

Securities Code: 6302

The 122nd Interim Business and Financial Report
April 1, 2017 to September 30, 2017

To Our Shareholders

I would like to express our sincere gratitude for your continued support and patronage. I am pleased to present our business and financial report for the first half of the 122nd fiscal year (from April 1 to September 30, 2017) as follows.

Business Performance during the Half-Year Period under Review

During the six-month period ended September 2017, the Japanese economy continued to recover on factors including a gradual increase in personal consumption and solid capital investment by companies. Overseas, the U.S. economy maintained its trend of solid growth and European economies continued to show a gradual recovery. The Chinese economy maintained stable growth on rebounds in private-sector demand and exports, and other emerging market economies showed solid recoveries. As a result, the gradual recovery in the global economy as a whole continued.

In light of this operating environment, the Sumitomo Heavy Industries (SHI) Group began operating under the new Medium-Term Management Plan 2019, in the pursuit of enhanced competitiveness for steady growth.

As a result, orders grew in all segments except for Industrial Machinery and Environmental Facilities & Plants, for a 15% year-on-year increase in total orders for the six-month period, to ¥385.8 billion. Net sales also rose in all segments except for Industrial Machinery and Environmental Facilities & Plants, leading to an overall 12% increase year on year, to ¥355.3 billion. Profit grew in all segments except for Industrial Machinery and Environmental Facilities & Plants as well, resulting in a 56% year-on-year increase in operating income, to ¥29.0 billion, a 59% increase in ordinary income, to ¥28.9 billion, and a 51% increase in net income attributed to shareholders of the parent company, to ¥19.8 billion.

Given these first-half results, we have decided to pay the interim dividend of ¥8*¹ per share.

Launch of New Medium-Term Management Plan—“Medium-Term Management Plan 2019”

The SHI Group began operating under the new medium-term management plan—Medium-Term Management Plan 2019—from April 2017. The plan sets final-year targets of net sales of ¥800.0 billion, with operating income of ¥60.0 billion and ROIC*² of at least 7.5%, for the fiscal year ending March 31, 2020.

To achieve these financial targets, the plan designates five basic concepts of achieving “Steady Growth,” converting to become a “High Profit Company,” creating first-class products and services through “A Tireless Commitment to Improving Operational Quality,” actively participating in “M&A and Formation of Business Alliances,” and “Actively Pursue CSR Activities.” We will strive to contribute to society by providing first-class products and services at the global level, thereby gaining respect and confidence from our stakeholders.

The SHI Group will work to achieve “Steady Growth” by proactively developing new products and bringing them to market, and further expanding the overseas businesses of the Machinery Components, Precision Machinery, and Construction Machinery segments. To convert to becoming a “High Profit Company,” we have set high targets for the Group’s leading segments—Machinery Components and Precision Machinery—to drive high growth and profitability. For creating first-class products and services through “A Tireless Commitment to Improving Operational Quality,” we will strive to improve operational quality, enhance product quality, implement thorough compliance, and promote measures to maintain safety. In terms of actively participating in “M&A and Formation of Business Alliances,” we have purchased the shares of FW Energie B.V. (the current Sumitomo SHI FW Energie B.V.) from the Amec Foster Wheeler group, with which we had been in a technical alliance, and made the company a wholly owned subsidiary, so that we became able to develop a global circulating fluidized bed boiler business.

With regard to our outlook going forward, market conditions in Japan will stabilize against a backdrop of solid consumption and corporate earnings. Overseas, the U.S. and European economies are showing strength, while the Chinese economy is showing signs of continued uncertainty.

Given this operating environment, we will steadily implement the management strategies outlined in the new Medium-Term Management Plan 2019, and contribute to the development of society by providing first-class products and services.

CSR Initiatives

With the launch of the Medium-Term Management Plan 2019, we have also begun pursuing full-fledged CSR activities from fiscal 2017, and have set long-term CSR objectives. In correlation with the Medium-Term Management Plan 2019, we have established a medium-term plan for CSR that designates four key areas—“products and services,” “environment,” “society,” and “human resources.”

In terms of “products and services,” we will strive to tackle social issues and enhance our corporate value by providing products and services that contribute to economic and technological development, with the aim of realizing a sustainable society. To achieve this, head office and operating divisions will engage in dialogue to identify issues, and work to tackle social issues. Regarding the “environment,” we will seek to minimize the environmental load across the entire product life-cycle. To be able to gain the trust of “society,” we are building sustainable relationships with the Group’s vendors by compiling and informing them of our procurement guidelines and ensuring compliance with legal regulations and social norms. We are also proactively engaged in supporting and contributing to local communities, to build strong bonds between the SHI Group and the communities in which we operate. With regard to “human resources,” we are striving to protect the safety, security and health of every person that interacts with any corporate activity with the aim to create a vibrant workplace for every employee. One of these activities, which designated fiscal 2016 as “Diversity Promotion Year 1,” has been producing results in terms of promoting participation by women and work-life balances.

This fiscal year we have also begun activities in the area of health management. With the aim of creating workplaces that are healthy for both the mind and body, we are working to systemize activities implemented to date and to enhance the quality of the measures being implemented.

Going forward, the SHI Group will continue striving to contribute to the development of society through the provision of first-class products and services. The continued support and cooperation of our shareholders is greatly appreciated.

- *1 The Company carried out a consolidation of shares effective October 1, 2017, consolidating five shares of common stock into one share, but the interim dividend for the current fiscal year will be paid based on the number of shares prior to the consolidation.
- *2 ROIC (return on invested capital) is the after-tax profit margin on invested capital, showing the amount of profit generated as a percentage of invested capital (the total of shareholders’ equity and interest-bearing debt), and indicating whether profitability corresponds to the cost of capital.

Shunsuke Betsukawa
President and CEO

Feature—New Medium-Term Management Plan

Medium-Term Management Plan 2019

The SHI Group began operating under the new medium-term management plan—Medium-Term Management Plan 2019—from April 2017. Under the plan, which designates five basic concepts, we will aim to be a company that contributes to the development of society by providing first-class products and services.

Financial Target

Financial Target (FY2019)

Net Sales	Operating Income	Operating Income Ratio	ROIC	ROE (For reference)
¥800.0 billion	¥60.0 billion	7.5%	Over 7.5%	9%

Capital Policy

- Prioritize growth-related investments (e.g. capital investments, M&A)
- Maintain a consolidated dividend payout ratio of 30% with regard to shareholder returns. If too much retained earnings are held, consider implementation of share buy-backs.

Investment Plan

	Capital Investments	R&D Expenses	Domestic Hires	M&A
Key Points	Focused investments into key business and information systems	Enhance product capabilities that target growth	Continue to actively fill positions in the technology and service related functions	Explore growth proposals from key business areas
Three-Year Total	¥80.0 billion	¥52.0 billion	1,400 people	¥30.0 billion

“Medium-Term Management Plan 2019” Basic Concept

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 Concept of the Medium-Term Management Plan 2019 (MTMP19)

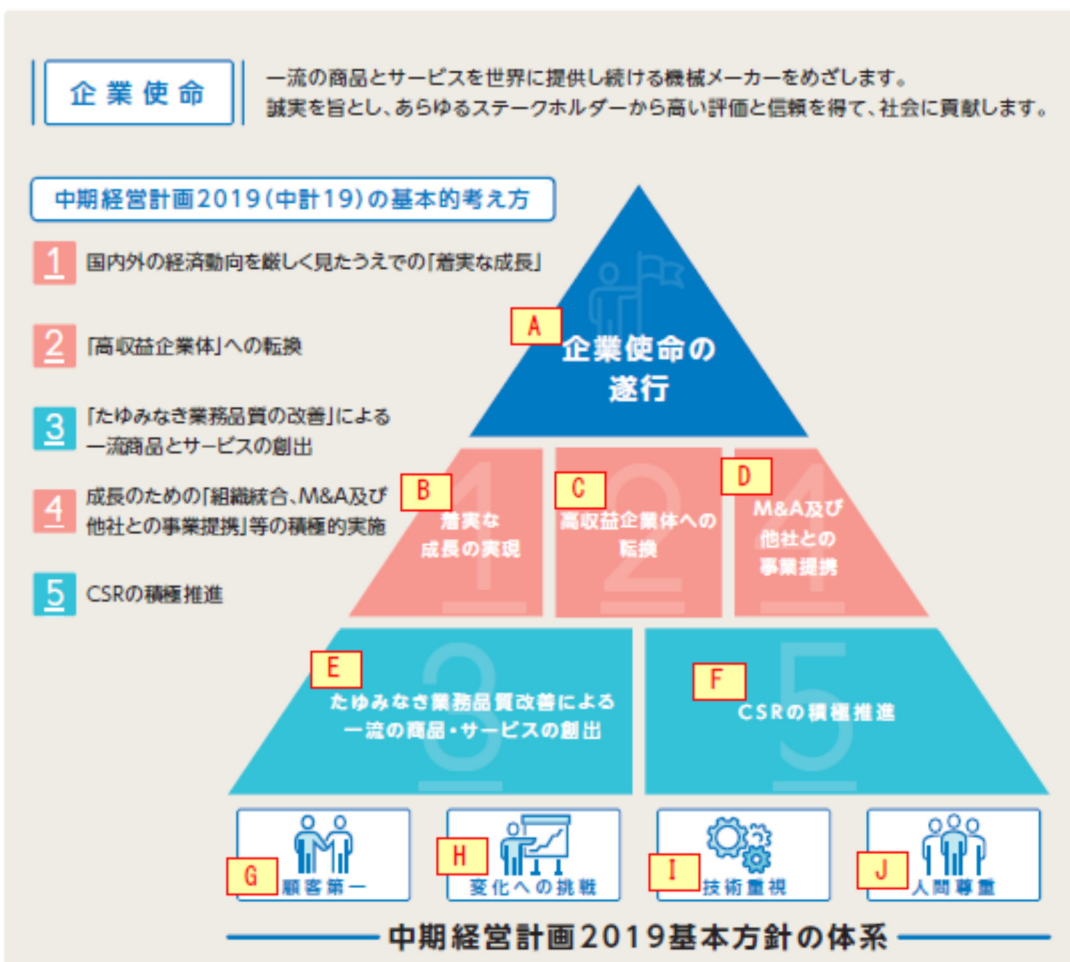
1. Look to achieve “Steady Growth” after carrying out a stringent examination of the external environment
2. Make the conversion to become a “High Profit Company”
3. Create first-class products and services through “A Tireless Commitment to Improving Operational Quality”
4. Actively participate in “Business integrations, M&A, and formation of business alliances with third-party entities”
5. Actively pursue CSR activities

—Framework for the Basic Principles of the Medium-Term Management Plan 2019—

- A Pursue corporate mission
- B Achieve steady growth
- C Converted to a high profit company
- D M&A and formation of business alliances
- E Create first-class products and services through a tireless commitment to improving operational quality
- F Actively pursue CSR activities
- G Customer First
- H Embrace Changes
- I Commitment to Technology and Innovation
- J Respect People



「中期経営計画2019」基本方針



Interim Consolidated Financial Statements

(Amounts less than 100 million yen have been rounded off)

Interim Consolidated Balance Sheet (Summary)

(Billions of yen)

Account Items	End of FY2016	FY2017
	(As of March 31, 2017)	End of interim period (As of September 30, 2017)
Current assets	507.6	505.4
Cash and deposits	63.8	63.5
Notes and accounts receivable	242.5	229.4
Inventories	162.7	172.4
Other	38.6	40.0
Fixed assets	288.8	323.1
Tangible fixed assets	227.7	231.6
Intangible fixed assets	15.2	46.2
Investments and other assets	45.9	45.3
Total	796.5	828.5
Liabilities	387.3	405.0
Notes and accounts payable	147.3	166.3
Advanced payments received	32.2	35.2
Interest-bearing liabilities	60.5	49.1
Other	147.4	154.5
Net assets	409.2	423.4
Stockholders' equity	344.8	359.2
Accumulate other comprehensive income	53.8	52.2
Non-controlling interest	10.6	12.0
Total	796.5	828.5
Net ratio of interest-bearing debts	-0.4%	-1.7%
Stockholders' equity ratio	50.0%	49.7%

Interim Consolidated Statements of Income (Summary)

(Billions of yen)

Account Items	FY2016	FY2017
	Interim period (April 1, 2016 to September 30, 2016)	Interim period (April 1, 2017 to September 30, 2017)
Orders	336.6	385.8
Net sales	317.8	355.3
Operating income	18.6	29.0
Operating income ratio	5.9%	8.2%
Ordinary income	18.2	28.9
Ordinary income ratio	5.7%	8.1%
Extraordinary gains (losses)	(0.0)	(0.1)
Income before income taxes	18.2	28.8
Net income attributed to shareholders of the parent company	13.1	19.8
Ratio of net income attributed to shareholders of the parent company	4.1%	5.6%

Interim Consolidated Statements of Cash Flow (Summary)

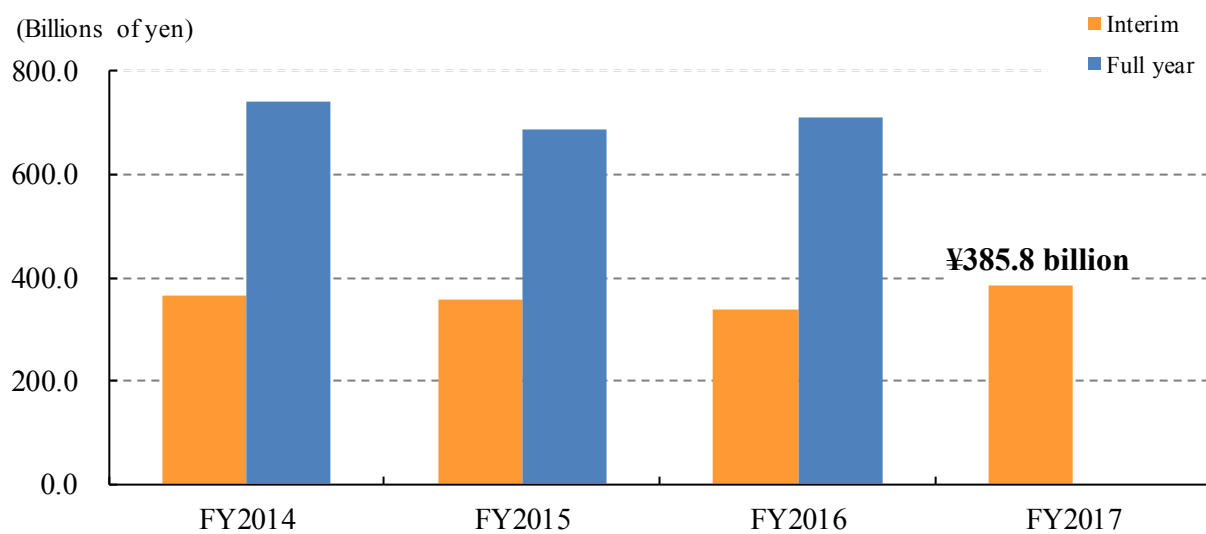
(Billions of yen)

Account Items	FY2016	FY2017
	Interim period (April 1, 2016 to September 30, 2016)	Interim period (April 1, 2017 to September 30, 2017)
Cash flows from operating activities	17.8	45.0
Income before income taxes	18.2	28.8
Depreciation	10.0	10.7
Working capital	3.7	15.4
Others (taxes etc.)	(14.2)	(9.8)
Cash flows from investing activities	(10.1)	(25.2)
[Free cash flow]	[7.7]	[19.9]
Cash flows from financing activities	(13.7)	(18.7)
Net increase (decrease) in cash and cash equivalents	(10.0)	0.0
Cash and cash equivalents at end of the period	58.6	61.1

Consolidated Financial Highlights

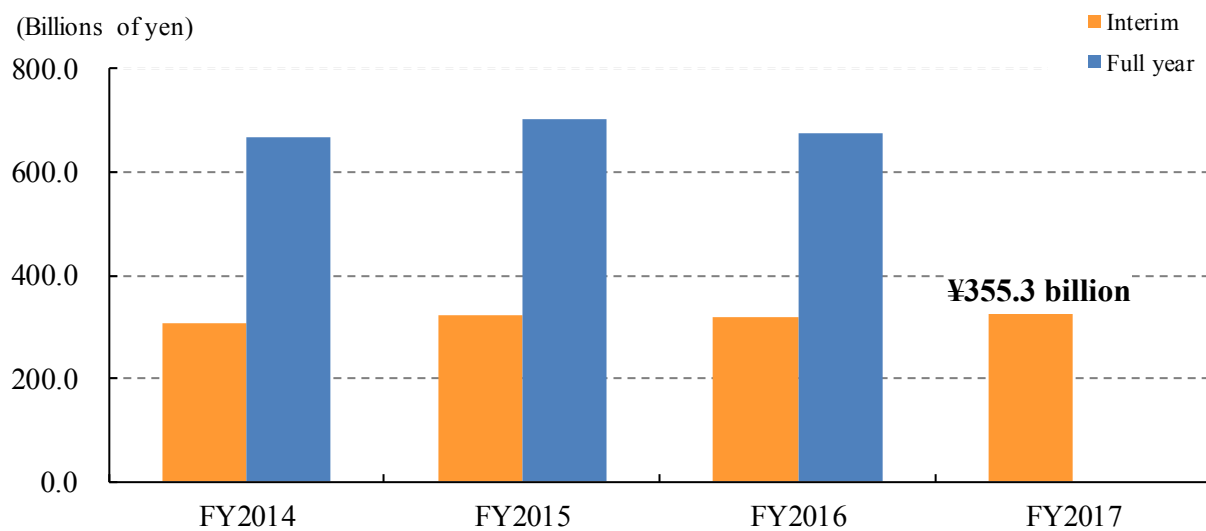
Orders

(Billions of yen)



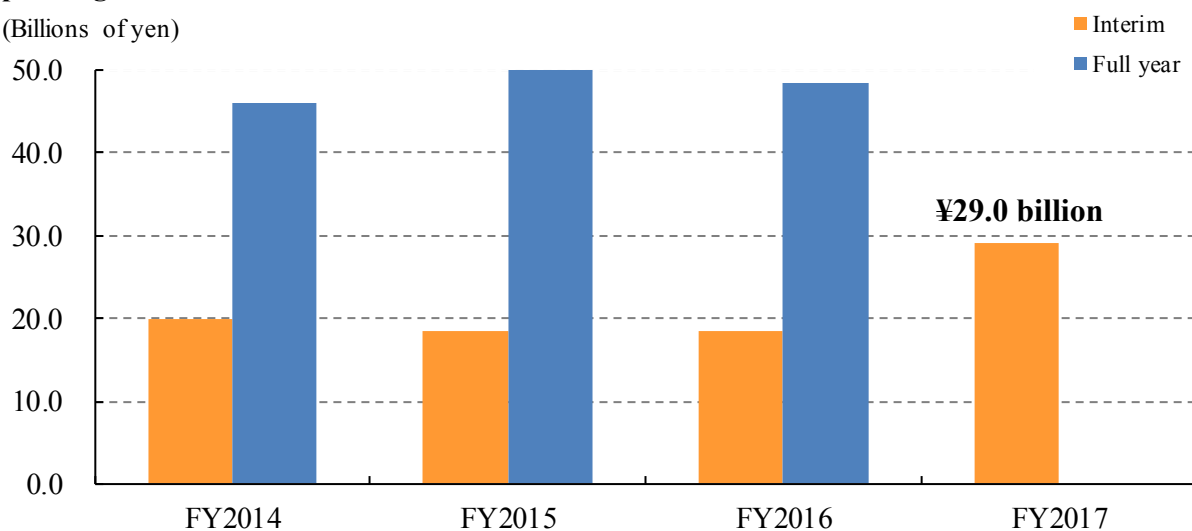
Net Sales

(Billions of yen)



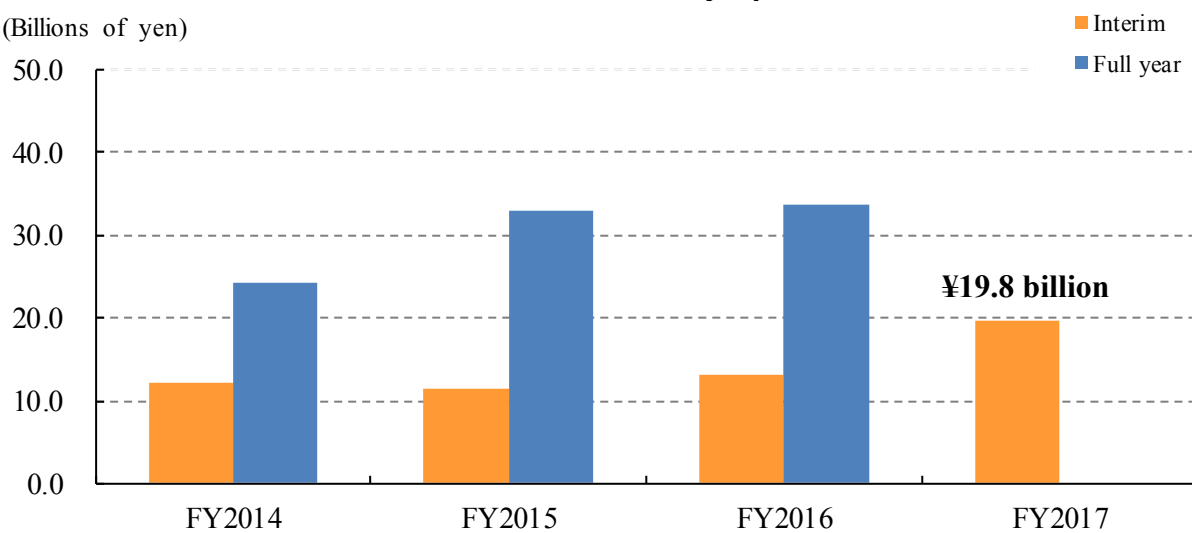
Operating Income

(Billions of yen)



Net Income Attributed to Shareholders of the Parent Company

(Billions of yen)



Note: Amounts less than one unit are rounded to the nearest unit.

Review of Operations by Segment

Net Sales Ratio by Segment

FY2016 Interim

Machinery Components	15.4%
Precision Machinery	21.9%
Construction Machinery	27.9%
Industrial Machinery	15.0%
Ships	4.6%
Environmental Facilities & Plants	14.0%
Others	1.2%

FY2017 Interim

Machinery Components	14.4%
Precision Machinery	21.6%
Construction Machinery	35.4%
Industrial Machinery	10.8%
Ships	5.1%
Environmental Facilities & Plants	11.6%
Others	1.1%

Machinery Components

Major Products: Power Transmission and Control Equipment, Motors

Net Sales: ¥51.2 billion

Year-on-Year Change: +5%

Orders and sales both grew, as the markets in Japan, Europe, the United States, and China for small and medium-sized power transmission equipment and precision gear reducers for use in robotics remained solid, and the market for large power transmission equipment showed an underlying tone of recovery.

(Billions of yen)

	FY2016 Interim	FY2017 Interim
Orders	50.7	56.1
Net Sales	48.9	51.2
Operating Income	4.1	5.3

Precision Machinery

Major Products: Plastic Injection Molding Machines, Extrusion Laminators Machines, Semiconductor Manufacturing Equipment, Laser Processing Systems, Cryogenic Equipment, Precision-Positioning Stages, Precision Forgings, Control System, Defense Equipment, Machining Tools

Net Sales: ¥76.8 billion

Year-on-Year Change: +10%

Orders and sales in the plastic injection molding machine business rose, on an increase in electric and electronic sector demand from China, and solid markets in Japan and Europe.

In other businesses, orders and sales grew on increases in semiconductor-related models and cryogenic equipment.

(Billions of yen)

	FY2016 Interim	FY2017 Interim
Orders	72.8	86.5
Net Sales	69.6	76.8
Operating Income	7.2	7.8

Construction Machinery

Major Products: Hydraulic Excavators, Construction Cranes, Road Construction Machinery

Net Sales: ¥125.6 billion

Year-on-Year Change: +41%

The hydraulic excavator business saw increased demand, primarily in China and Japan, resulting in increased orders and sales.

Orders and sales grew in the construction crane business, with a trend of recovery in the North American market and the addition of Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd., as a consolidated subsidiary.

(Billions of yen)

	FY2016 Interim	FY2017 Interim
Orders	80.2	122.4
Net Sales	88.8	125.6
Operating Income	(0.7)	8.3

Industrial Machinery

Major Products: Cyclotrons, Medical Equipment, Forging Machines, Material Handling Systems, Logistics & Handling Systems, Automated Parking Systems, Turbines, Pumps

Net Sales: ¥38.5 billion

Year-on-Year Change: -19%

Despite an increase in orders for forging machines and others, lower orders in the material handling systems business and turbine business resulted in an overall decline in orders. Despite an increase in medical-related sales in the industrial machinery business, overall sales declined on decreases in the material handling systems business and the turbine business.

(Billions of yen)

	FY2016 Interim	FY2017 Interim
Orders	47.3	40.2
Net Sales	47.5	38.5
Operating Income	4.5	3.0

Ships

Major Products: Ships

Net Sales: ¥18.3 billion

Year-on-Year Change: +24%

A continued sluggish market resulted in no orders for new ships, as in the year-earlier period, but orders for maintenance and repairs grew. In terms of sales, three vessels were delivered, which was one more than in the year-earlier period.

(Billions of yen)

	FY2016 Interim	FY2017 Interim
Orders	7.9	7.9
Net Sales	14.8	18.3
Operating Income	0.6	2.0

Environmental Facilities & Plants

Major Products: Power Generation Systems, Boiler Systems, Industrial Waste Treatment Plants, Air Pollution Prevention Equipment, Water Treatment Systems, Chemical Process Equipment & Plants, Pressure Vessels, Mixing Vessels, Air-Conditioner, Food Production Equipment

Net Sales: ¥41.0 billion

Year-on-Year Change: -8%

Despite increased orders for biomass-fueled power generation plants, overall orders in the energy plant business declined from lower orders for large-scale ash treatment plants. Sales declined on lower boiler construction projects.

Orders in the water treatment plant business rose on solid orders for new construction and renovation projects, and sales increased as well on a solid pace of new construction projects.

(Billions of yen)

	FY2016 Interim	FY2017 Interim
Orders	74.0	68.8
Net Sales	44.4	41.0
Operating Income	2.1	1.6

Note: Numbers less than one unit are rounded to the nearest unit.

The Company has been engaged in a lawsuit (currently in appeal), requesting compensation for damages initiated by the City of Kyoto with regard to the effectiveness of the termination of a contract for the incinerated ash melting facility construction works ordered by the city, and has received and accepted a settlement recommendation from the court. If the City of Kyoto also accepts the recommendation and a settlement is reached, we expect this lawsuit to be concluded. For more details, please visit the Company's website (<http://www.shi.co.jp/english>).

On the Cutting Edge of Technology—SHI's World-leading Technology

STAF molding technology achieves major weight reduction in automotive body frames

SHI's proprietary Steel Tube Air Forming (STAF) is the world's first molding technology to achieve a roughly 30% reduction in the weight of automotive body frames by increasing the frame's strength and rigidity. This technology increases passenger safety, and contributes to improved fuel efficiency in gasoline-powered vehicles and longer ranges for electric vehicles.

Automotive body frame

STAF can be used for the main components of an automotive body frame (shown in green).

Development of SHI's proprietary molding technology

STAF (two processes)

By simplifying the conventional manufacturing process, smaller facilities can be used.

- (1) A steel tube is placed in a die, then heated in a press, then molded by injecting high pressure air, and hardened.
- (2) The piece is completed by cutting the ends with a laser.

Conventional products (four processes)

- (1) After heating a metal plate in a large furnace,
- (2) the metal plate is placed in a die and molded and hardened.
- (3) The entire circumference is cut with a laser, and
- (4) the piece is completed using spot welding.

STAF achieves lighter weight, with greater strength and rigidity than conventional products

Conventional products

Spot welding can come apart, meaning less rigidity.

STAF

With no spot welding, rigidity is extremely high.

Contributing to reduced weight of automobiles!*

*A 30% reduction compared with conventional processes

STAF enhances a body frame's strength and rigidity compared with conventional products, and enables the use of thinner steel plates, thereby reducing the weight of automobiles.

Rigidity: The property of resistance to deformation due to external forces such as pressure, shearing stress, and slippage.

Company Information (as of September 30, 2017)

Corporate Data

- Incorporated: November 1, 1934
- Paid-in capital: ¥30,871,651,300
- Number of employees (consolidated): 20,847
- Offices
 - Head office: 1-1, Osaki 2-chome, Shinagawa-ku, Tokyo, Japan
 - Business offices: Chubu Office (Nagoya-shi)
Kansai Office (Osaka-shi)
Kyushu Office (Fukuoka-shi)
 - Plants: Tanashi Works (Nishitokyo-shi, Tokyo)
Chiba Works (Chiba-shi)
Yokosuka Works (Yokosuka-shi, Kanagawa Pref.)
Nagoya Works (Obu-shi, Aichi Pref.)
Okayama Works (Kurashiki-shi, Okayama Pref.)
Niihama Plant of Ehime Works (Niihama-shi, Ehime Pref.)
Saijo Plant of Ehime Works (Saijo-shi, Ehime Pref.)
 - Laboratories: Technology Research Center (Yokosuka-shi, Kanagawa Pref.)

Directors and Corporate Auditors

Representative Director and Chairman of the Board	Yoshinobu Nakamura
Representative Director and President & CEO	Shunsuke Betsukawa
Representative Director	Shinji Nishimura
Director	Yoshiyuki Tomita
Director	Toshiharu Tanaka
Director	Eiji Kojima
Director	Mikio Ide
Director	Shinji Shimomura
Director	Susumu Takahashi
Director	Hideo Kojima
Standing Corporate Auditor	Yuji Takaishi
Standing Corporate Auditor	Kazumi Fujita
Corporate Auditor	Takeo Wakae
Corporate Auditor	Masaichi Nakamura

Executive Officers

President & CEO	Shunsuke Betsukawa
Senior Executive Vice President	Shinji Nishimura
Executive Vice President	Toshiharu Tanaka
Executive Vice President	Yoshiyuki Tomita
Senior Vice President	Tetsuya Okamura
Senior Vice President	Akio Yoshikawa
Senior Vice President	Hideo Suzuki
Senior Vice President	Shinji Shimomura
Senior Vice President	Hiroo Morita
Senior Vice President	Kazuo Hiraoka
Senior Vice President	Tatsuya Endo
Senior Vice President	Taiji Tsuchiya
Senior Vice President	Eiji Kojima
Senior Vice President	Hiroshi Arito

Senior Vice President
Senior Vice President
Vice President
Vice President
Vice President
Vice President

Hideshi Shimamoto
Morihiro Kondo
Yukio Kumata
Isao Kono
Toshihiko Chijiiwa
Shaun Dean

Stock Information (as of September 30, 2017)

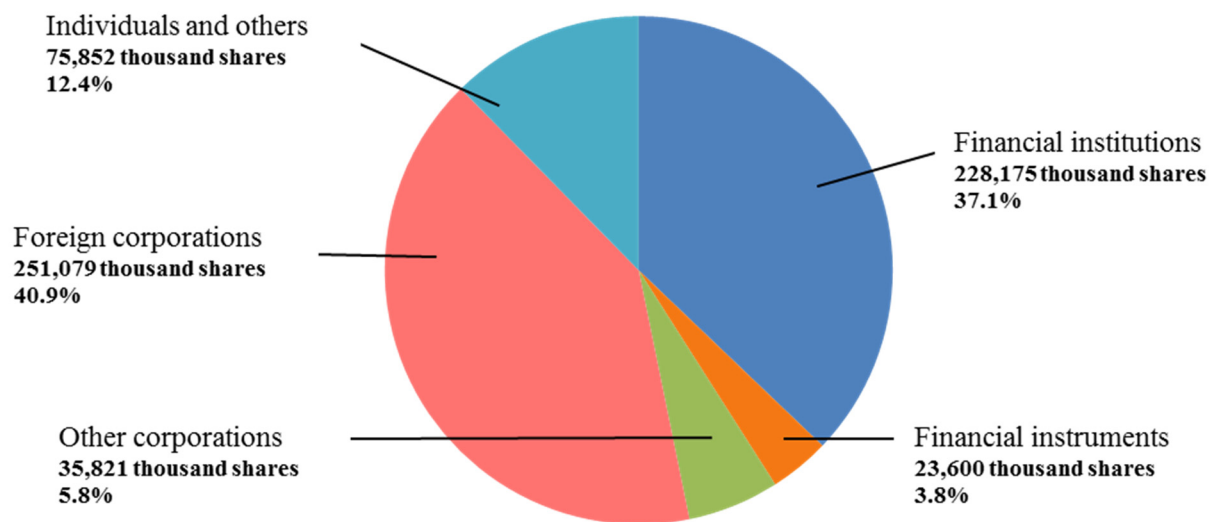
Stock Data

- Total number of authorized shares: 1,800,000,000*¹
- Total number of issued shares: 614,527,405*²
- Number of shareholders: 35,878

*1 As a result of the consolidation of shares (5 to 1) carried out on October 1, 2017, the total number of authorized shares as of the date of preparation of this Interim Business and Financial Report was 360,000,000 shares.

*2 As a result of the consolidation of shares (5 to 1) carried out on October 1, 2017, the total number of issued shares as of the date of preparation of this Interim Business and Financial Report was 122,905,481 shares.

Breakdown of Shareholders



Note: The number of shares and shareholding ratios are rounded to the nearest unit.

Share-Related Information

Change in Number of Shares per Trading Unit and Consolidation of Shares

Effective October 1, 2017, the number of shares of the Company per trading unit was changed to 100 from 1,000, and every five shares held by shareholders of record as of September 30, 2017, were consolidated into one share. No special procedures with regard to the change in the number of shares per trading unit and consolidation of shares are required of shareholders.

Effect of the consolidation of shares

- There will be no change to the Company's assets or capital immediately before or after the consolidation of shares, and as a result, except for the effect of fluctuations in stock market prices, etc., there will theoretically be no change in the asset value of the Company's shares owned by shareholders.
- The number of shares owned by shareholders will be reduced by one-fifth following the consolidation of shares, but the amount of net assets corresponding to one share will increase by a factor of five. The share price will also theoretically increase by a factor of five compared with the price prior to the consolidation.

Handling of fractional shares below a single share

- As stipulated in the Companies Act, fractional shares below a single share arising from the consolidation of shares were purchased by the Company as treasury shares. The proceeds from disposal of these fractional shares will be paid to shareholders who held the fractional shares together with the interim dividend.
- Please refer to the May 26, 2017, news release "Notice Regarding a Change to the Trading Unit and Reverse Stock Split of the Shares of Sumitomo Heavy Industries, Ltd. along with a Partial Amendment to the Articles of Incorporation and Revision to the Dividend Forecast" for details regarding the change to the number of shares per trading unit and consolidation of shares.
- Please contact your securities company or the custodian of the register of shareholders listed below in the event of any questions regarding the change to the number of shares per trading unit and consolidation of shares.

Custodian of the Register of Shareholders: Stock Transfer Agency Business Planning Department
Sumitomo Mitsui Trust Bank, Limited
Toll free number: 0120-782-031
Hours: 9:00-17:00 (except for Saturdays, Sundays, national holidays, and the New Year's holiday)

Shareholder Information

Fiscal Year	April 1 each year through March 31 of the following year	
Ordinary General Meeting of Shareholders	June (every year)	
Record Dates	Ordinary General Meetings of Shareholders	March 31st
	Payment of Interim Dividends	September 30th
	Payment of Term-end Dividends	March 31st
Custodian of the Register of Shareholders and the Institution that Manages the Special Accounts	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan	
Handling Place of Register of Shareholders	Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department 1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan	
	[Mailing Address] Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan	
	[Telephone Inquiries] Toll free number: 0120-782-031 Hours: 9:00-17:00 (except for Saturdays, Sundays, national holidays, and the New Year's holiday)	
	[Website] http://www.smtb.jp/personal/agency/index.html	
Method of Public Notice	To be posted on the Company's Website (http://www.shi.co.jp). However, where required by unavoidable circumstances, public notices will be made in the Nihon Keizai Shimbun	

[Notification or Inquiries about Change of Address with Respect to Shares]

Shareholders who have an account with a securities company are asked to give notification or make inquiries about matters such as change of address to the securities company at which he or she has an account. Shareholders who do not have an account with a securities company are asked to call the above telephone number.

[Special Accounts]

For shareholders who did not use the depository and book-entry transfer system (*Hofuri*) operated by the Japan Securities Depository Center prior to dematerialization of share certificates, we have opened an account (called a special account) at the transfer agent Sumitomo Mitsui Trust Bank, Limited.

Inquiries about, or notifications of, matters such as change of address with regard to special accounts should be made to the above telephone number.

[Request for the Purchase or Sale of Shares of Less than One Unit]

Please contact the securities company at which you have an account for requests for the purchase or sale of shares of less than one unit (100) shares. In the case of requests regarding shares recorded in a special account, please call the above telephone number.

Sumitomo Heavy Industries, Ltd.
Website www.shi.co.jp