

Second Quarter Financial Summary and Projections for FY2015

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President and CEO
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I N D E X

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Progress Status of “Medium-Term Management Plan 2016”

Progress Status of “MTMP16” | Gap Analysis from FY2015 Initial Forecast and To Achieve the Targets of “MTMP16” | Measures to Counteract the Worsening External Environment | Growth Strategies of High Performing Businesses | Management Policies



01 Financial Summary for 2Q-FY2015



01

Financial Summary

➤ Key points

(1) Orders

- Decreased as compared to previous term due to reductions in the Construction Machinery and Ships segments despite significant increases in the Machinery Components, Precision Machinery and Industrial Machinery segments.
- Strong order levels for injection molding machines.
- Orders for two vessels received this period as compared to five in the previous period.

(2) Sales

- Increased in all segments.
- Significant increase in sales of injection molding machines.
- Sales of boilers increased.

(3) Operating Income

- Significantly decreased in the Construction Machinery segment, while increased in the Machinery Components, Precision Machinery, Industrial Machinery and Ships segments.

Unit: JPY billion

	FY2014 1H	FY2015 1H	Change
Orders	365.5	356.3	(9.2)
Net sales	306.3	322.5	16.2
Operating income	19.9	18.4	(1.6)
Operating income ratio	6.5%	5.7%	(0.8%)
Ordinary income	20.0	16.8	(3.2)
Ordinary income ratio	6.5%	5.2%	(1.3%)
Extraordinary income or loss	(0.3)	(0.2)	0.1
Current net income before tax adjustments	19.7	16.6	(3.1)
Current net income	12.3	11.5	(0.8)
Current net income ratio	4.0%	3.6%	(0.5%)



01

Operating Income by Segment

➤ Comparison with same term previous fiscal year

Unit: JPY billion

<Machinery Components>

Although the domestic, North American and Eurozone markets (for small to medium-sized models) trended positively, overall growth figure was lower due to decrease in demand for large-scale gear reducers at the global level.

<Precision Machinery>

Increase in profits due to a rise in the sale of injection molding machines as well as improved profit margins.

<Construction Machinery>

Decrease in profits due to lower sales of hydraulic excavators, in particular from the China market.

<Industrial Machinery>

Increase in profits due to a rise in the sale of industrial cranes as well as turbines and pumps.

<Ships>

One new vessel handed over (same as previous period). Improved capacity utilization resulted in a recovery of operating income to a break-even level.

<Environmental Facilities & Plants>

Decrease in profits due to an increase in costs from extension of work and other factors.

	FY2014 1H	FY2015 1H	Change
Machinery components	3.4	3.6	0.1
Precision machinery	6.6	9.4	2.8
Construction machinery	7.4	2.2	(5.2)
Industrial machinery	1.9	2.6	0.7
Ships	(1.1)	(0.0)	1.1
Environmental facilities & plants	0.8	(0.1)	(0.9)
Others	1.0	0.7	(0.3)
Total	19.9	18.4	(1.6)



01

Consolidated Balance Sheet

Unit: JPY billion

	March 2015	September 2015	Change		March 2015	September 2015	Change
Current assets	492.0	469.5	(22.5)	Liabilities	420.9	389.7	(31.2)
Cash and deposits *	92.4	59.7	(32.7)	Notes and accounts payable	140.4	132.2	(8.2)
Notes and accounts receivable	194.9	187.2	(7.7)	Advanced payments received	44.7	43.8	(0.9)
Inventories	153.8	170.9	17.0	Interest-bearing debts	83.6	72.1	(11.6)
Others	50.8	51.7	0.8	Others	152.1	141.6	(10.5)
Fixed assets	294.0	292.3	(1.7)	Net assets	365.1	372.1	7.0
Tangible assets	228.3	230.5	2.2	Common equity	293.7	301.6	7.9
Intangible assets	9.3	9.3	(0.1)	Total accumulated other comprehensive income	66.4	66.0	(0.3)
Investments and other assets	56.4	52.6	(3.8)	Minority interests	5.0	4.5	(0.6)
Total	786.0	761.8	(24.2)	Total	786.0	761.8	(24.2)
				Net ratio of interest-bearing debts	(1.1%)	1.6%	2.7%
				Stockholders' equity ratio	45.8%	48.3%	2.5%

* Cash and deposits include cash and cash equivalents.



01

Consolidated Cash Flow Statement

- Operating cash flow was negative due to an increase in working capital.

Unit: JPY billion

Category	FY2014 1H	FY2015 1H	Change
Operating activities	31.9	(7.8)	(39.7)
Income before income taxes	19.7	16.6	(3.1)
Depreciation	8.0	9.6	1.5
Working capital	17.0	(17.3)	(34.2)
Others (taxes etc.)	(12.8)	(16.7)	(3.9)
Investing activities	(5.1)	(8.2)	(3.0)
Free cash flow	26.8	(15.9)	(42.8)
Financing activities	(17.5)	(17.5)	(0.0)
Change in cash and cash equivalents	8.4	(33.4)	(41.8)
Cash and cash equivalents at end of fiscal term	84.8	57.7	(27.1)



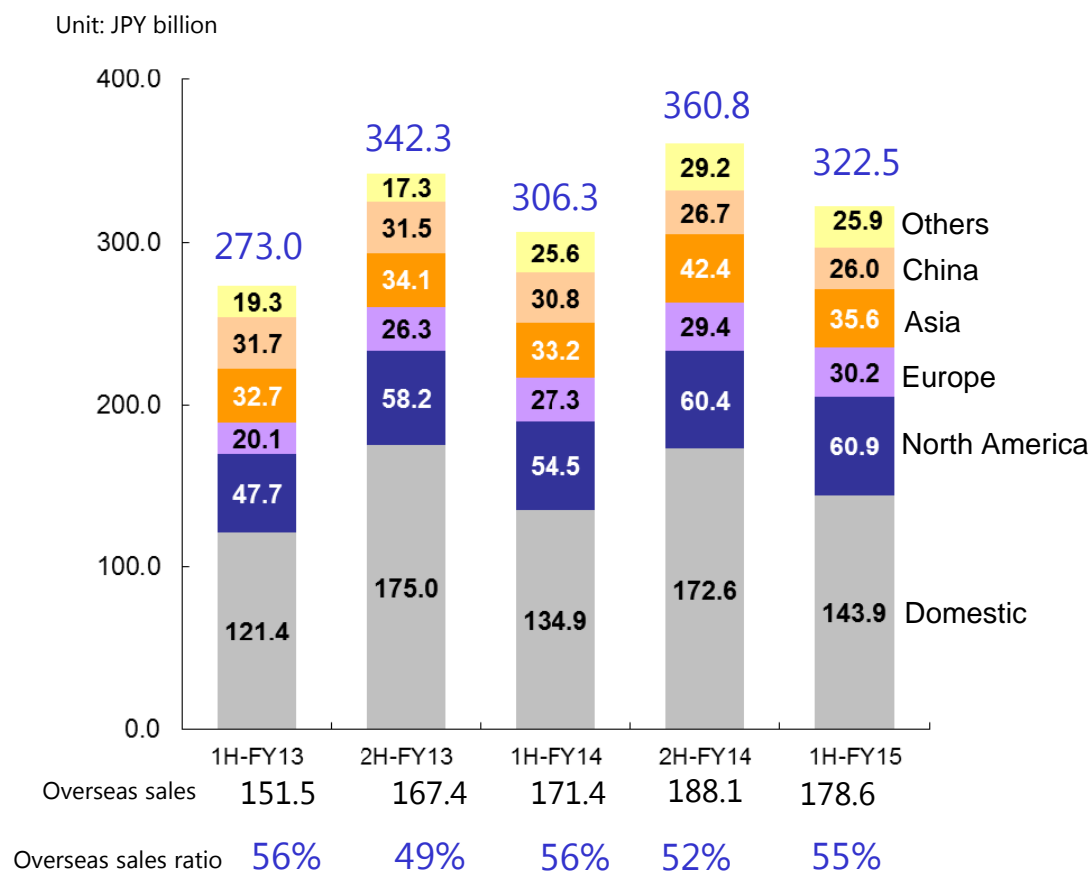
01

Overseas Sales

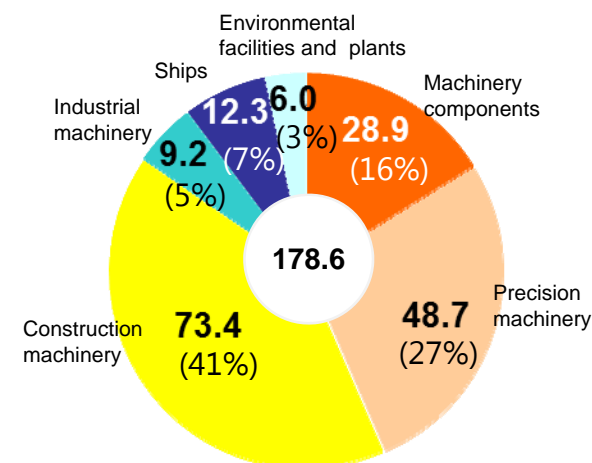
- The domestic sales trended positively in the first half of FY2015 as compared to the previous term, but China decreased (16% reduction).

Unit: JPY billion

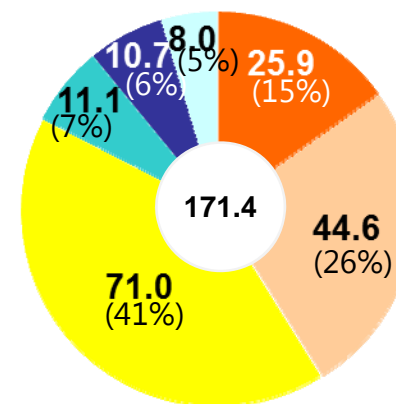
Overseas Sales by Regional Segment



1H-FY2015 Overseas Sales by Segment



1H-FY2014 Overseas Sales by Segment



02 Performance Forecast for FY2015



02

Performance Forecast for FY2015

- Full-year operating income forecast is revised downwards from initial figures due to sluggish operating environment in Construction Machinery segment.
- Dividend forecast remains the same as initial forecast at JPY14 per share.

Unit: JPY billion

	Record 1H-FY14	Record 2H-FY14	Record 1H-FY15	Forecast 2H-FY15	Record FY2014	Forecast FY2015
Orders	365.5	375.3	356.3	343.7	740.8	700.0
Net Sales	306.3	360.8	322.5	367.5	667.1	690.0
Operating income	19.9	26.1	18.4	27.6	46.0	46.0
Operating income ratio	6.5%	7.2%	5.7%	7.5%	6.9%	6.7%
Ordinary income	20.0	25.1	16.8	26.2	45.1	43.0
Ordinary income ratio	6.5%	7.0%	5.2%	7.1%	6.8%	6.2%
Extraordinary income / loss	(0.3)	(6.1)	(0.2)	(2.2)	(6.4)	(2.0)
Current net income	12.3	12.1	11.5	15.5	24.3	27.0
Current net income ratio	4.0%	3.3%	3.6%	4.2%	3.6%	3.9%
Dividends	JPY5	JPY7	JPY7	JPY7	JPY12	JPY14
Dividend payout ratio					30.2%	31.8%
ROIC (after tax)					6.5%	6.4%
Projected currency exchange rate (US dollars)	JPY102 (actual)		JPY117 (actual)	JPY120	JPY107 (actual)	JPY120

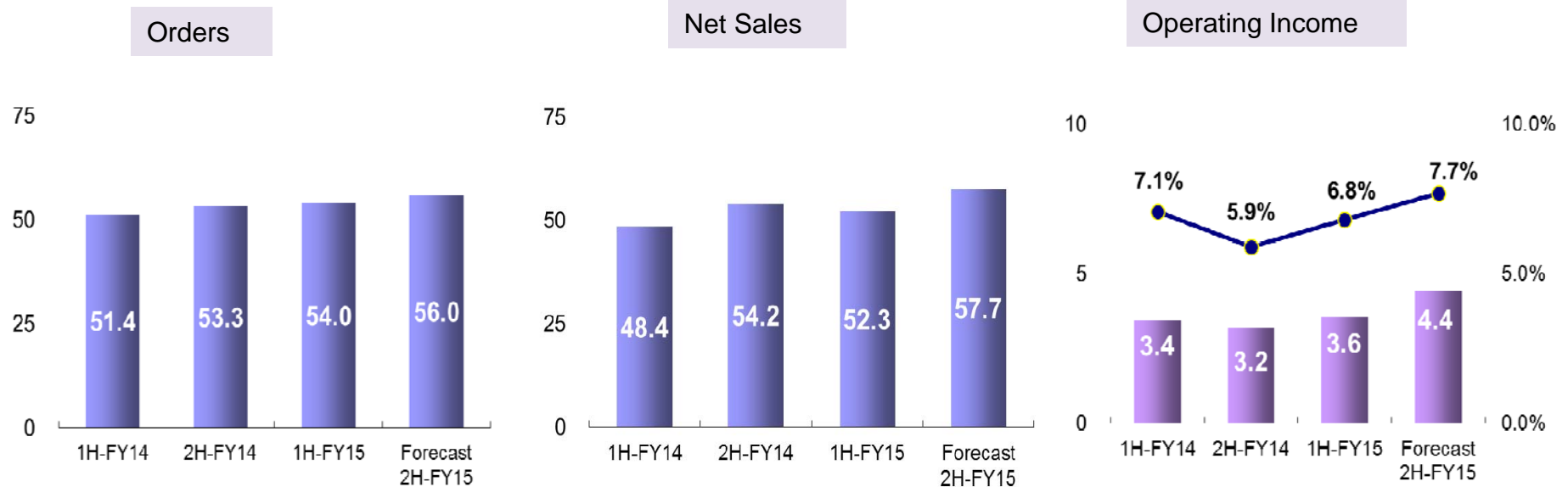
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Machinery Components

1H of FY2015 : Both orders and sales increased as compared to the previous term due to positive conditions in the domestic, North American and Eurozone markets for small to medium-sized gear reducers as well as precision gear reducers, despite the downturn in the China and broader resources market for large-scale gear reducers.

2H of FY2015 : A gentle recovery trend is expected to continue in the domestic market. China market is anticipated to remain stagnant.

Unit: JPY billion



02

Precision Machinery

<Plastic machinery>

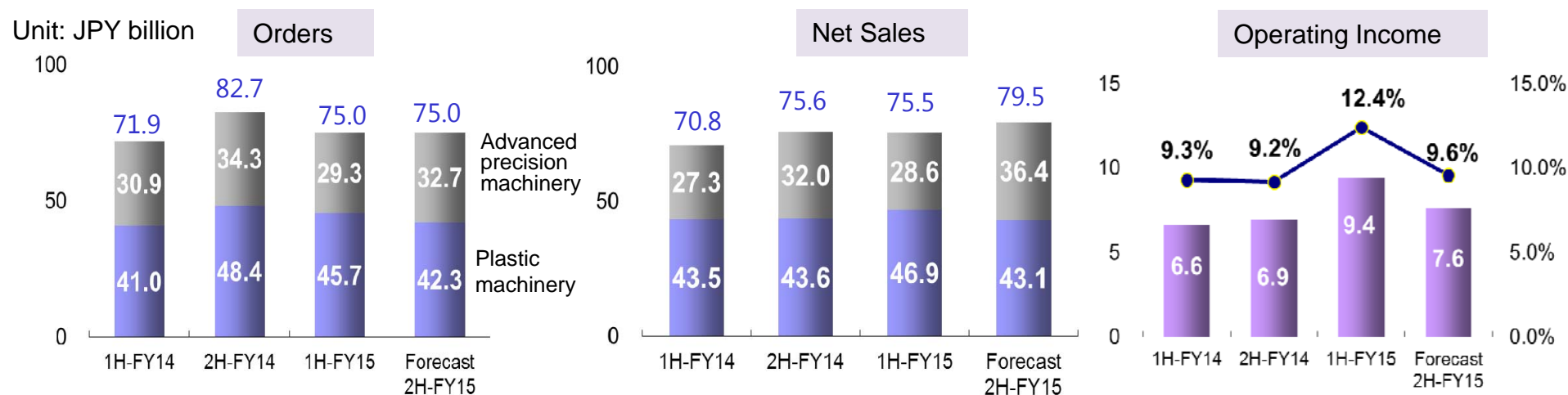
1H of FY2015 : Orders and sales increased as compared to the previous term due to positive conditions in the domestic, Eurozone and North American markets, despite the slowdown in IT-related demand from Asia. Operating income also grew significantly as compared to the previous period.

2H of FY2015 : Decrease in IT-related demand from Asia is anticipated.

<Advanced precision machinery>

1H of FY2015 : Orders and sales decreased slightly for cryogenic equipment for use in medical devices as the pace of the China market slowed. Orders for semiconductor related equipment fell as compared to the previous term but sales and income increased and trended positively.

2H of FY2015 : Although the market for cryogenic equipment for use in medical devices as well as semiconductor related equipment will grow, significant growth is not anticipated.



02 Construction Machinery

<Hydraulic excavators>

1H of FY2015 : Orders and sales decreased as compared to the previous term due to the significant drop in demand from the Chinese market, and the slowdown in demand from the domestic market because of the rush to place orders in response to new emission rules in the previous fiscal year.

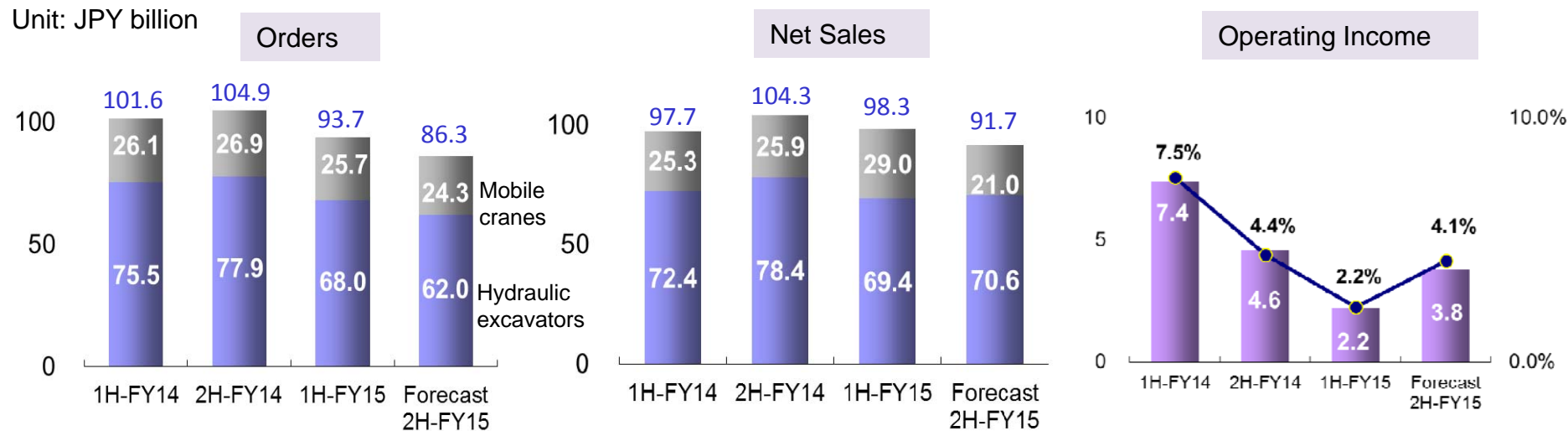
2H of FY2015: Emerging markets, in particular in China, is not expected to recover during the current period. Implementing measures to minimize the impact on financial performance.

<Mobile cranes>

1H of FY2015 : Orders have decreased as compared to the previous term due to the delayed recovery of oil-related demand from the North American market. However, sales have increased.

2H of FY2015 : Recovery is not expected in the North American market.

Unit: JPY billion



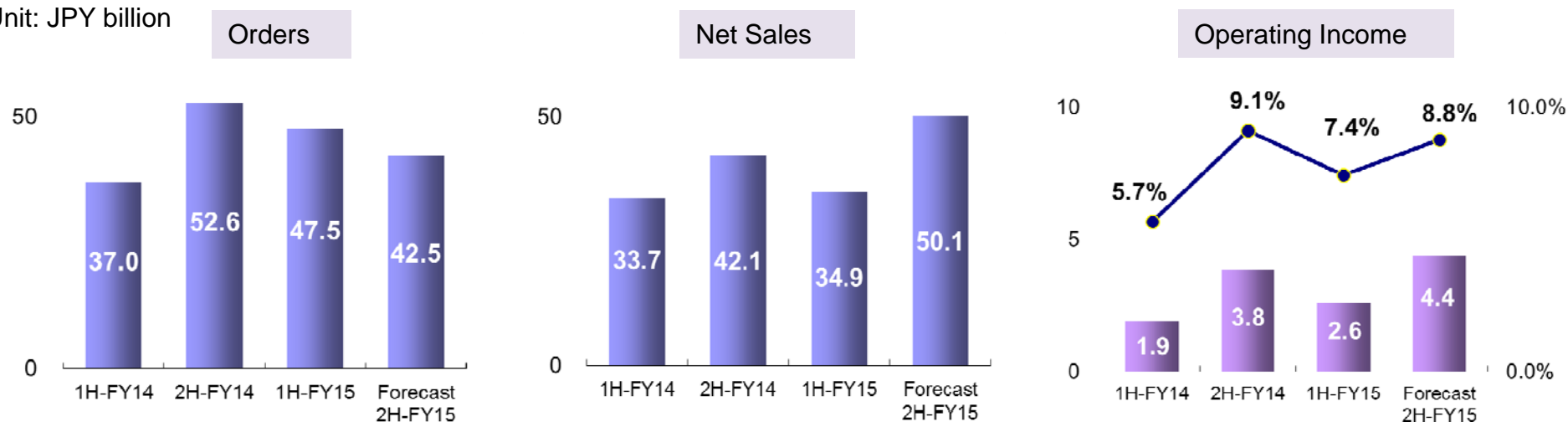
02 Industrial Machinery

1H of FY2015 : Orders for industrial cranes from the domestic shipbuilding sector and turbines from the overseas power generating related sector trended positively. Under Industrial Equipment business unit, an order for a proton cancer therapy equipment was successful received. As such, orders increased as compared to the previous term.

Sales also increased as compared to the previous term mainly as a result of growth seen for industrial cranes and turbines.

2H of FY2015 : Demand for turbines from both the domestic and overseas power generation market is projected to grow. For industrial cranes, an integrated company was launched on October 1, 2015 under strong market conditions.

Unit: JPY billion



02

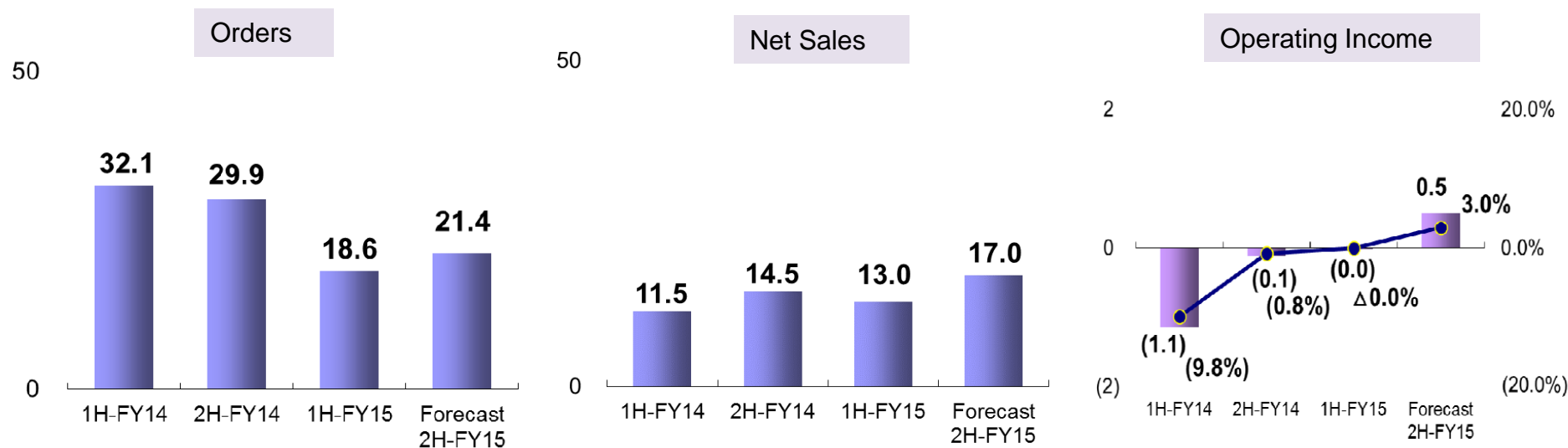
Ships

1H of FY2015 : The market conditions for medium-range tankers were comparatively strong with orders for two vessels received during the current period (three vessels decreased as compared to the previous period).

One vessel was handed over during the current period, which is equivalent to the previous period. Operating income recovered to a break-even level due to improvements in capacity utilization.

2H of FY2015 : The shipbuilding market will continue to remain difficult but comparatively good conditions in the medium-range tanker market is expected. Aim to generate an operating profit during the second half of FY2015.

Unit: JPY billion



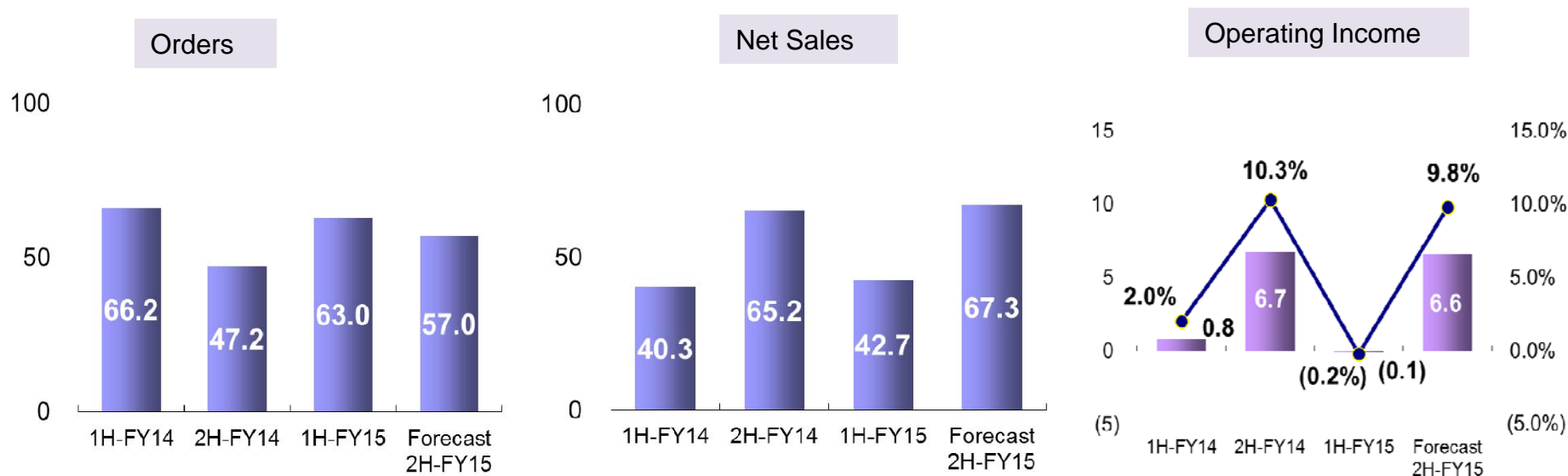
02 Environmental Facilities and Plants

1H of FY2015 : Orders grew in the boiler business due to demand from the overseas IPP sector and domestic biomass power generation facilities. Orders in the water treatment plant business also grew as compared to the previous term due to the award of a large-scale refurbishment project.

Despite an increase in sales due mainly to power generation-related boiler projects, operating income fell due to cost increases from plant construction delays.

2H of FY2015 : Positive conditions will remain in the boiler market. Sales will also increase due to progress made on construction for ongoing projects.

Unit: JPY billion



02

Performance Forecast for FY2015 by Segment

Unit: JPY billion

		Record 1H-FY14	Record 2H-FY14	Record 1H-FY15	Forecast 2H-FY15	Record FY2014	Forecast FY2015
Machinery components	Orders	51.4	53.3	54.0	56.0	104.7	110.0
	Net sales	48.4	54.2	52.3	57.7	102.6	110.0
	Operating income	3.4	3.2	3.6	4.4	6.6	8.0
Precision machinery	Orders	71.9	82.7	75.0	75.0	154.6	150.0
	Net sales	70.8	75.6	75.5	79.5	146.4	155.0
	Operating income	6.6	6.9	9.4	7.6	13.5	17.0
Construction machinery	Orders	101.6	104.9	93.7	86.3	206.5	180.0
	Net sales	97.7	104.3	98.3	91.7	202.0	190.0
	Operating income	7.4	4.6	2.2	3.8	11.9	6.0
Industrial machinery	Orders	37.0	52.6	47.5	42.5	89.6	90.0
	Net sales	33.7	42.1	34.9	50.1	75.8	85.0
	Operating income	1.9	3.8	2.6	4.4	5.8	7.0
Ships	Orders	32.1	29.9	18.6	21.4	61.9	40.0
	Net sales	11.5	14.5	13.0	17.0	26.1	30.0
	Operating income	(1.1)	(0.1)	(0.0)	0.5	(1.2)	0.5
Environmental facilities & plants	Orders	66.2	47.2	63.0	57.0	113.4	120.0
	Net sales	40.3	65.2	42.7	67.3	105.5	110.0
	Operating income	0.8	6.7	(0.1)	6.6	7.5	6.5
Others	Orders	5.4	4.8	4.4	5.6	10.1	10.0
	Net sales	3.8	4.8	5.7	4.3	8.6	10.0
	Operating income	1.0	0.9	0.7	0.3	1.8	1.0
Total	Orders	365.5	375.3	356.3	343.7	740.8	700.0
	Net sales	306.3	360.8	322.5	367.5	667.1	690.0
	Operating income	19.9	26.1	18.4	27.6	46.0	46.0



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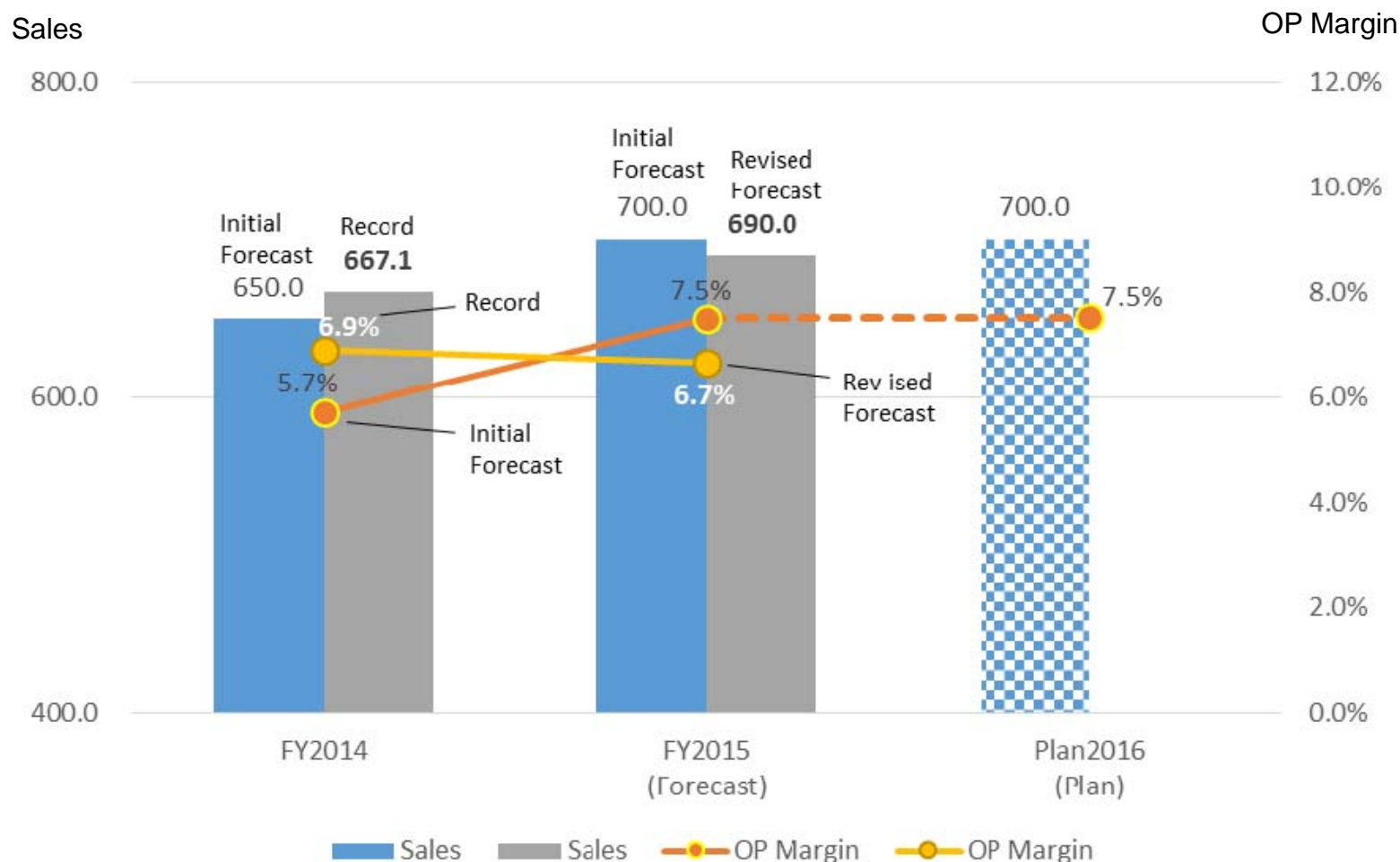
Progress Status of “Medium-Term Management Plan 2016”

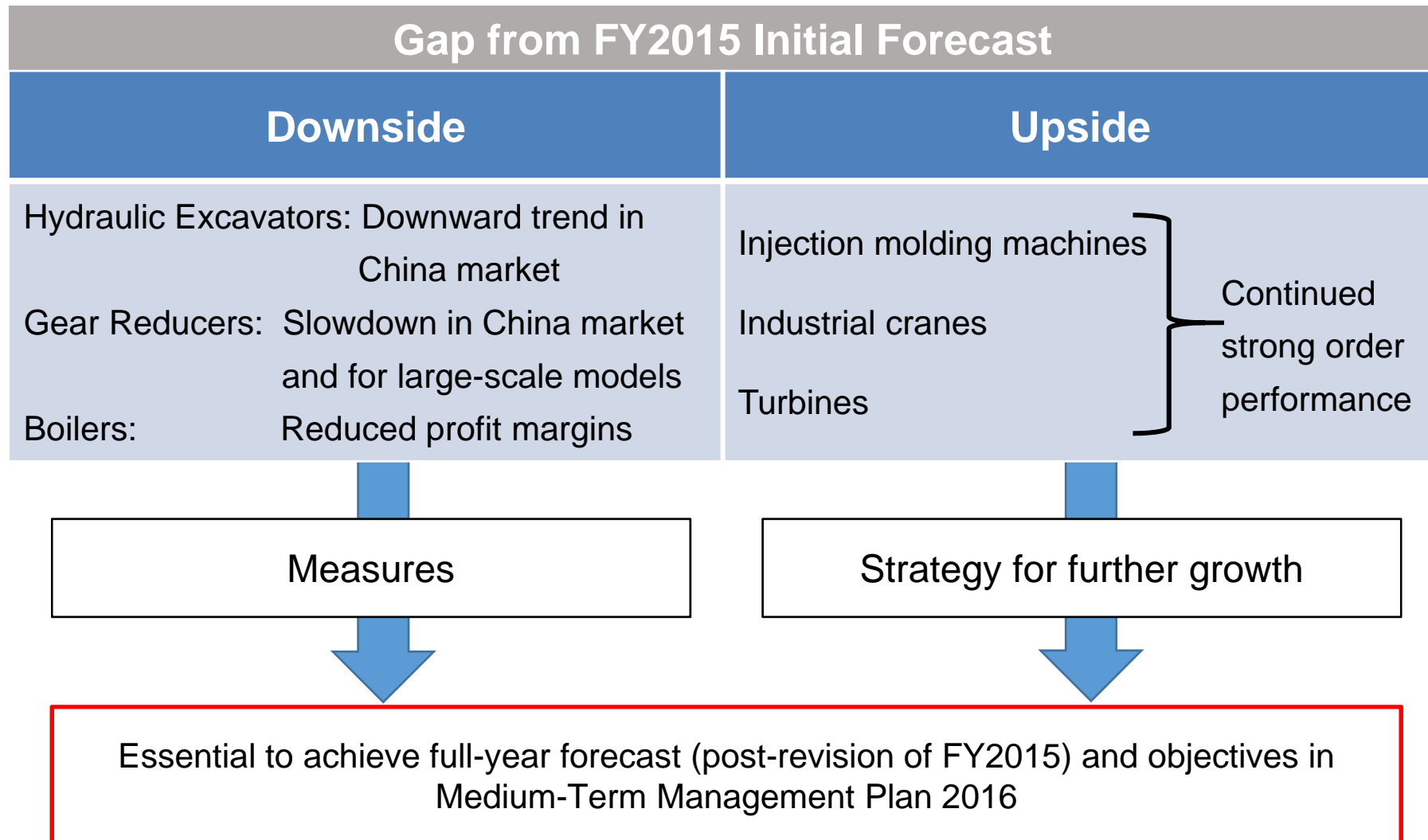


03

Progress Status of “Medium-Term Management Plan 2016”

- Due to the external environment, the initial forecast for FY2015 has been revised downwards
- Essential to achieve final FY objectives (i.e. Sales of JPY700 billion; Operating Income of JPY52.5 billion)



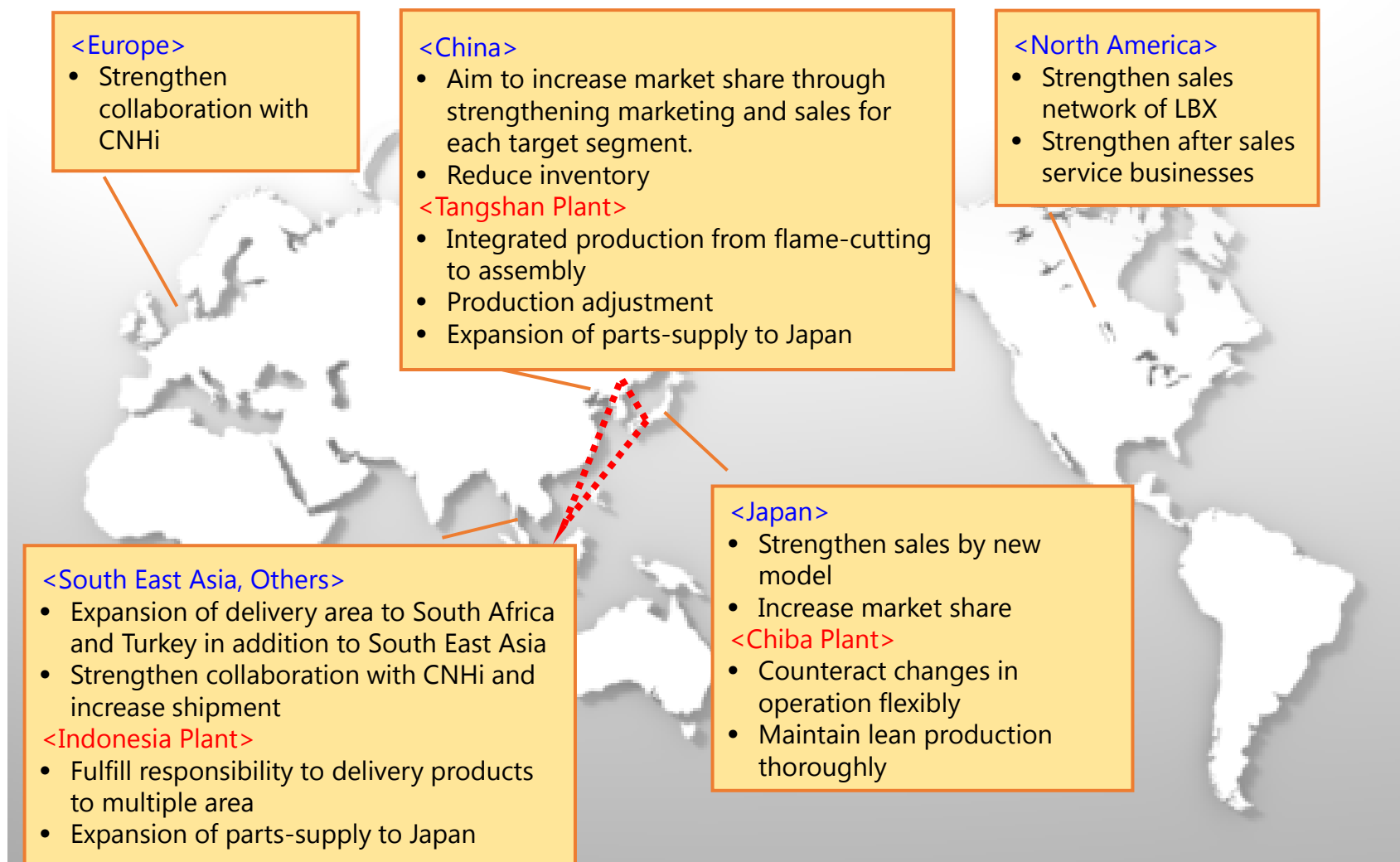


- Enhance cost competitiveness through restructuring of supply chain in Japan and Asia
- Complete reorganization and independence of Eurozone and US subsidiaries

Europe	Japan, Asia					Americas
	Okayama	Kaizuka (Seisa)	Tangshan	HIT China	Areas of Enhancement	Brazil
HIT						
Return to profitability through the completion of restructuring activities including the sale of the South African subsidiary	Gear	○ →	○		Concentrate mfg at Tangshan plant	Return to profitability through the integration of manufacturing and sales entities, strengthening of operational capabilities and completion of financial restructuring efforts.
	Casing	○	○	○ ←	Local production for local consumption	
	Assembly	○	○	○	Local production for local consumption	
	Operations Policy	Sustain operations with domestic orders	Expand production of high-speed models	Operational expansion	Integrated operation with Tangshan plant	

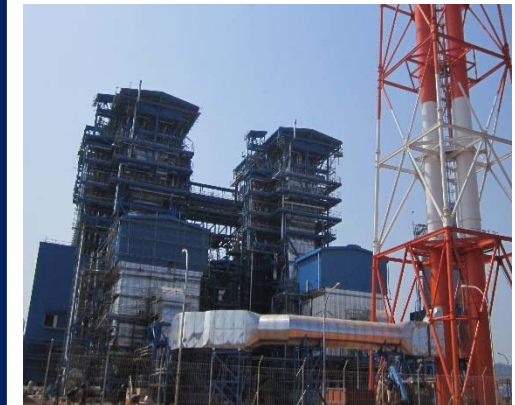


- Enhance cost competitiveness through restructuring of supply chain in Japan and Asia
- Enhance marketing and sales, strengthen collaboration with CNHi



- Increase earning power through the strengthening of plant engineering capabilities

	Topics that have become apparent to date	Countermeasures
Design	Delay in Designing and drawing Process	<ul style="list-style-type: none"> • Strengthen process management through front-loading of work process • Strengthen design resources
Construction	Busy in subcontractor and lack of workers	<ul style="list-style-type: none"> • Strengthen relationship with subcontractors
Construction	Increase in cost of construction	<ul style="list-style-type: none"> • Shorten construction period by optimization • Strengthen process management



03

Growth Strategies from High Performing Businesses (1) – Injection molding machines

- Following on from compact-sized machines, carry out full model change for medium-sized machines
 - Down-sizing of machines made possible to equip with even larger molds
 - Contribute towards increased productivity in the manufacturing of molded objects by continued Zero-molding concept

Model change in
compact-sized machines



Launched in
October 2011

SE-EV series

<Clamping force> 100t, 130t, 180t



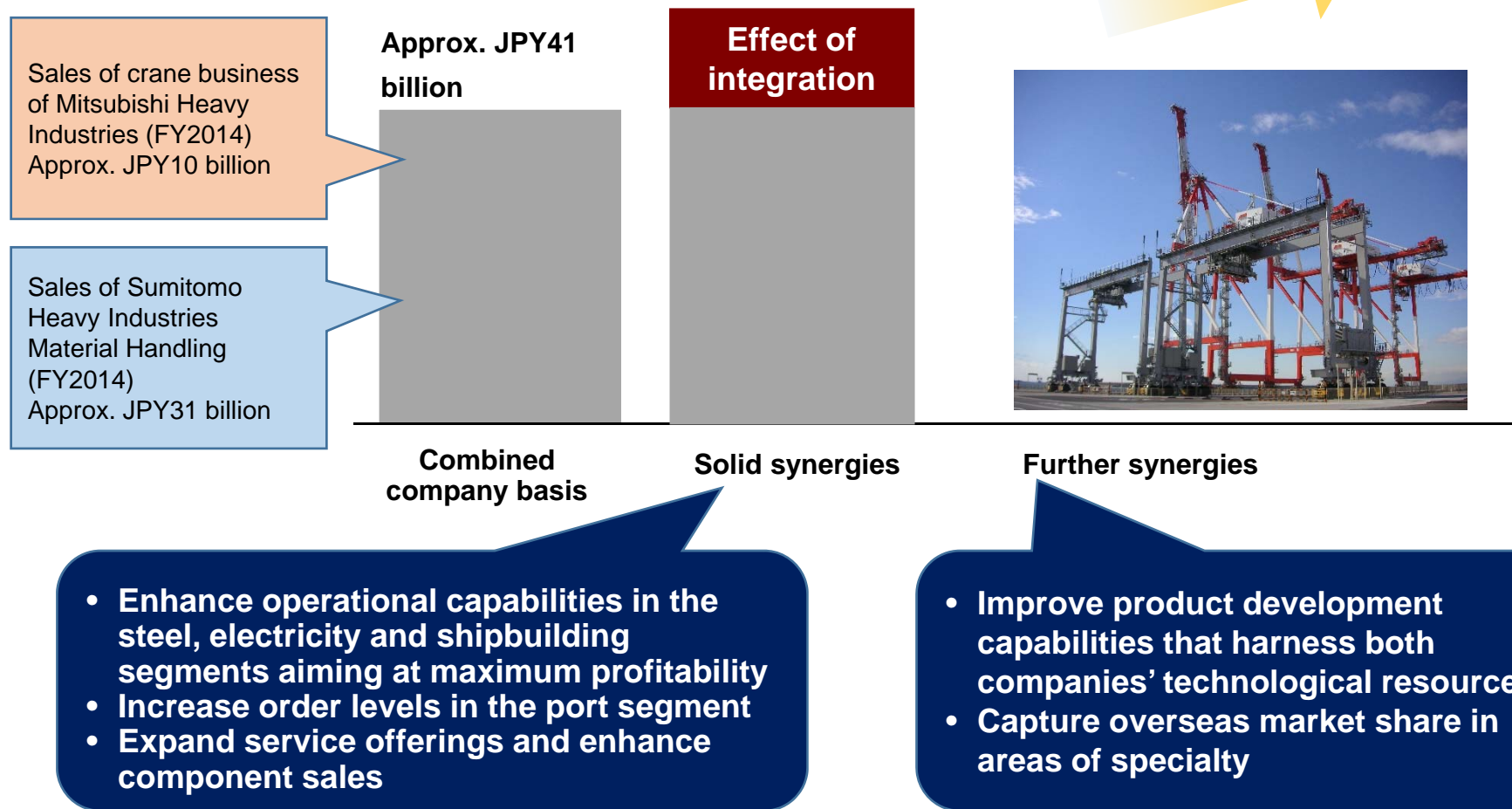
Launched in
August 2015

SEEV-A-HD series

<Clamping force> 220t, 250t, 280t, 315t, 385t,
450t, 500t



➤ Pursue synergies via the integrated company



- **Establish number one position in the South East Asian power generation market**



	South East Asia		
	Sugar production market	Private power generation market	Retail electricity market
Strategy	<ul style="list-style-type: none"> Expand and sustain loyal customer base 	<ul style="list-style-type: none"> Find EPC potential customers and build stronger relationships with target customers 	<ul style="list-style-type: none"> Increase sales by working in cooperation with boiler business unit of Environmental Plant and Facilities division
Key Areas of Emphasis	<ul style="list-style-type: none"> Strengthen direct sales and service platform locally (Thailand and surrounding countries) 	<ul style="list-style-type: none"> Strengthen marketing and sales promotion locally Improve cost competitiveness 	<ul style="list-style-type: none"> Standardize turbine models Expand long-blade model area Improve efficiency by reheat turbine technology

Second Half of FY2015

- **Continue steady management**
 - ~ Operate with a quality-first mentality
- **During FY2015:**
 - Focus on acquiring orders to achieve the objectives of JPY690 billion in sales and JPY46 billion in operating income**
- **Implement measures to achieve the final FY targets set forth in the “Medium-Term Management Plan 2016”.**



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.