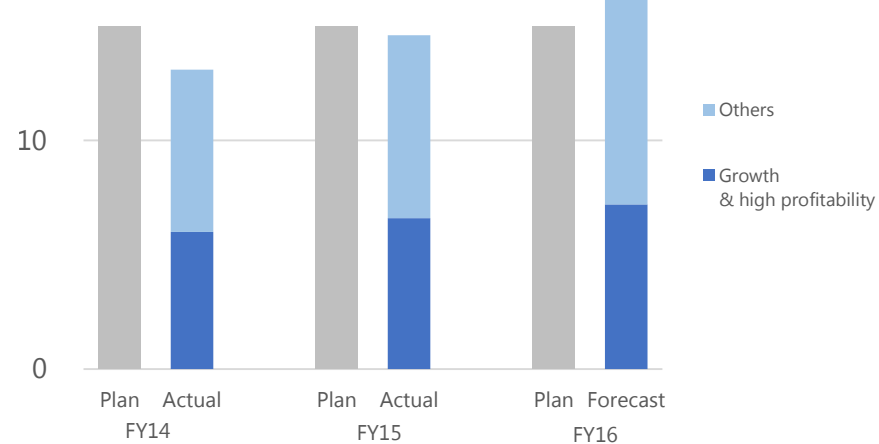
CAPEX



Unit : JPY billion

20

R&D



Role	Major Capital Investments	Major R&D Investments
Growth and high profitability	Establish precision gear reducer plant in China (gear speed reducers) Enhancements and refreshing of domestic manufacturing plants (gear speed reducers, injection molding machines, industrial cranes, turbines)	Precision gear reducers for use in robots (gear speed reducers) Fully electric-driven, ultra-high speed unit (injection molding machines)
Stable profitability	Establishment of a training center in Chiba and the U.S. (hydraulic excavators, mobile cranes)	Models that compliant to next generation emission standards (hydraulic excavators) Manufacturing system for lightweight auto components [STAF] (industrial machinery)
One-SHI		Technologies to be adopted in electronics/controls, ICT, and robots



03

Key Focus Areas for FY2016

The future path of the external environment remains murky (stagnation of the Chinese economy, yen strengthening, etc.) and an upturn in conditions cannot be expected. As such, the focus will be on establishing a strong footing for the future.

<Areas that the Group aims to complete during the FY2016>

- **Product and technological development (including the utilization of ICT)**
- **Expand service-related businesses (including opportunity creation, expansion of locations)**
- **Improve product quality to first-class standards**
- **Explore new high growth areas and review business portfolio (including alliances and M&A)**
- **Turn around unprofitable businesses**



All forward-looking statements regarding the company's future performance are based on information currently available to Sumitomo Heavy Industries and determined subjectively. Future performance is not guaranteed and all information related to future performance contained herein is subject to changes in business environments.



Ref.

Overseas sales by regional segment

Unit : JPY billion

		North America	Europe	Asia (excluding China)	China	Others	Overseas Sales	Japan	Total sales
Total	FY2015	130.8	66.6	75.0	50.6	45.4	368.3	332.5	700.8
	sales ratio	18.7%	9.5%	10.7%	7.2%	6.5%	52.6%	47.4%	100%
	FY2014	122.6	56.7	75.6	57.5	47.1	359.6	307.5	667.1
	sales ratio	18.4%	8.5%	11.3%	8.6%	7.1%	53.9%	46.1%	100%
Hydraulic excavator	FY2015	30.4	22.3	17.2	14.2	9.6	93.6	53.5	147.1
	sales ratio	20.6%	15.2%	11.7%	9.6%	6.5%	63.6%	36.4%	100%
	FY2014	29.4	15.3	13.5	24.5	12.9	95.6	55.1	150.8
	sales ratio	19.5%	10.2%	8.9%	16.2%	8.6%	63.4%	36.6%	100%

