

# Financial Summary for 2Q-FY2018 And Projections for FY2018

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November 2018



## I N D E X

**01 Financial Summary for 2Q-FY2018**

**02 Performance Forecast for FY2018**

**03 Progress Status of “Medium-Term  
Management Plan 2019”**



# 01 Financial Summary for 2Q-FY2018



## 01

## Financial Summary

Unit: JPY billion

## ■ Main Points

### (1) Orders

- Recorded historical high
- Y to Y increases in all segments
- Strong results in mass production machinery business such as construction machinery, machinery components and precision machinery
- Consolidation of Lafert into our Group in 2<sup>nd</sup> quarter

### (2) Sales

- Recorded historical high
- Y to Y increases in all segments
- As with orders, strong results in mass production machinery business and consolidation of Lafert contributed to increased sales

### (3) Operating income

- Y to Y increase in construction machinery and environmental facilities & plants

	FY2017 1H	FY2018 1H	Change
Orders	385.8	461.4	75.6
Net Sales	355.3	423.7	68.3
Operating Income	29.0	34.1	5.1
Operating Income Ratio	8.2%	8.0%	(0.2%)
Ordinary Income	28.9	33.1	4.1
Ordinary Income Ratio	8.1%	7.8%	(0.3%)
Extraordinary Income or Loss	(0.1)	(0.2)	(0.1)
Current Net Income before Tax Adjustments	28.8	32.8	4.0
Current Net Income	19.8	21.4	1.6
Current Net Income Ratio	5.6%	5.0%	(0.6%)
Currency Exchange Rate (US dollars)	¥110	¥111	¥1



## 01

## Operating Income by Segment

Unit: JPY billion

## ■ Comparison with Previous Fiscal Year

## &lt;Machinery components&gt;

In spite of sales increase thanks to steady market conditions, decrease due to deteriorated profitability of large-scale gear reducers and temporary cost of stock acquisition of Lafert.

## &lt;Precision machinery&gt;

Slight fall due to sales decrease in certain semiconductor-related models offsetting steady performance of plastics machinery business

## &lt;Construction machinery&gt;

Increased demands for hydraulic excavators

## &lt;Industrial machinery&gt;

No Y to Y change since sales increase in forging presses is offset by sales decrease in industrial turbines

## &lt;Ships&gt;

Profits decreased due to continued sluggish market conditions for new vessels

## &lt;Environmental facilities &amp; plants&gt;

Substantial profit increase thanks to improvement in profitability of individual energy/environment business as well as consolidation of SFW into our Group

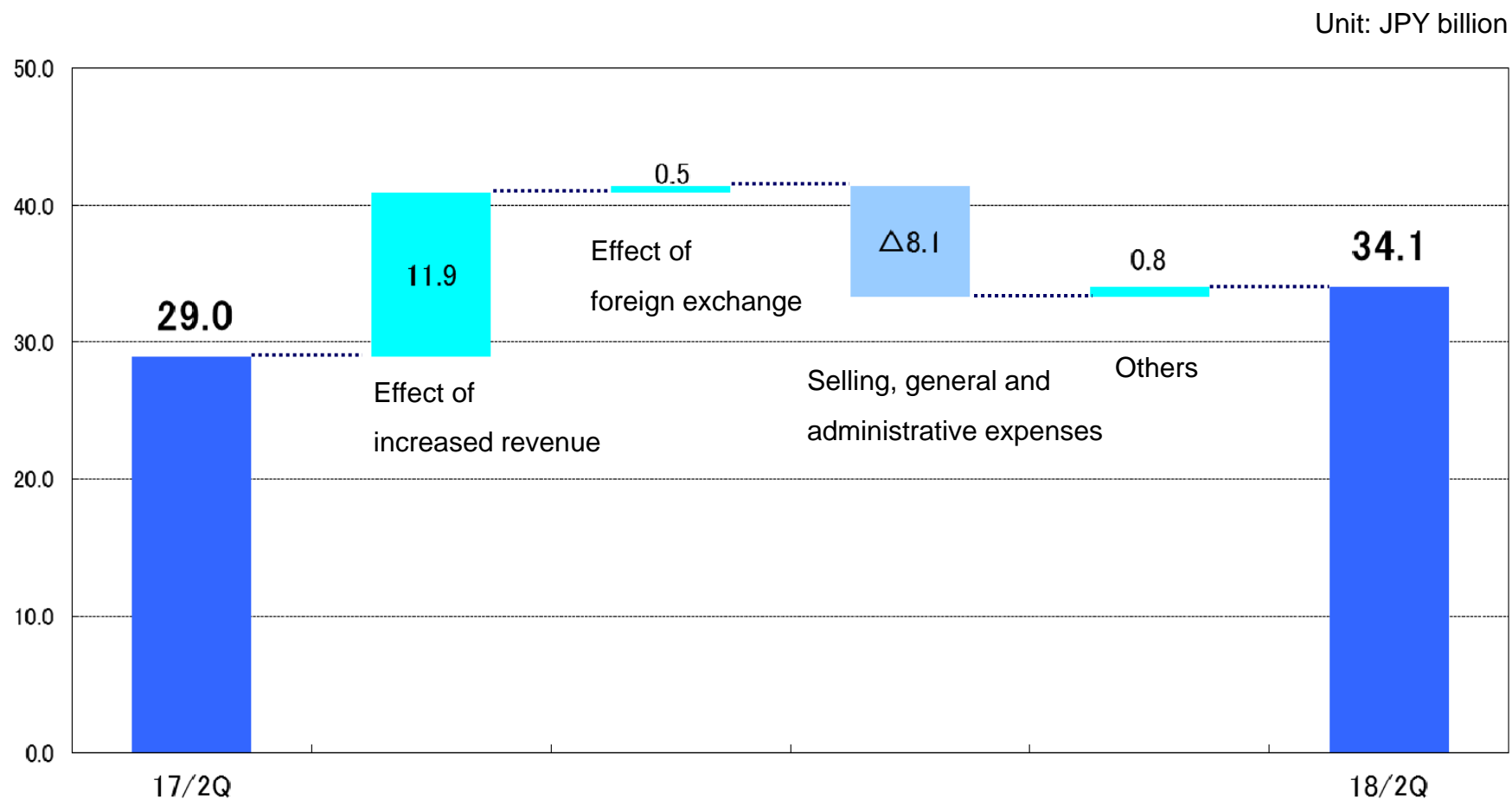
\* SFW: Sumitomo SHI FW

	FY2017 1H	FY2018 1H	Change
Machinery components	5.3	4.5	(0.8)
Precision machinery	7.8	7.7	(0.1)
Construction machinery	8.3	13.1	4.8
Industrial machinery	3.0	3.0	0
Ships	2.0	1.1	(1.0)
Environmental facilities & plants	1.6	3.6	2.0
Others	1.1	1.2	0.1
<b>Total</b>	<b>29.0</b>	<b>34.1</b>	<b>5.1</b>



## 01

## Analysis of Changes in Operating Income



## 01

## Consolidated Balance Sheet

Unit: JPY billion

	March 2018	September 2018	Change		March 2018	September 2018	Change
<b>Current Assets</b>	<b>551.6</b>	<b>565.8</b>	<b>14.2</b>	<b>Liabilities</b>	<b>449.9</b>	<b>476.0</b>	<b>26.1</b>
Cash and deposits	88.2	95.4	7.2	Notes and accounts payable	184.2	192.6	8.4
Notes and accounts receivable	269.4	253.8	(15.6)	Advanced payments received	42.5	53.7	11.1
Inventories	167.4	188.6	21.2	Interest-bearing debts	64.2	67.9	3.7
Others	26.5	28.0	1.5	Others	158.9	161.8	2.9
<b>Fixed Assets</b>	<b>343.3</b>	<b>363.8</b>	<b>20.6</b>	<b>Net Assets</b>	<b>445.0</b>	<b>453.6</b>	<b>8.7</b>
Tangible assets	239.6	244.1	4.6	Common equity	369.4	385.3	15.8
Intangible assets	50.3	65.7	15.3	Total accumulated other comprehensive income	61.6	53.4	(8.1)
Investments and other assets	53.3	54.0	0.7	Minority interests	14.0	14.9	1.0
<b>Total</b>	<b>894.8</b>	<b>929.6</b>	<b>34.8</b>	<b>Total</b>	<b>894.8</b>	<b>929.6</b>	<b>34.8</b>
				Net ratio of interest-bearing debts	(2.7%)	(3.0%)	(0.3%)
				Stockholders' equity ratio	48.2%	47.2%	(1.0%)

\* Increase of Total Asset for subsidiarization of Lafert :  
34.3 billions of Yen



Ref.

## Overseas Sales by Regional Segment

Unit : JPY billion

	Total				Hydraulic Excavators			
	1H-FY2017 (April - September)		1H-FY2018 (April - September)		1H-FY2017 (April - September)		1H-FY2018 (April - September)	
	Sales	Sales Ratio	Sales	Sales Ratio	Sales	Sales Ratio	Sales	Sales Ratio
North America	59.2	16.7%	67.1	15.8%	17.1	19.9%	22.4	21.6%
Europe	26.3	7.4%	49.7	11.7%	5.5	6.3%	7.6	7.3%
Asia (Excluding China)	34.4	9.7%	49.2	11.6%	9.0	10.5%	11.7	11.2%
China	38.6	10.9%	50.4	11.9%	18.2	21.1%	27.8	26.7%
Others	13.2	3.7%	15.1	3.6%	6.0	7.0%	7.5	7.2%
Ships	17.5	4.9%	18.0	4.2%				
Japan	166.1	46.7%	174.2	41.2%	30.3	35.2%	27.0	26.0%
Total Sales	355.3	100%	423.7	100%	86.0	100%	103.9	100%

\* currency exchange rate (US dollars) 1H-FY2017: ¥110 1H-FY2018: ¥111





## 02 Performance Forecast for FY2018



## 02

## Performance Forecast for FY2018

- Upward revision of full-year forecast thanks to continued strong orders
- Increased profits lead to dividend increase from beginning-of-the-year level

Unit: JPY billion

	Actual 1H-FY2017	Actual 1H-FY2018	Actual FY2017	[Ref.]Forecast FY2018 (at 2018.5)	Forecast FY2018 (at 2018.10)
Orders	385.8	461.4	864.0	870.0	920.0
Net Sales	355.3	423.7	791.0	850.0	890.0
Operating Income	29.0	34.1	69.9	64.0	70.0
Operating Income Ratio	8.2%	8.0%	8.8%	7.5%	7.9%
Ordinary Income	28.9	33.1	67.5	61.8	67.5
Ordinary Income Ratio	8.1%	7.8%	8.5%	7.3%	7.6%
Extraordinary Income / Loss	(0.1)	(0.2)	(14.8)	(4.0)	(4.0)
Current Net Income	19.8	21.4	34.7	38.0	41.0
Current Net Income Ratio	5.6%	5.0%	4.4%	4.5%	4.6%
Dividend Per Share	JPY40 (After considering reverse stock split)	JPY50	JPY85 (Same as on the left)	JPY93	JPY100
Dividend Payout Ratio			30.1%	30.0%	29.9%
ROIC (after Tax)			10.3%	8.9%	9.8%
[Ref.] ROE			8.4%	8.6%	9.3%
Projected Currency Exchange rate (US dollars)	JPY110 (Record)	JPY111 (Record)	JPY112 (Record)	JPY105	JPY110



## 02

## Machinery Components

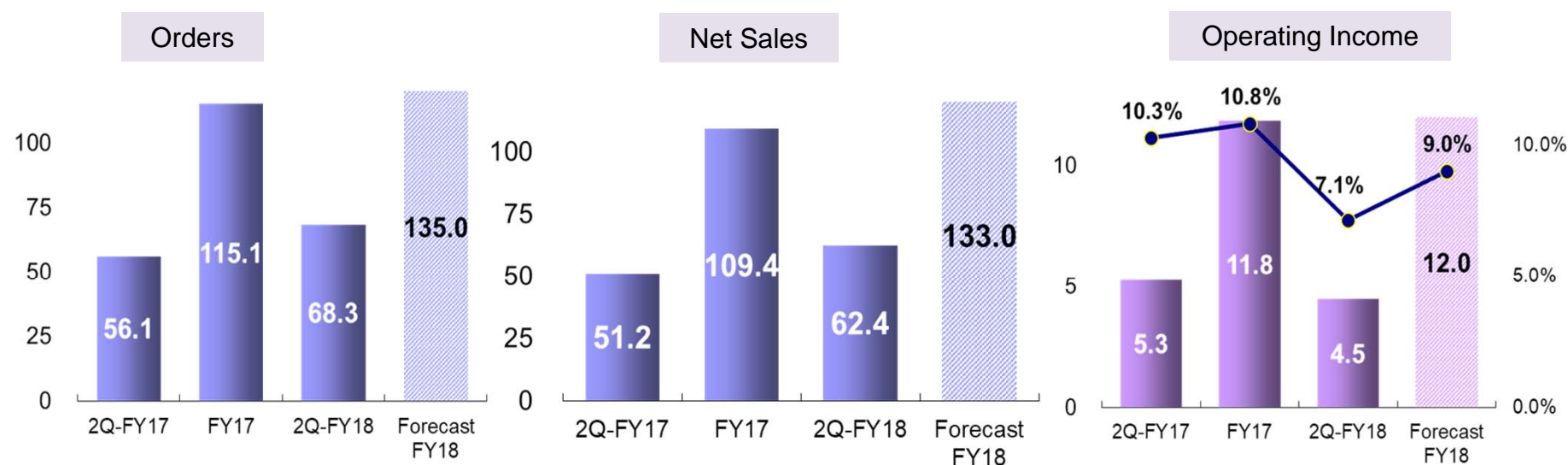
**1H of FY2018 :** Both orders and sales recorded Y on Y increase thanks to steady market conditions for medium-to-small scale gear reducers as well as for precision gear reducers for robot applications in Europe and China and also thanks to consolidation of Lafert as our subsidiary.

**FY2018 :** Market conditions are expected to stay strong both in Japan and other countries.

Continued strong demands for medium-to-small scale gear reducers. As for MCD, slightly severe prospects due to customers' inventory adjustment. Large-scale models remains on recovery track.

We will drive integration of Lafert in our Group.

Unit: JPY billion



## 02

## Precision Machinery

## &lt; Plastic Machinery &gt;

**1H of FY2018** : Y on Y increase in both orders and sales thanks to continued high demands from electric and electronic industries in China.

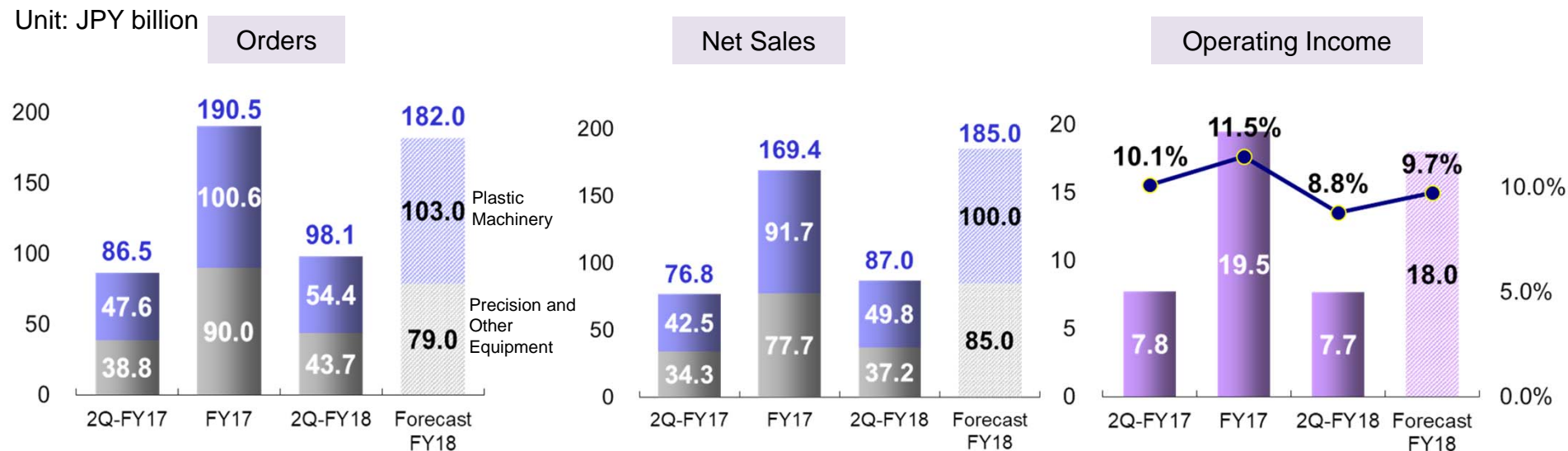
**FY2018** : In spite of prospects of continued strong market, high demands from electric and electronic industries in China are expected to calm down and normalize.

## &lt; Precision and Other Equipment &gt;

**1H of FY2018** : Y on Y increase in both orders and sales thanks to increased demands for cryogenic coolers for medical and other applications.

**FY2018** : Cryogenic coolers business is projected to remain steady, while prospects for semiconductor-related products remain uncertain.

Unit: JPY billion



## 02

## Construction Machinery

## &lt; Hydraulic Excavators &gt;

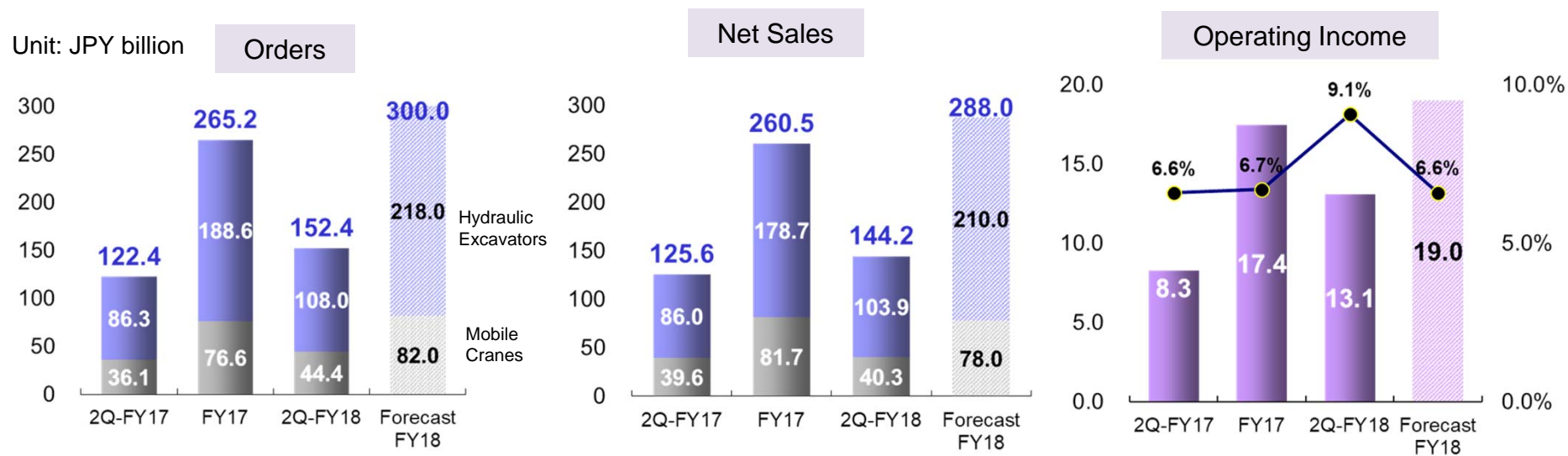
**1H of FY2018** : Y on Y increase in both orders and sales thanks to growth in demands from China and abroad.

**FY2018** : Market conditions are projected to stay favorable. We will further drive productivity enhancement and cost reduction efforts.

## &lt; Mobile Cranes &gt;

**1H of FY2018** : Y on Y increase in both orders and sales thanks to North American market on recovery track and strong domestic demands.

**FY2018** : While domestic demands are slightly slowing down, demands in North American market remain strong. Demands from developing nations are projected to recover.



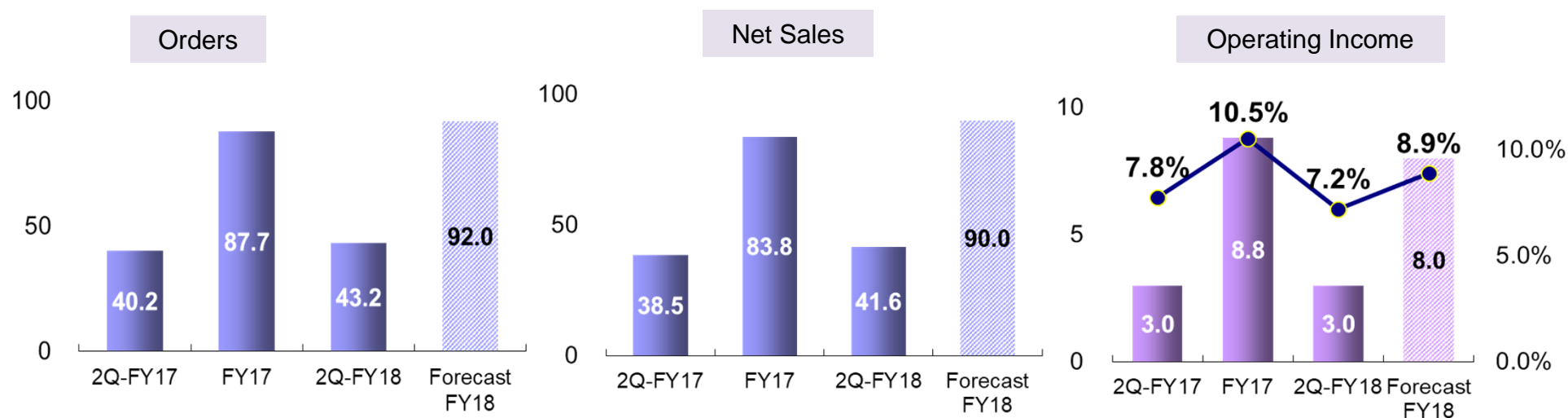
## 02

## Industrial Machinery

**1H of FY2018 :** Orders increased Y on Y since material handling system business saw increased orders thanks to strong demands from steel industry although orders for industrial turbines decreased Y on Y. Sales increased year on year since forging press industry enjoyed increased sales thanks to rich backlog although sales of industrial turbines decreased as with orders.

**FY2018 :** Medical equipment, forging presses and material handling system businesses are projected to stay generally strong. Prospects for industrial turbines remain challenging.

Unit: JPY billion



## 02

## Ships

**1H of FY2018 :** We received orders for ship repair, no order for new vessels as with the same period last year due to continued stagnant market conditions.

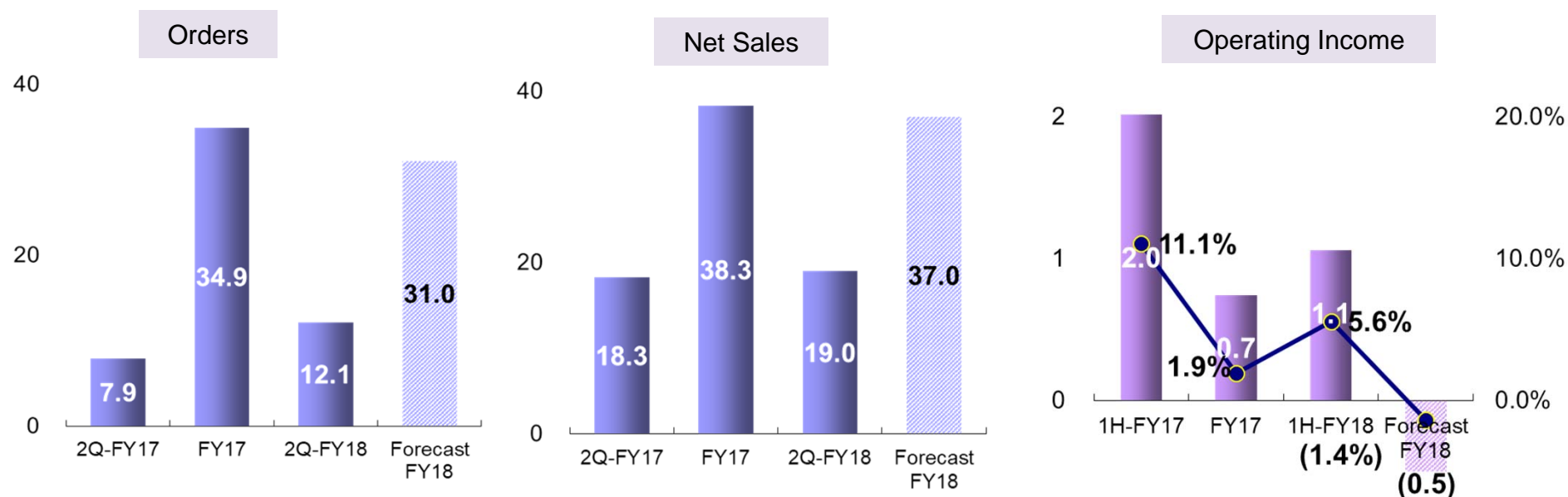
While we delivered three vessels in the same period last year, this period saw delivery of two vessels.

**FY2018 :** Sluggish market conditions for new vessels will continue.

Maintaining existing building capacity, order target is set at three vessels in the 2H.

As for delivery, four vessels are expected annually.

Unit: JPY billion





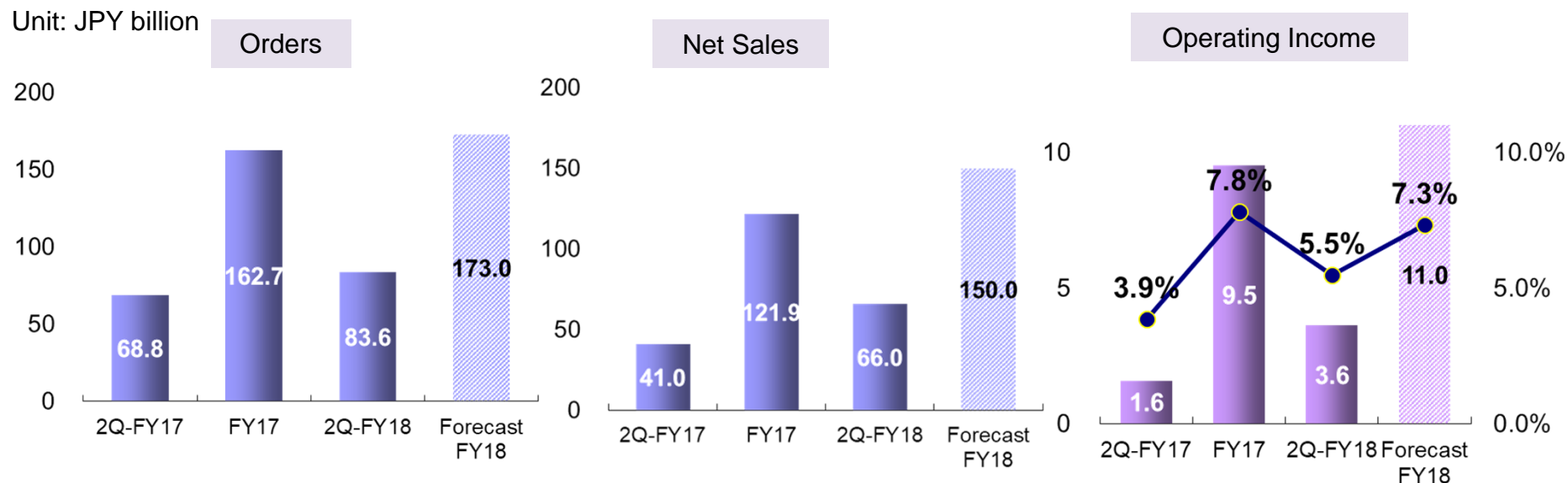
## 02

## Environmental Facilities and Plants

**1H of FY2018 :** Although energy plant business saw Y on Y decline in orders for biomass power generation equipment, both orders and sales recorded Y on Y increase thanks to consolidation of SFW into our Group. Meanwhile, in spite of Y on Y increase in orders for water treatment plants, sales decreased year on year.

**FY2018 :** Market conditions are expected to stay strong both for energy plant business and water treatment plant business.

\* SFW: Sumitomo SHI FW





## 02

## Performance Forecast for FY2018 by Segment

Unit: JPY billion

		Actual 1H-FY2017	Actual 1H-FY2018	Actual FY2017	[Ref.]Forecast FY2018(at 2018.5)	Forecast FY2018
<b>Machinery Components</b>	Orders	56.1	68.3	115.1	115.0	135.0
	Net Sales	51.2	62.4	109.4	117.0	133.0
	Operating Income	5.3	4.5	11.8	12.5	12.0
<b>Precision Machinery</b>	Orders	86.5	98.1	190.5	180.0	182.0
	Net Sales	76.8	87.0	169.4	183.0	185.0
	Operating Income	7.8	7.7	19.5	19.5	18.0
<b>Construction Machinery</b>	Orders	122.4	152.4	265.2	270.0	300.0
	Net Sales	125.6	144.2	260.5	270.0	288.0
	Operating Income	8.3	13.1	17.4	14.0	19.0
<b>Industrial Machinery</b>	Orders	40.2	43.2	87.7	93.0	92.0
	Net Sales	38.5	41.6	83.8	87.0	90.0
	Operating Income	3.0	3.0	8.8	7.5	8.0
<b>Ships</b>	Orders	7.9	12.1	34.9	25.0	31.0
	Net Sales	18.3	19.0	38.3	34.0	37.0
	Operating Income	2.0	1.1	0.7	(1.0)	(0.5)
<b>Environmental Facilities &amp; Plants</b>	Orders	68.8	83.6	162.7	180.0	173.0
	Net Sales	41.0	66.0	121.9	152.0	150.0
	Operating Income	1.6	3.6	9.5	10.0	11.0
<b>Others</b>	Orders	3.8	3.7	7.7	7.0	7.0
	Net Sales	3.9	3.4	7.8	7.0	7.0
	Operating Income	1.1	1.2	2.1	1.5	2.5
<b>Total</b>	Orders	385.8	461.4	864.0	870.0	920.0
	Net Sales	355.3	423.7	791.0	850.0	890.0
	Operating Income	29.0	34.1	69.9	64.0	70.0

## 03 Progress Status of “Medium-Term Management Plan 2019”



## 03

## Progress Status of “MTMP19” (Overall)

“MTMP19” Plan	Actual FY2017	Forecast FY2018	Plan FY2019
<b>Numerical targets FY2019</b>	JPY791.0 b	JPY890.0 b	JPY900.0 b
<b>Net sales:JPY800 billion</b>	8.8%	7.9%	8.0%
<b>Operating Income Ratio:7.5%</b>	JPY69.9 b	JPY70.0 b	JPY72.0 b
<b>ROIC: 7.5% or more</b>	10.3%	9.8%	9.5%
<b>Dividend Payout Ratio : Maintain a 30% level</b>	30.1%	29.9%	30% level
<b>Capital Investments : JPY80.0 billion (Three-Year Total *Based on Budget)</b>	Three-Year Total 118.0 b		
	JPY36.0 b	JPY46.0 b	JPY36.0 b
<b>R&amp;D Expenses : JPY52.0 billion (Three-Year Total)</b>	Three-Year Total 57.0 b		
	JPY14.8 b	JPY20.3 b	JPY20.0 b



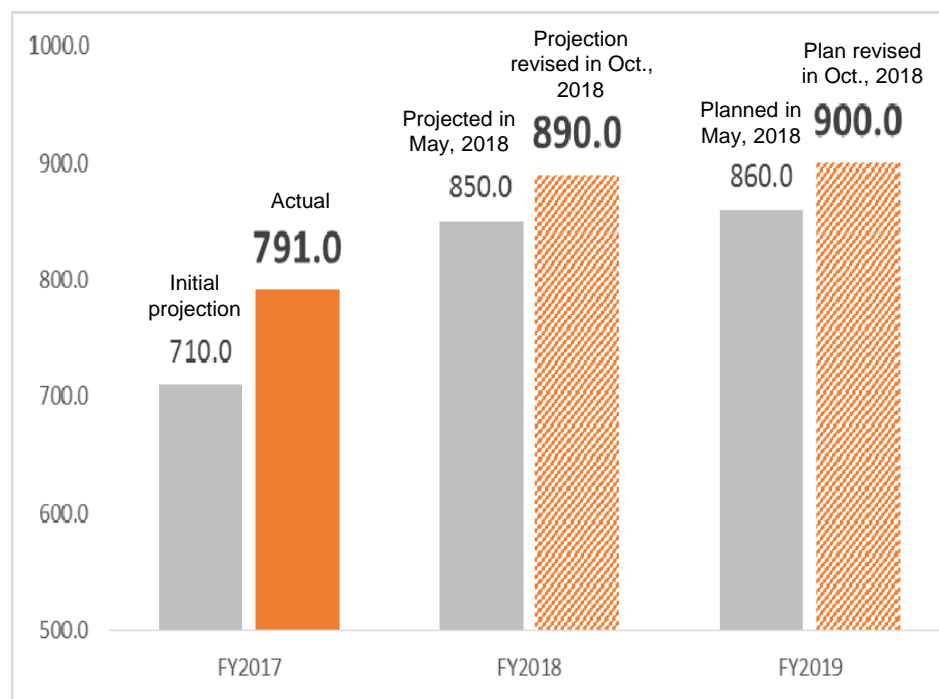
## 03

## Progress Status of “MTMP19”

■ Midterm targets adjusted upward in May, 2018 due to generally strong market conditions worldwide, and this time adjusted further upward thanks to strong orders

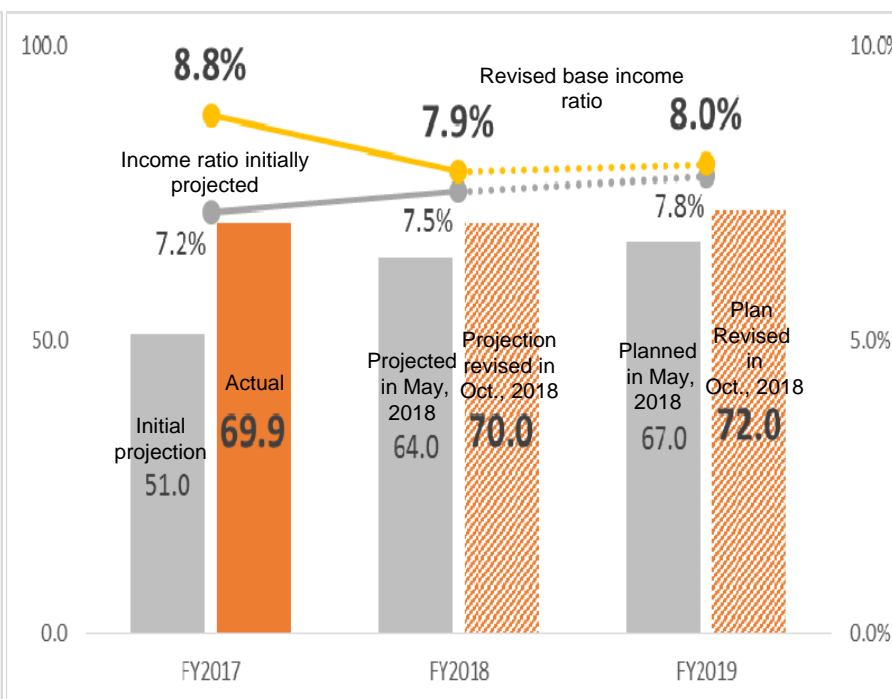
## Sales

Unit: JPY billion



## Operating income &amp; income ratio

Unit: JPY billion



## 03

## Progress Status of “MTMP19” (Basic Concept)

Basic Concept	Specific Developments
1. Achieve “Steady Growth”	<p>Achieve growth globally (especially for high-volume products)</p> <p>Accelerate new product development and their introduction to the marketplace</p>
2. Become a “High Profit Company”	<p>Undertake investments (development/plant &amp; equipment/personnel) according to the roles of our respective business segments</p> <p>Self-supporting (operating income of 5% or more)</p>
3. Create excellent products and services through “A Tireless Commitment to Improving Operational Quality”	<p>Radical improvement in the quality of operations</p> <p>Reinforce the after-market business</p> <p>Promote the active utilization of systems technology (ICT,IoT)</p>
4. M&A, and formation of business alliances	<p>Pursue integration and ties between our organizations and actively seek M&amp;A opportunities and form business alliances/cooperative arrangements with other companies</p>
5. Establish non-financial objectives and actively promote CSR	<p>Provide solutions to social issues, improve product quality, and observe or shorten delivery deadlines in the course of providing products and services, promote diversity and reduce environmental load</p>



## 03

## Basic Policy① – 1 &lt;New Product 'Magic Rack' &gt;

Newly developed high-density pallet storage system, 'Magic Rack'.

'Space renovation' enabled by industry-leading storage efficiency

'Work style reform' for forklift operators enabled by automatic warehousing and shipping function

- Twice storage capacity compared to conventional pallet rack systems
- Reduced CO<sub>2</sub> emission due to reduction in the number of forklifts
- Effective use of existing warehouse space with a free layout
- 10% reduction in electricity consumption as compared to automated warehouse with stacker crane



Storage amount 1,560 pallet

 **Magic Rack**

Magic Rack



## 03

## Basic Policy ① – 2 &lt;Biogas Power Generation Using Anaerobic Treatment of Waste Liquid/Sewage&gt;

- Received order for biomass fuel production system using paper industry sewage

Sewage from kraft pulp production at Mishima Mill of Daio Paper Corporation will be purified through anaerobic treatment process and biogas generated from the process will be used as substitute fuel for heavy oil at the mill .

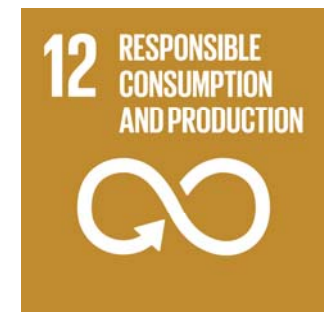
Annual energy recovery of 5,000kL of heavy oil equivalent

- Received order for sewage treatment system with biogas power generation facility

Plum seasoning waste liquid from Nakatafoods Co., Ltd. and other manufacturers in the region will be collected at 'Nakatfoods Biogas Power Plant' and purified by our anaerobic treatment facility (product name: BioImpact) and generated biogas will be used for power generation.



Anaerobic treatment facility (product name: BioImpact) at another company



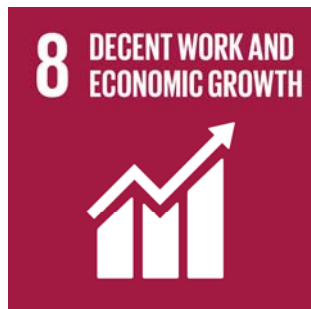


## 03

## Basic Policy③ &lt;More Focus on Aftermarket Business&gt;

## Service technical center for gear reducers opened in Nagoya

- Opened as center for support and development of gear reducer service technologies and skills, in a location adjacent to Nagoya Works (Obu city, Aichi prefecture), mother factory of our power transmission & controls business
- Aiming for improvement of service quality and service structure by promoting technical development and skill transfer through close cooperation with various departments of the factory
- Supporting provision of high-quality services to overseas growth markets



Service Technical Center



## 03

## Basic Concept 4 Organizational Integrations and Alliances

Unit: JPY billion

Segment	New Consolidated Companies	Actual 1H-FY2018		Forecast FY2018	
		Orders	Net Sales	Orders	Net Sales
Machinery Components	Lafert Group	5.8	6.2	15.0	15.0
Precision Machinery	Persimmon Technologies	0.5	0.7	1.0	1.5
Construction Machinery	Sumitomo Heavy Industries Construction Cranes (HSC)	18.0	17.8	35.0	35.0
Environmental facilities and Plants	Sumitomo SHI FW (SFW)	15.2	20.0	30.0	47.0

\*For the 2018 consolidated fiscal year, Lafert is included from 2Q onwards (9 months) .

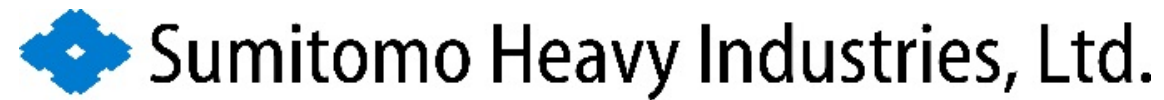


## 03

## Basic Policy⑤ Active Promotion of CSR

	Achieved	Tasks
<b>Products /Services</b>	<ul style="list-style-type: none"> <li>• Creation of customer value of our products/services with additional focus on social issues</li> </ul>	<ul style="list-style-type: none"> <li>• Reconsidering our missions and identifying social issues that can be solved with our products/services</li> </ul>
<b>Environment (E)</b>	<ul style="list-style-type: none"> <li>• Stricter implementation of environmental risk assessment</li> <li>• Transition to ISO14001-2015</li> </ul>	<ul style="list-style-type: none"> <li>• Reducing environmental impacts from our business activities</li> <li>• Disclosure of data on CO<sub>2</sub> emission from use of our products</li> </ul>
<b>Society (S)</b>	<ul style="list-style-type: none"> <li>• Information sessions held on our CSR procurement guidelines</li> <li>• Active promotion of diversity with special focus on measures for women empowerment and work-life balance promotion</li> <li>• Awarded with 'Konjuhousho', Medal With Dark Blue Ribbon</li> <li>• Received 'Kurumin' accreditation awarded to companies bolstering the next generation by supporting child rearing</li> <li>• Announcement of Health Promotion Declaration</li> </ul>	<ul style="list-style-type: none"> <li>• Continued holding of CSR procurement information sessions</li> <li>• Organizational development with focus on diversity</li> <li>• Promotion of work style reform</li> <li>• Management system for health management</li> </ul>
<b>Governance (G)</b>	<ul style="list-style-type: none"> <li>• Introduction of stock-ownership remuneration</li> </ul>	<ul style="list-style-type: none"> <li>• Working on revision of Corporate Governance Code</li> </ul>
<b>External Communication</b>	<ul style="list-style-type: none"> <li>• Integrated report published in November</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing opportunities for dialogue with ESG analysts and investors</li> </ul>





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.