

# Second Quarter Financial Summary and Projections for FY2016

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November 1, 2016



**President and CEO**  
**Shunsuke Betsukawa**

## I N D E X

**01 Financial Summary for 2Q-FY2016**

**02 Performance Forecast for FY2016**

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



# 01 Financial Summary for 2Q-FY2016



## 01

## Financial Summary

## ➤ Key points

## (1) Orders

- Fell across all segments apart from Environmental Facilities & Plant. Overall decrease as compared to previous term.
- Energy-plant related areas showed strong growth in the Environmental Facilities & Plant segment.
- Largest drops seen in the Construction Machinery and Ships segments.

## (2) Sales

- Marked growth seen in the heavy machinery area within the Industrial Machinery segment.
- Decreases seen in the mass-production machinery area within mobile cranes and the Precision Machinery segment including plastics machinery.

## (3) Operating Income

- Increases in the Industrial Machinery, and Environmental Facilities and Plant segments offset the drops in the Precision Machinery and Construction Machinery segments. Overall increase as compared to the previous term.

Unit: JPY billion

	FY2015 1H	FY2016 1H	Change
Orders	356.3	336.6	(19.8)
Net sales	322.5	317.8	(4.7)
Operating income	18.4	18.6	0.2
Operating income ratio	5.7%	5.9%	0.2%
Ordinary income	16.8	18.2	1.4
Ordinary income ratio	5.2%	5.7%	0.5%
Extraordinary income or loss	(0.2)	(0.0)	0.2
Current net income before tax adjustments	16.6	18.2	1.6
Current net income	11.5	13.1	1.6
Current net income ratio	3.6%	4.1%	0.5%



# 01 Operating Income by Segment

## ➤ Comparison with same term previous fiscal year

### <Machinery Components>

Despite a drop in sales for large-scale gear reducers, a review of the overseas supply chain resulted in cost improvements, and a consequent increase in income.

### <Precision Machinery>

Despite an increase in the sale of cryogenic coolers and semi-conductor related equipment, the drop in sales of plastics machinery resulted in a decrease in income.

### <Construction Machinery>

Decrease in income due to the slowdown of the hydraulic excavator market, especially in China, and the delay in recovery of the North American crane market.

### <Industrial Machinery>

Improved order conditions in the industrial crane area, and the business merger of Mitsubishi Heavy Industries' industrial crane division resulted in an increase in sales, and a consequent improvement in income.

### <Ships>

Two new vessels handed over as compared to one in the previous term.

Achieved profitability due to improvements in capacity utilization and individual profitability.

### <Environmental Facilities & Plants>

Steady progress made in boiler construction projects and increase in sales related to various after-market services resulted in an increase in profitability.

Unit: JPY billion

	FY2015 1H	FY2016 1H	Change
Machinery components	3.6	4.1	0.5
Precision machinery	9.4	7.2	(2.2)
Construction machinery	2.2	(0.7)	(2.9)
Industrial machinery	2.6	4.5	1.9
Ships	(0.0)	0.6	0.6
Environmental facilities & plants	(0.1)	2.1	2.2
Others	0.7	0.9	0.2
Total	18.4	18.6	0.2

## 01

## Consolidated Balance Sheet

Unit: JPY billion

	March 2016	September 2016	Change		March 2016	September 2016	Change
<b>Current assets</b>	<b>493.0</b>	<b>448.9</b>	<b>(44.1)</b>	<b>Liabilities</b>	<b>400.0</b>	<b>357.9</b>	<b>(42.1)</b>
Cash and deposits *	70.8	60.6	(10.2)	Notes and accounts payable	142.3	127.2	(15.1)
Notes and accounts receivable	219.9	192.7	(27.3)	Advanced payments received	35.2	37.3	2.1
Inventories	156.3	152.6	(3.7)	Interest-bearing debts	68.2	55.2	(13.0)
Others	46.0	43.0	(3.0)	Others	154.3	138.2	(16.2)
<b>Fixed assets</b>	<b>289.9</b>	<b>281.1</b>	<b>(8.8)</b>	<b>Net assets</b>	<b>382.8</b>	<b>372.1</b>	<b>(10.8)</b>
Tangible assets	227.8	221.8	(6.0)	Common equity	321.0	328.6	7.6
Intangible assets	11.2	11.1	(0.2)	Total accumulated other comprehensive income	55.7	37.8	(17.9)
Investments and other assets	50.9	48.2	(2.7)	Minority interests	6.2	5.7	(0.5)
<b>Total</b>	<b>782.9</b>	<b>730.0</b>	<b>(52.9)</b>	<b>Total</b>	<b>782.9</b>	<b>730.0</b>	<b>(52.9)</b>
				Net ratio of interest-bearing debts	(0.3%)	(0.7%)	(0.4%)
				Stockholders' equity ratio	48.1%	50.2%	2.1%

\* Cash and deposits include cash and cash equivalents.



## 01

## Consolidated Cash Flow Statement

- Significant increase in operating cash flow due to improvements to working capital

Unit: JPY billion

Category	FY2015 1H	FY2016 1H	Change
<b>Operating activities</b>	<b>(7.8)</b>	<b>17.8</b>	<b>25.5</b>
Income before income taxes	16.6	18.2	1.6
Depreciation	9.6	10.0	0.4
Working capital	(17.3)	3.7	21.0
Others (taxes etc.)	(16.7)	(14.2)	2.5
<b>Investing activities</b>	<b>(8.2)</b>	<b>(10.1)</b>	<b>(2.0)</b>
<b>Free cash flow</b>	<b>(15.9)</b>	<b>7.7</b>	<b>23.6</b>
<b>Financing activities</b>	<b>(17.5)</b>	<b>(13.7)</b>	<b>3.9</b>
<b>Change in cash and cash equivalents</b>	<b>(33.4)</b>	<b>(10.0)</b>	<b>23.4</b>
Cash and cash equivalents at end of fiscal term	57.7	58.6	1.0



## 02 Performance Forecast for FY2016



## 02

## Performance Forecast for FY2016

• Downward revision to FY2016 full-year operating income forecast due to JPY strengthening and downturn in the construction machinery market.

• The JPY14 annual dividend forecast remains unchanged from the initial number.

Unit: JPY billion

	Record 1H-FY15	Record 2H-FY15	Record 1H-FY16	Forecast 2H-FY16	Record FY2015	Forecast FY2016
Orders	356.3	329.6	336.6	333.4	685.9	670.0
Net Sales	322.5	378.3	317.8	342.2	700.8	660.0
Operating income	18.4	32.2	18.6	24.4	50.6	43.0
Operating income ratio	5.7%	8.5%	5.9%	7.1%	7.2%	6.5%
Ordinary income	16.8	32.3	18.2	21.8	49.1	40.0
Ordinary income ratio	5.2%	8.5%	5.7%	6.4%	7.0%	6.1%
Extraordinary income / loss	(0.2)	(1.8)	(0.0)	(2.0)	(2.0)	(2.0)
Current net income	11.5	21.6	13.1	12.9	33.1	26.0
Current net income ratio	3.6%	5.7%	4.1%	3.8%	4.7%	3.9%
Dividends	JPY7	JPY9	JPY7	JPY7	JPY16	JPY14
Dividend payout ratio					29.6%	33.0%
ROIC (after tax)					7.6%	6.6%
Projected currency exchange rate(US dollars)	JPY117 (actual)	JPY115 (actual)	JPY105 (actual)	JPY100	JPY116 (actual)	

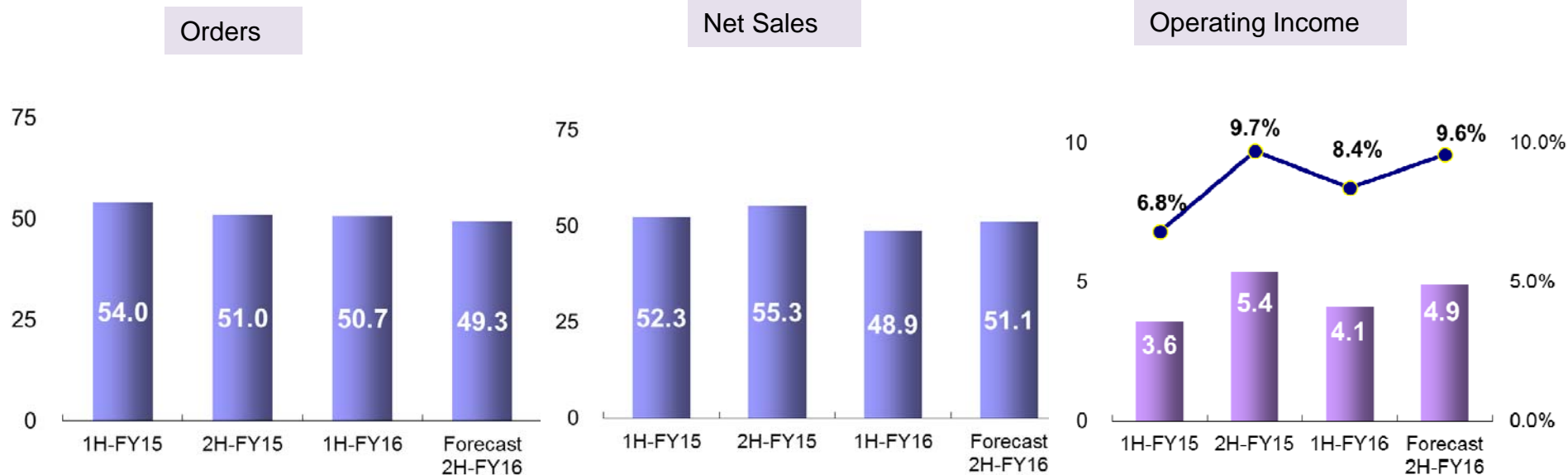
## 02

## Machinery Components

**1H of FY2016 :** Precision gear reducers for the domestic and European markets trended positively. Continuing market decline for large-scale gear reducers targeted to the resources and other sectors, while soft conditions persisted in the small-to-medium scale gear reducer market domestically. Decrease in orders and sales as compared to previous term, but improvements made to profitability.

**2H of FY2016 :** Gentle recovery expected in the domestic market. Overseas market for large-scale gear reducers expected to remain slow. Other overseas areas expected to show improved conditions.

Unit: JPY billion



## 02

## Precision Machinery

## &lt;Plastic machinery&gt;

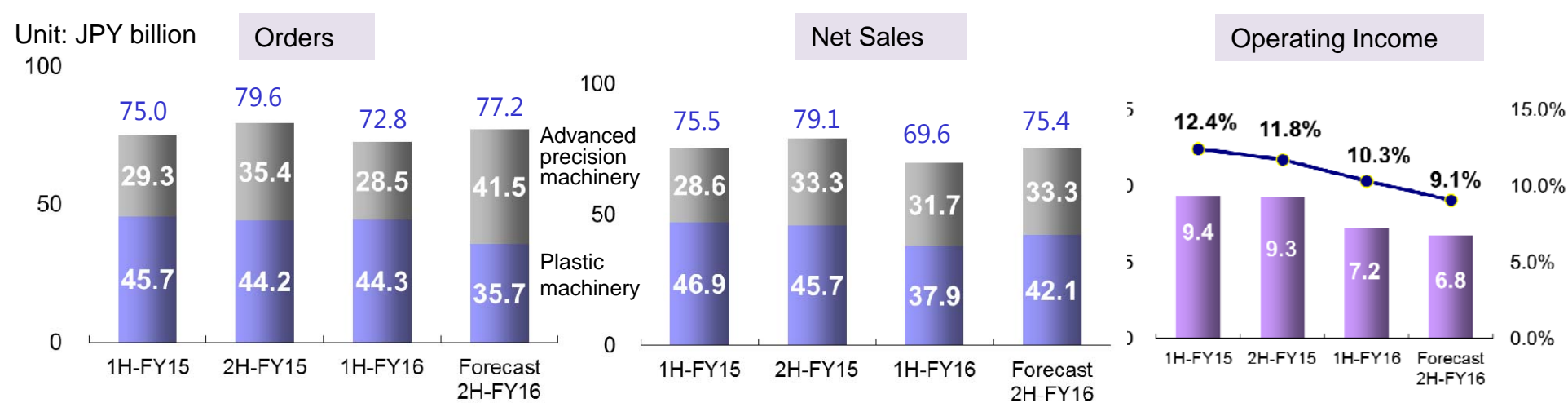
**1H of FY2016 :** Europe showed growth while demand for IT-related equipment in the Asian markets fell.

**2H of FY2016 :** Unclear whether IT-related market will recover. Automotive and container-related markets expected to show improved conditions.

## &lt;Advanced precision machinery&gt;

**1H of FY2016 :** The Chinese market for cryogenic coolers used in medical devices showed growth. Domestic demand for semiconductor-related equipment fell.

**2H of FY2016 :** Cryogenic cooler demand expected to remain strong. Optimistic for overseas growth in semiconductor-related equipment.



## 02 Construction Machinery

### <Hydraulic excavators>

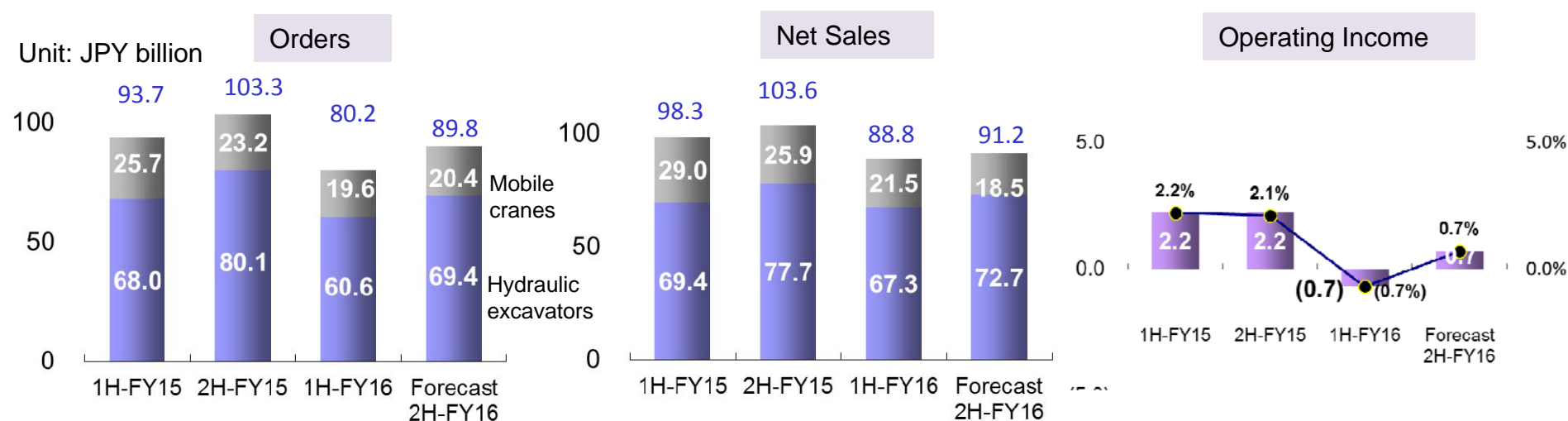
**1H of FY2016** :Demand from the Chinese market looks to be bottoming out but the negative rebound in domestic demand because of the rush to purchase new units prior to the implementation of emission guidelines in the previous fiscal year as well as the slowdown in demand in the North American market led to declines in both orders and sales figures as compared to the previous term.

**2H of FY2016**: Emerging markets, in particular China, expected to show gentle recovery. Domestic and North American demand will continue to remain weak.

### <Mobile cranes>

**1H of FY2016** : The delay in the recovery of the oil-related market in North America led to declines in both orders and sales as compared to the previous term.

**2H of FY2016** :Continuing weakness expected in the North American market.



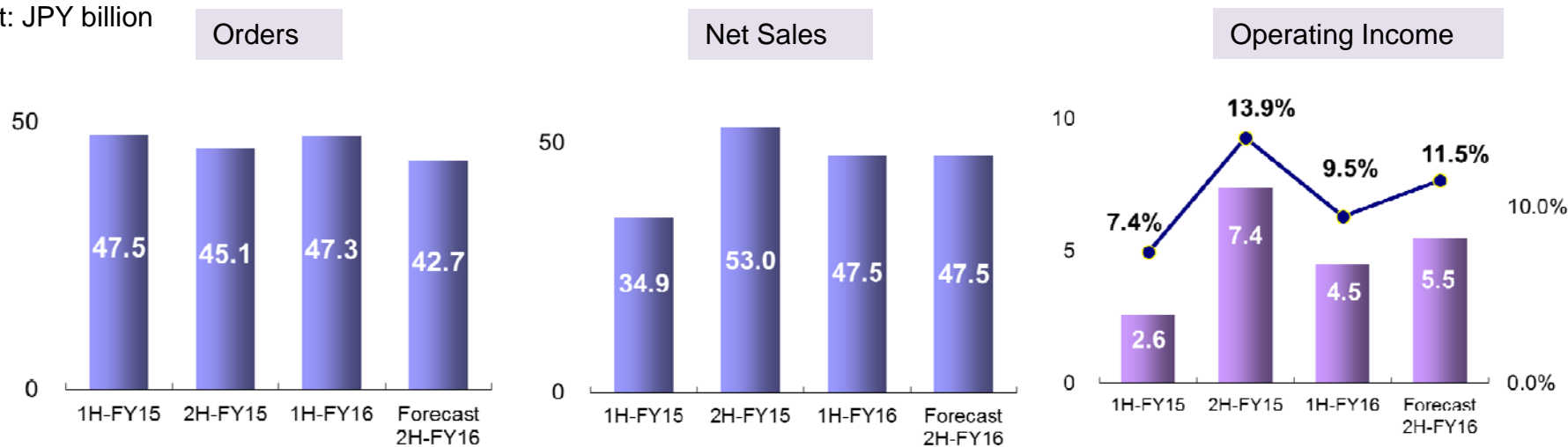
## 02

## Industrial Machinery

**1H of FY2016** :Industrial crane business showed growth due to the merger of Mitsubishi Heavy Industries' industrial crane business. However, a decline in the medical device business in the industrial machinery sector resulted in flat order conditions for the segment. Sales for industrial cranes, turbines and all types of industrial machinery increased as compared to the previous term. Profitability in the segment also improved.

**2H of FY2016** : Demand from the shipbuilding sector for industrial cranes will reverse to the negative, while growth is expected from blast furnace related areas. The market for overseas captive power generation related turbines is expected to show growth.

Unit: JPY billion



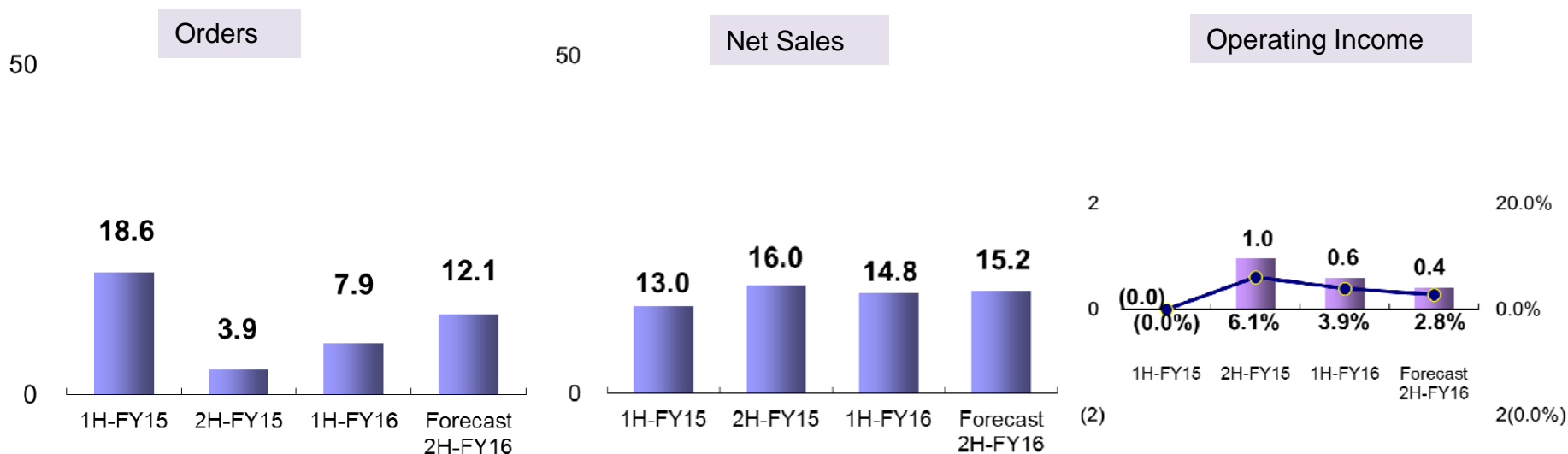
## 02

## Ships

**1H of FY2016 :** Continued weakness in the shipbuilding market. No new orders received in 1H (as compared to two in the previous term). Two vessels handed over in 1H, an increase of one from the previous term. Sustained profitability due to improved capacity utilization and individual P&L.

**2H of FY2016 :** Difficult conditions expected to persist in the shipbuilding market as recovery in the marine transportation sector is not foreseen. Aim to increase workload using the same level of capacity.

Unit: JPY billion

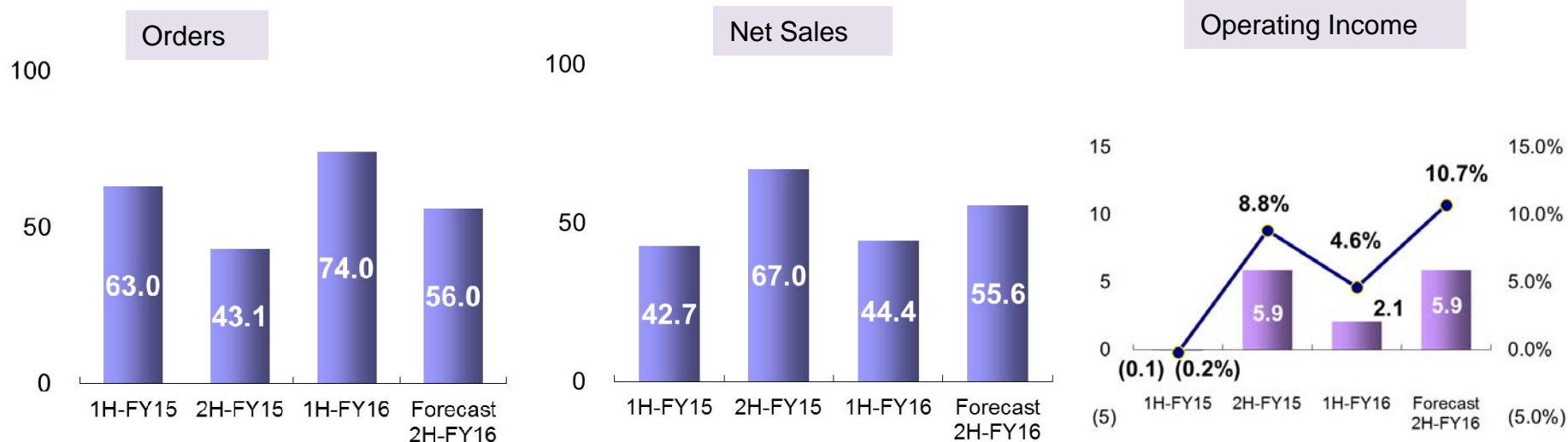


## 02 Environmental Facilities and Plants

**1H of FY2016 :** In the Energy Plant business, the demand for boilers from the biomass-fueled power generation sector was strong, while the ash treatment business and after-market service business also showed growth. Consequently, both orders and sales increased as compared to the previous term, and profitability was achieved.

**2H of FY2016 :** Continued strength in the boiler market expected, with steady progress being made in construction. Water treatment-related facilities and plant, agitators and other products also expected to show growth.

Unit: JPY billion



## 02

## Performance Forecast for FY2016 by Segment

Unit: JPY billion

		Record 1H-FY15	Record 2H-FY15	Record 1H-FY16	Forecast 2H-FY16	Record FY2015	Forecast FY2016
<b>Machinery components</b>	Orders	54.0	51.0	50.7	49.3	105.0	100.0
	Net sales	52.3	55.3	48.9	51.1	107.6	100.0
	Operating income	3.6	5.4	4.1	4.9	8.9	9.0
<b>Precision machinery</b>	Orders	75.0	79.6	72.8	77.2	154.6	150.0
	Net sales	75.5	79.1	69.6	75.4	154.6	145.0
	Operating income	9.4	9.3	7.2	6.8	18.7	14.0
<b>Construction machinery</b>	Orders	93.7	103.3	80.2	89.8	197.1	170.0
	Net sales	98.3	103.6	88.8	91.2	201.9	180.0
	Operating income	2.2	2.2	(0.7)	0.7	4.4	0.0
<b>Industrial machinery</b>	Orders	47.5	45.1	47.3	42.7	92.6	90.0
	Net sales	34.9	53.0	47.5	47.5	87.9	95.0
	Operating income	2.6	7.4	4.5	5.5	10.0	10.0
<b>Ships</b>	Orders	18.6	3.9	7.9	12.1	22.5	20.0
	Net sales	13.0	16.0	14.8	15.2	29.0	30.0
	Operating income	(0.0)	1.0	0.6	0.4	1.0	1.0
<b>Environmental facilities &amp; plants</b>	Orders	63.0	43.1	74.0	56.0	106.1	130.0
	Net sales	42.7	67.0	44.4	55.6	109.7	100.0
	Operating income	(0.1)	5.9	2.1	5.9	5.8	8.0
<b>Others</b>	Orders	4.4	3.7	3.8	6.2	8.1	10.0
	Net sales	5.7	4.5	3.8	6.2	10.1	10.0
	Operating income	0.7	1.1	0.9	0.1	1.8	1.0
<b>Total</b>	Orders	356.3	329.6	336.6	333.4	685.9	670.0
	Net sales	322.5	378.3	317.8	342.2	700.8	660.0
	Operating income	18.4	32.2	18.6	24.4	50.6	43.0



# 03

## Progress Status of “Medium-Term Management Plan 2016”



## 03

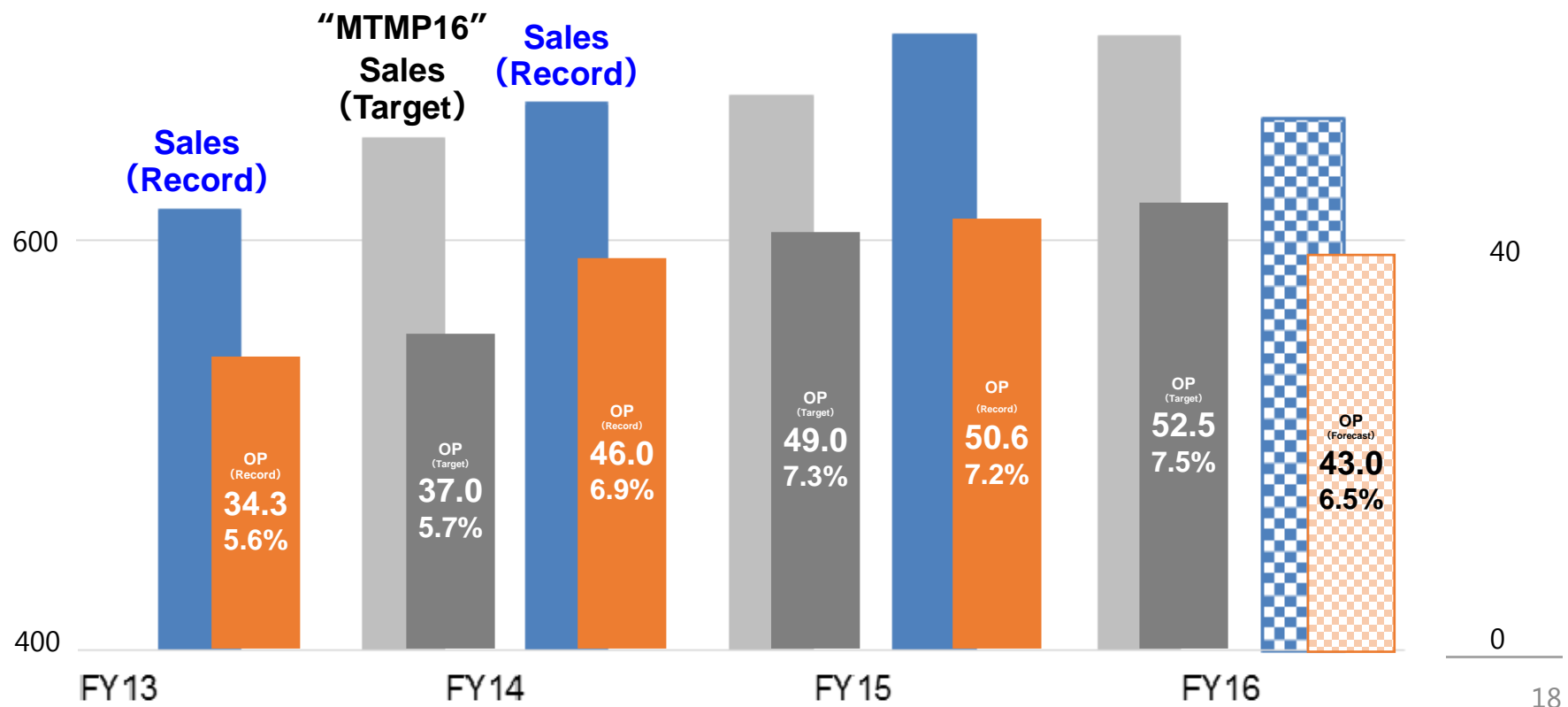
## Progress Status of “MTMP16” (Overall)

- As compared to the MTMP16 objectives, the FY2016 full year projections have been revised downwards, mainly due to currency rate fluctuations.
- Focus will be on implementing measures to achieve a “Return to Higher Levels of Profitability” and bring momentum forward to the next medium-term management plan.

Sales

Unit: JPY billion  
800

OP Margin

Unit: JPY billion  
80

## 03

# Current Positioning of the Businesses with Regard to MTMP16 (Revised in Certain Areas)

<div>Role</div> <div>Positioning</div>	Growth & High Profitability	Improve Profitability	Stabilize Profit Margins
	Aim to achieve growth while maintaining high levels of profitability (10% or greater)	Aim to achieve growth while improving profitability	Ensure a stable level of profit
Next-Generation Businesses	<div>Cryogenic equipment</div> <div>Core pillar of profitability and growth for the Group</div>	<div>Next generation growth devices (medical, semiconductor, automotive)</div>	<div>Medical-related equipment</div>
Device-Related Businesses	<div>Power transmission and control equipment</div> <div>Injection Molding Machines</div>	<div>Semiconductor Production Equipment</div> <div>Chemical Processing Equipment (e.g. agitators, food-related machinery)</div>	<div>Metal Processing Equipment (e.g. presses, flow-forming, etc.)</div>
Infrastructure-Related Businesses	<div>Industrial Cranes / Mobile Cranes, Turbines / Boilers</div> <div>Water Treatment Facilities</div> <div>Maximize profitability and create a second core pillar of growth (e.g. energy, environmental, transportation, etc.)</div>		<div>Hydraulic Excavators</div> <div>Stabilize business without being concerned about scale</div> <div>Shipbuilding</div>

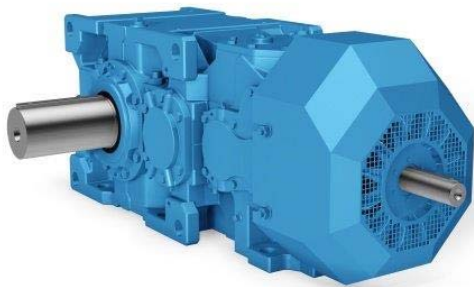
## 03

## Progress of Achieving Issues Outlined in “MTMP16” (3years)

Implementation Status	Plan
Exceeded Plan	<u>Focused investment in business areas with potential for growth and high profitability</u> Revitalized domestic factories and improved competitiveness Capital Investments: Gear reducers, injection molding machines, industrial cranes and turbines R&D Investments, Gear reducers, injection molding machines, new products (STAF, etc.) <u>Grow service-related businesses</u> <u>Business transfer of industrial crane business from Mitsubishi Heavy Industries</u>
In Line with Plan	<u>Introduce New Products to the Market</u> (Gear reducers, injection molding machines, boilers) <u>Re-establish and strengthen global supply chain</u> (Gear reducers – Europe/China; Hydraulic excavators – China/Indonesia) <u>Strengthen organizational structure</u> (water treatment business)
Did Not Achieve Plan (Need for Plan Continuation)	Decline in profitability due to product quality issues (boilers, medical-related equipment) Decline in sales due to worsening conditions in the China market (hydraulic excavators) →Need to strengthen profitability and engineering capabilities Further focus on establishing business alliances including M&A related transactions

## <Large-Scale Gear Reducers>

- Introduced new global model through joint development with Hansen.
- Advance sales of new models carried out in China, Southeast Asia and Oceania



Paramax Gear Reducer 10 Series

## <Ultra High Speed Injection Molding Machine>

- Specific model for light-guide plates that enables “world’s thinnest” molding process.
- Significantly improved productivity by introducing highly-responsive / high-speed injection molding machines, and equipping certain models with high-rigidity / high-response clamps

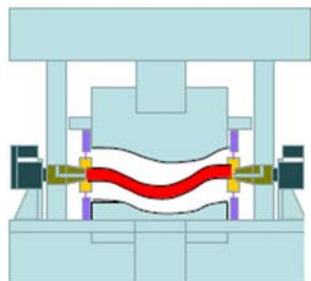


Fully-automated injection molding machine



STAF – A forming process and module system targeting the automotive body manufacturing sector that achieves increased productivity and decreased cost while satisfying the need for high sophistication and rigidity

- Reduces automotive body weight by approximately 30% (as compared to traditional bodies)
  - Achieves significant cost reductions
- ← Improves yield to around 90%. Achieves reductions to the number of components and welding points
- Contributes towards higher levels of productivity
- ← Makes it possible to move from a 4 step, 5 facility process to a 2 step, 3 facility process •



1000t press (STAF process)

New tube forming system



Areas of the automotive body where STAF can be applied

## Order received for an 112MW Biomass High-Mixed Combustion Power Plant; Largest in Japan

Client	Air Water & Energia Power Yamaguchi Co., Ltd. * Special purpose entity set up jointly by Air Water Inc. and The Chugoku Electric Power Co., Inc. to generate electricity.
Order Summary	Biomass and Coal Mixed Combustion Power Plan (Output: 112MW)
Construction Location	Hofu-City, Yamaguchi Prefecture
Facility Summary	<p>The biomass high-mixed combustion power plant utilizes a reheating method that makes the facility highly efficient to operate. The plant will utilize coconut shells, along with unused forest thinnings and other biomass from within Yamaguchi Prefecture, together with coal as its fuel source.</p> <p>The objective of the plant is to sell electricity to retailers and T&amp;D (transmission and distribution) companies that utilize the FIT (Feed-In-Tariff) system.</p>



Unified operation ranging from construction to after-sale service established for the water treatment business

Sumitomo Heavy Industries  
Environment  
(a wholly-owned subsidiary  
of SHI)  
Post-integration sales: JPY30  
billion

Construction of privately-owned water treatment plants as well as water and sewerage treatment facilities aimed at public entities.

Integration  
to occur on  
April 1, 2017

Sumiju Environmental  
Engineering Co., Ltd. (a  
wholly-owned subsidiary of  
Sumitomo Heavy Industries  
Environment Co., Ltd.)

A business that offers various after-sales services including O&M of public water treatment facilities and waste treatment facilities.

Market  
Changes

- More entities are carrying out reviews of their facilities with an eye of counteracting the impact of aging facilities and in response to changes to the social structure. As a result, there is an increasing amount of new requests to reduce O&M costs, etc.
- Public entities that operate water supply and sewerage systems face the problems of a reduction in revenue due to a decline in population and an insufficient availability of technical staff. As a result, more public-private partnerships are being formed to operate such facilities and also expand into other service areas.

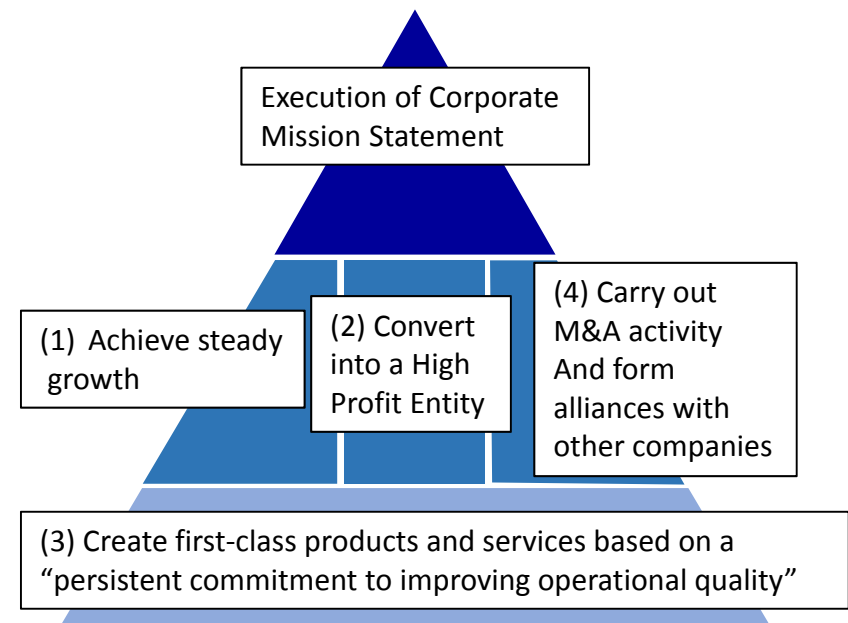
### Corporate Mission Statement

We will aim to become a machinery manufacturer that continues to provide excellent products and services to the world.

With integrity being a key principle in the Group, we will contribute towards society by gaining high respect and confidence from all stakeholders.

### Basic Thoughts for the Next Medium-Term Management Plan (MTMP19)

- ① Achieve “Steady Growth” after taking a strongly critical view of the economic trends in both domestic and overseas markets
- ② Convert the Group into a “High Profit Entity”
- ③ Create first-class products and services based on a “persistent commitment to improving operational quality”.
- ④ Actively promote and execute on “business integrations, M&A, and formation of business alliances with third-party entities” in order to achieve growth.



Format of Basic Policy for the Next Medium-Term Management Plan

## 03

## Management Policy

**FY2016 Second Half (with an eye on the next medium-term management plan)**

- **Continue prudent management ~ Manage with a quality-first mentality**
- **For FY2016:**  
Aim to achieve the revised goal of JPY660 billion in sales and JPY43.0 billion in operating income; and  
Focus on securing orders for the future
- **Make a concerted effort to implement the strategies set forth in the MTMP16.**
- **Bring forward any plan to put one foot in the door for growth and carry that momentum into the next medium-term management plan.**



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.

## Sales by Region (6-month cumulative basis)

Unit : JPY billion

		North America	Europe	Asia (excluding China)	China	Others	Overseas Shipping	Japan	Total sales
Overall Company	FY2016 1H	56.1	27.5	35.0	23.7	10.4	14.2	150.9	317.8
	sales ratio	17.6%	8.7%	11.0%	7.5%	3.3%	4.5%	47.5%	100%
	FY2015 1H	60.9	30.2	35.6	26.0	13.6	12.3	143.9	322.5
	sales ratio	18.9%	9.3%	11.1%	8.0%	4.2%	3.8%	44.6%	100%
Hydraulic excavators	FY2016 1H	16.2	7.4	6.8	9.8	4.0	-	23.1	67.3
	sales ratio	24.1%	10.9%	10.2%	14.5%	5.9%	-	34.3%	100%
	FY2015 1H	14.5	10.2	7.2	7.4	5.1	-	24.9	69.4
	sales ratio	20.9%	14.7%	10.4%	10.7%	7.3%	-	35.9%	100%