

Securities Code: 6302

**The 124th Interim Business and Financial Report
April 1, 2019 to September 30, 2019**

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 124th fiscal year (from April 1 to September 30, 2019) as follows.

Business Principles

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.

Our Values

Customer First:

We exceed customer expectations by providing sophisticated efficient products and services, giving the utmost consideration to their needs and requirements.

Embrace Changes:

We will continue to drive and embrace changes without accepting the status quo.

Commitment to Technology and Innovation:

We are passionate about contributing to society by further developing our unique, in-house technologies.

Respect People:

We will nurture an organizational climate that fosters mutual respect, tolerance and learning for growth.

Message from Our New President

I have succeeded our former President Shunsuke Betsukawa from April 1 of this year.

Based on the five basic concepts contained in the Medium-Term Management Plan 2019, which went into effect from April 2017, the Sumitomo Heavy Industries (SHI) Group has been working to expand the scope of our business and convert ourselves to a high profit company by actively participating in M&A and formation of business alliances and taking other measures. We are well on our way to achieving the Plan's initial financial targets of net sales of ¥800.0 billion, with operating profit of ¥60.0 billion, but given the challenging market environment and rapid pace of environmental change, it is difficult to make clear assumptions. Given this situation, rather than being swayed by ups and downs in results, I feel we need to respond quickly to changes, differentiate ourselves from other companies, and enhance quality.

Fiscal 2019, ending March 31, 2020, is both my first year to serve as President, and the final year under the Medium-Term Management Plan 2019. I am asking all operating divisions to work toward the solid achievement of their targets and build a structure that is not affected by the business environment, while at the same time implementing measures that will lead to an evolved SHI Group that will tie into the next medium-term management plan.

In addition, I wish to apologize deeply for the major inconvenience and concern caused to shareholders by the improper inspections related to the Company's and Group companies' products and services announced in the previous fiscal year. We take this situation very seriously, and will continue to implement measures this year to ensure that this does not occur again. We are further strengthening our product quality management and compliance, and will make every effort to regain the trust that was lost.

Business Performance during the Half-Year Period under Review

During the six-month period ended September 2019, corporate performance in Japan was solid at high levels, but there were signs of weakness in equipment investment in the manufacturing industry. Overseas, while the U.S. economy was marking a steady recovery, global demand for machinery began undergoing a correction as the manufacturing industry was being affected by trade issues, and a trend of moderate deceleration was being seen in the Chinese economy. The outlook remained uncertain as well, with U.S. – China trade friction intensifying, geopolitical risk continuing, and the yen appreciating.

Given this operating environment, the SHI Group was proceeding under the Medium-Term Management Plan 2019 and steadily implementing the priority measures including investing for growth in equipment, research and development, and other areas, and proactively working to fulfill our corporate social responsibility (CSR). Nevertheless, operating profit declined in all divisions, for a 20% year-on-year decrease overall, to ¥27.2 billion, while ordinary profit declined 22%, to ¥25.8 billion, and profit attributable to owners of parent decreased 23%, to ¥16.4 billion.

In addition, we have paid an interim dividend of ¥56 per share.

Looking Ahead

With regard to our future outlook, although the domestic market is stagnant, equipment investment for labor savings and technological innovation is growing, but concerns of downward pressure on the economy are growing as the Chinese and European economies slow, and given issues including U.S. trade sanctions on China and Brexit.

In light of this operating environment, it will be important to proceed with the steady implementation of the management strategies contained in the Medium-Term Management Plan 2019, and to accelerate the transformation of our business organization to one that is resistant to external changes.

The SHI Group will begin operating under a new medium-term management plan from fiscal 2020, but I hope to continue the basic concepts of the Medium-Term Management Plan 2019 in the next plan. We intend to capitalize on business opportunities in all types of market environments in markets around the world, and will focus all of our energy into the steady implementation of the next medium-term management plan. I ask for the continued understanding and support of our shareholders.

Shinji Shimomura
President and CEO

Feature 1

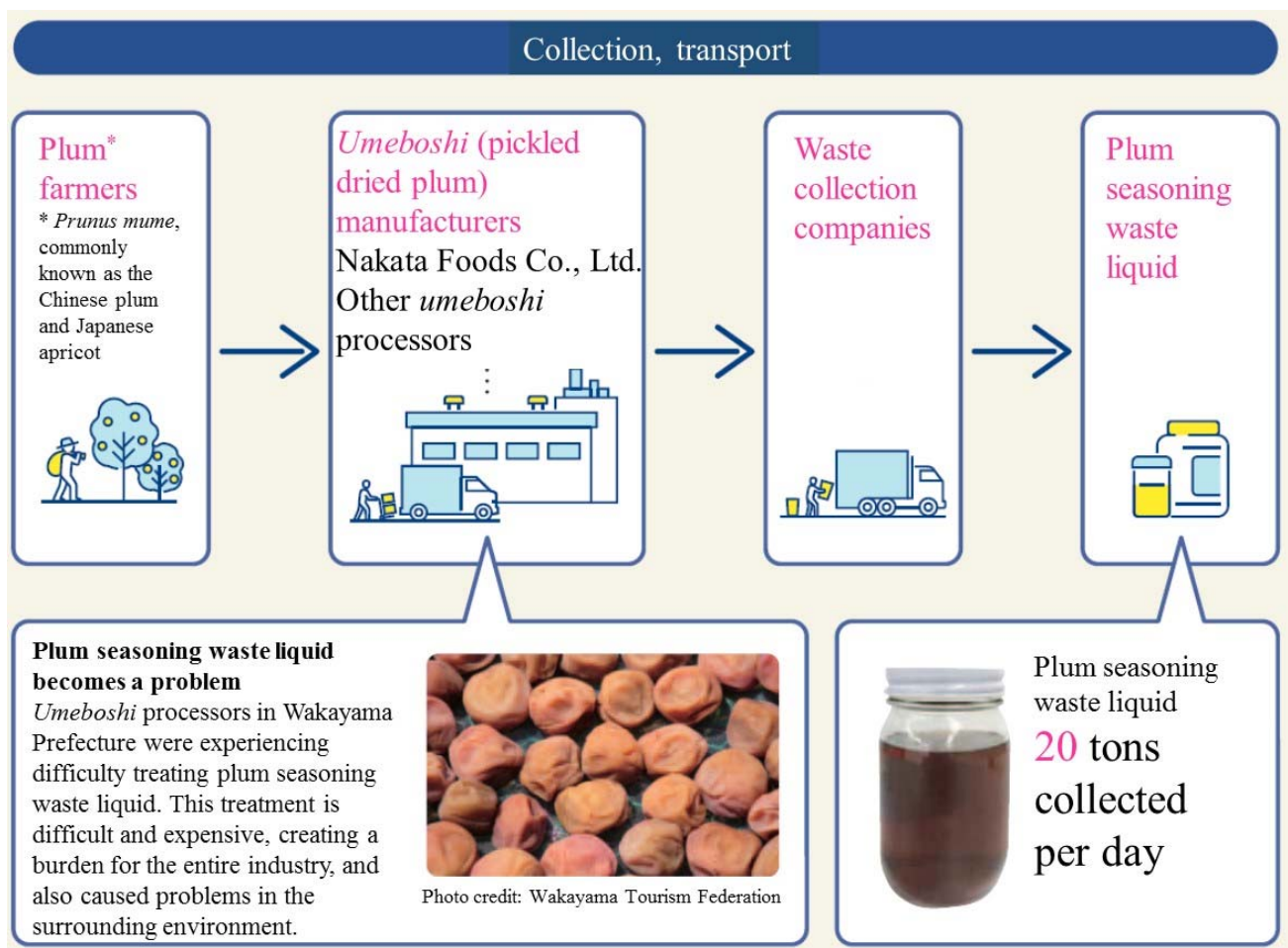
Contributing to the realization of a resource-recycling society —Generating electricity from plum seasoning waste liquid—

The SHI Group provides an industrial wastewater treatment system. The Group has offered many various systems over the years, and here we would like to introduce a water treatment system that uses groundbreaking technology to also generate electricity using biogas from anaerobic wastewater treatment.

Resolving problems for the entire region!

Receiving plum seasoning waste liquid from the many *umeboshi* processors in the region led to a reduction in the environmental impact. In addition, we were able to reduce the cost of treating the plum seasoning waste liquid, which had long been a problem for *umeboshi* processors, by 40%.

Going forward, we will pursue the challenge of waste materials from foods other than plum seasoning waste liquid, to contribute to the realization of a resource-recycling society with systems that treat waste materials and generate income from electricity sales.



Waste treatment, power generation

Nakata Foods Biogas Power Plant



Methane gas

Power generation

5,600 kWh/day

Residential households
400 households-equivalent

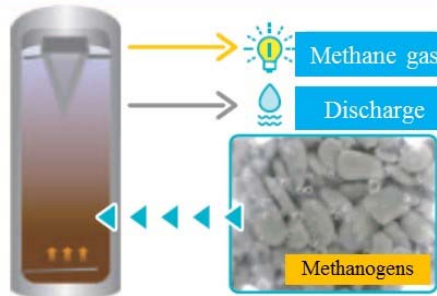


Wastewater treatment

Anaerobic wastewater treatment system

This groundbreaking water treatment system uses microbes that do not require oxygen for reproduction to clean industrial wastewater and other impurities by decomposing them into methane gas and carbon dioxide.

Using this system, minute impurities are removed from the methane gas to generate electricity with a diesel engine, and that electricity can then be sold.



Discharge



Interim Consolidated Financial Statements

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

Interim Consolidated Balance Sheet (Summary)

(Billions of yen)

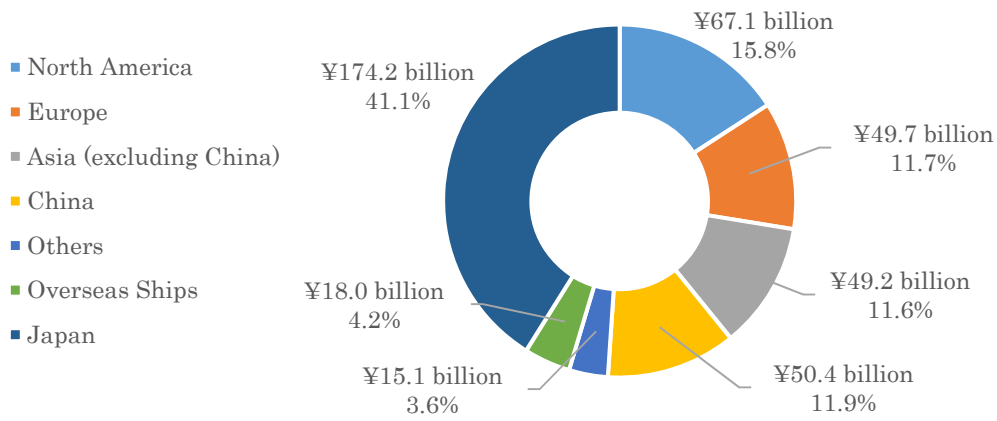
Account Items	End of FY2018	FY2019
	(As of March 31, 2019)	End of interim period (As of September 30, 2019)
Current assets	583.6	580.1
Cash and deposits	73.6	81.0
Notes and accounts receivable	291.6	264.0
Inventories	189.0	204.6
Other	29.4	30.4
Fixed assets	370.5	376.7
Tangible fixed assets	248.3	256.4
Intangible fixed assets	65.1	60.3
Investments and other assets	57.1	60.0
Total	954.1	956.8
Liabilities	489.1	487.9
Notes and accounts payable	188.1	173.9
Interest-bearing liabilities	73.3	80.6
Other	227.7	233.4
Net assets	465.0	468.9
Stockholders' equity	404.8	413.4
Accumulated other comprehensive income	48.7	43.8
Non-controlling interest	11.5	11.8
Total	954.1	956.8
Net ratio of interest-bearing debts	-0.03%	-0.03%
Stockholders' equity ratio	47.5%	47.8%

Interim Consolidated Statements of Income (Summary)

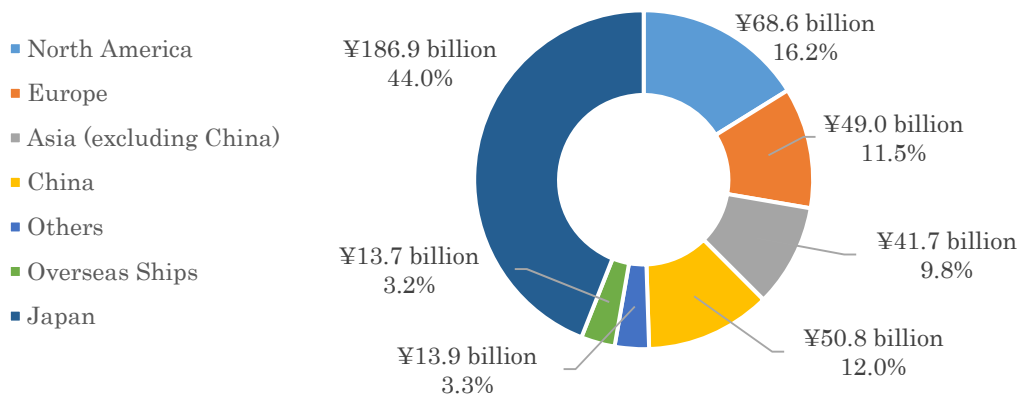
(Billions of yen)

Account Items	FY2018	FY2019
	Interim period (April 1, 2018 to September 30, 2018)	Interim period (April 1, 2019 to September 30, 2019)
Orders	461.4	418.6
Net sales	423.7	424.7
Operating profit	34.1	27.2
Operating profit ratio	8.0%	6.4%
Ordinary profit	33.0	25.8
Ordinary profit ratio	7.8%	6.1%
Extraordinary gains (losses)	(0.2)	-
Profit before income taxes	32.8	25.8
Profit attributable to owners of parent	21.4	16.4
Ratio of profit attributable to owners of parent	5.0%	3.9%

Net Sales Ratio by Region
FY2018 Interim



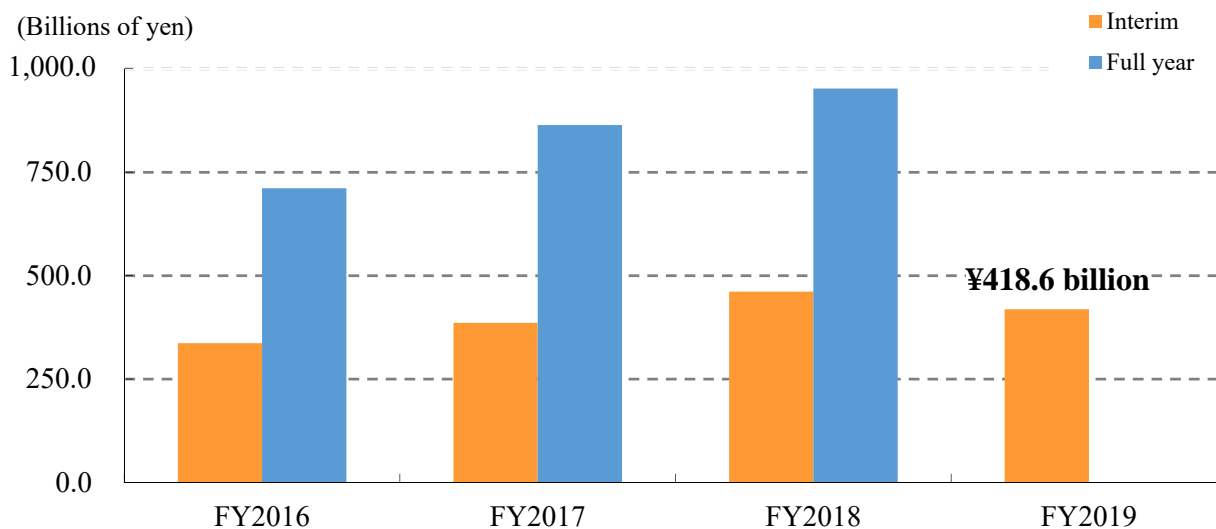
FY2019 Interim



Consolidated Financial Highlights

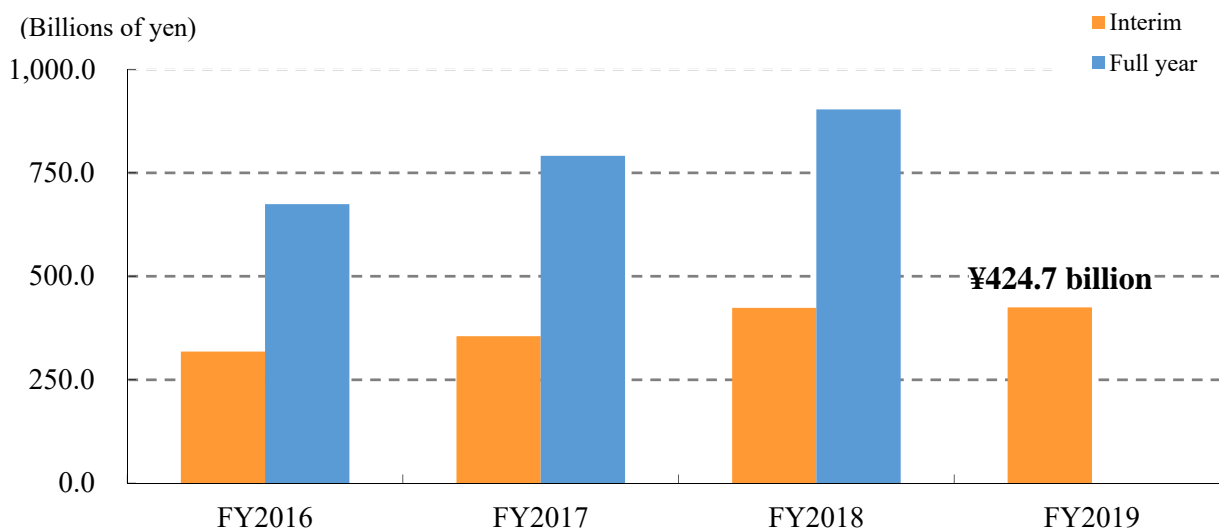
Orders

(Billions of yen)



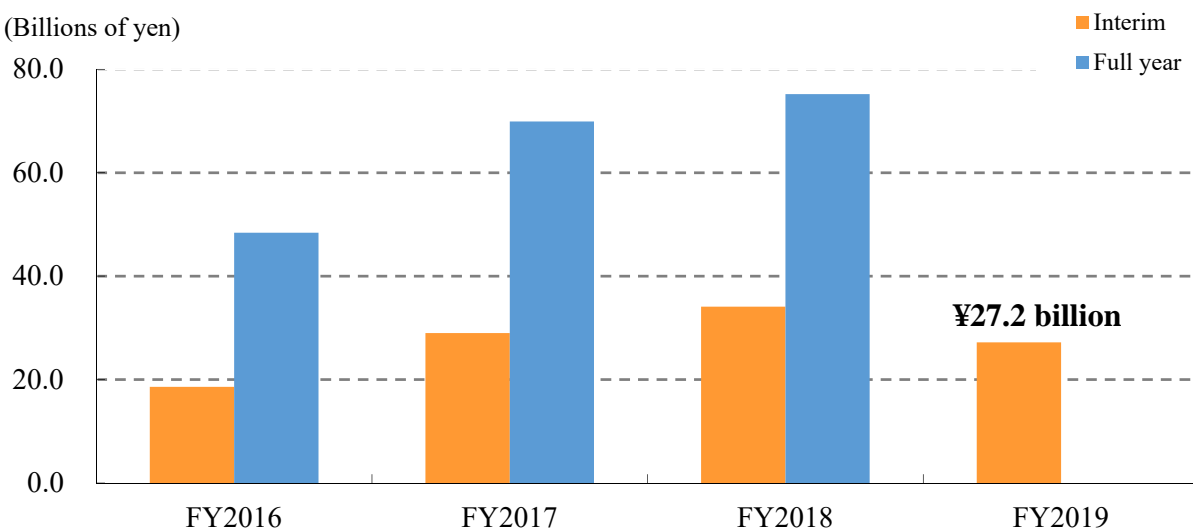
Net Sales

(Billions of yen)



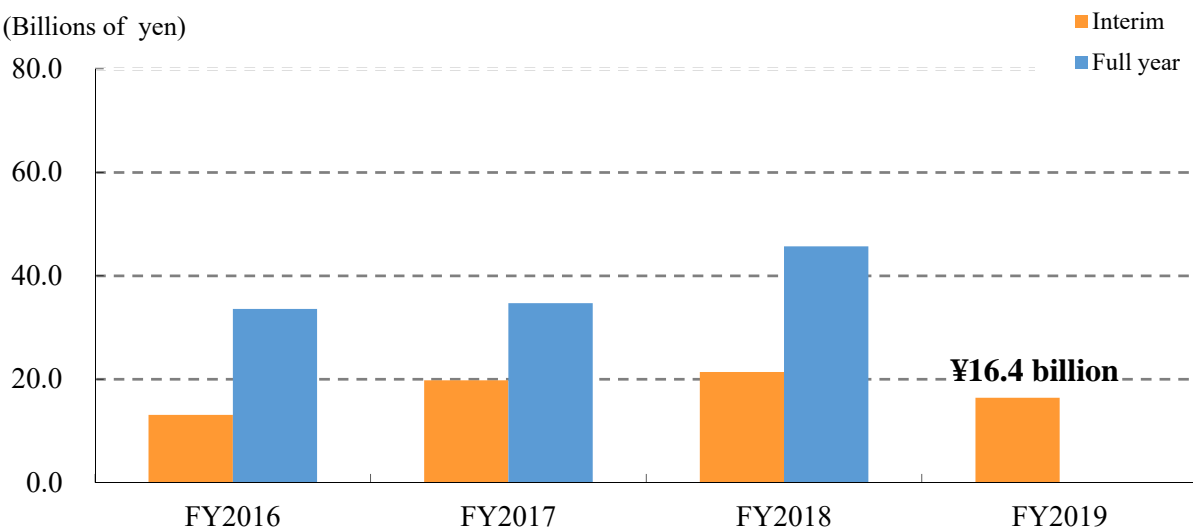
Operating Profit

(Billions of yen)



Profit Attributable to Owners of Parent

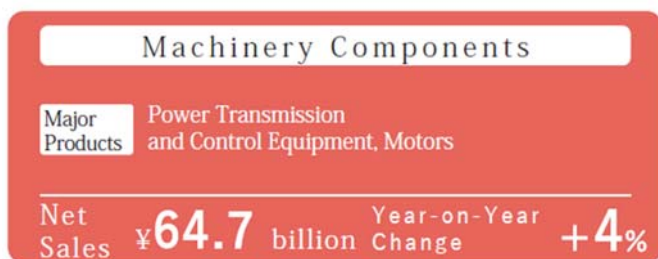
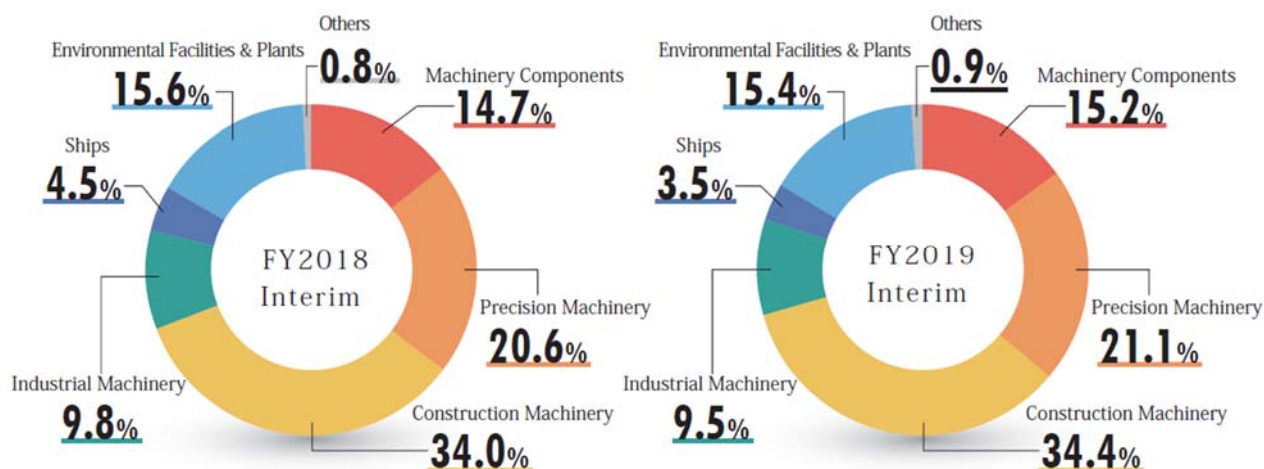
(Billions of yen)



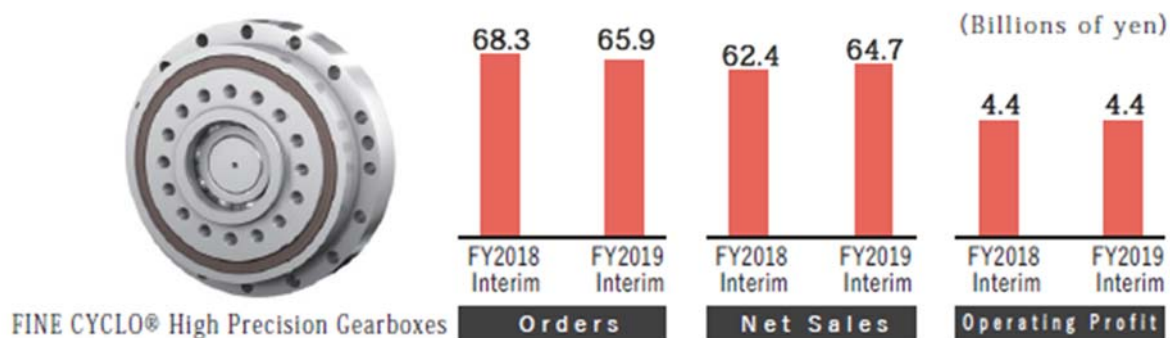
Note: Amounts less than one unit are rounded to the nearest unit.

Review of Operations by Segment

Net Sales Ratio by Segment



Orders declined on reduced demand for small and medium-sized power transmission and control equipment and robotics-use precision gear reducers in Japan, China, and Europe, but sales grew with the addition of the Lafert Group (Lafert S.p.A., etc.) to the scope of consolidation, and from the order backlog.



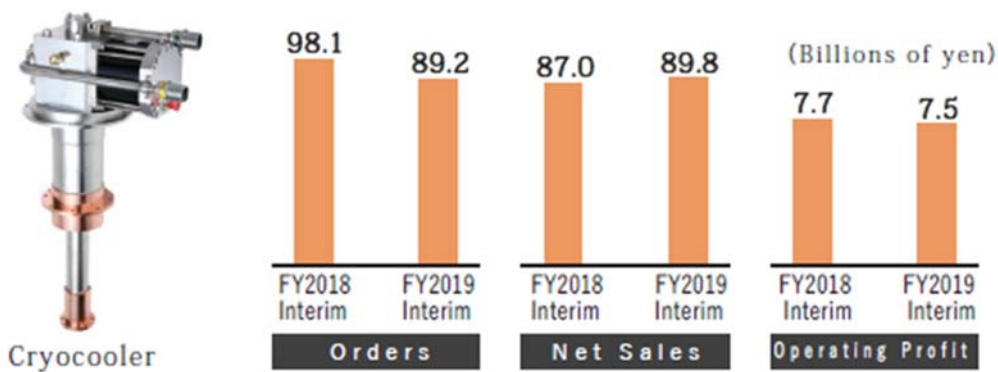
Precision Machinery

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

Net Sales **¥89.8 billion** Year-on-Year Change **+3%**

Both orders and sales declined in the plastic injection molding machine business on lower demand in Japan, Europe, and the electric and electronic sectors in China.

Other precision machinery businesses recorded increased orders and sales on solid results in cryogenic equipment and semiconductor-related products.



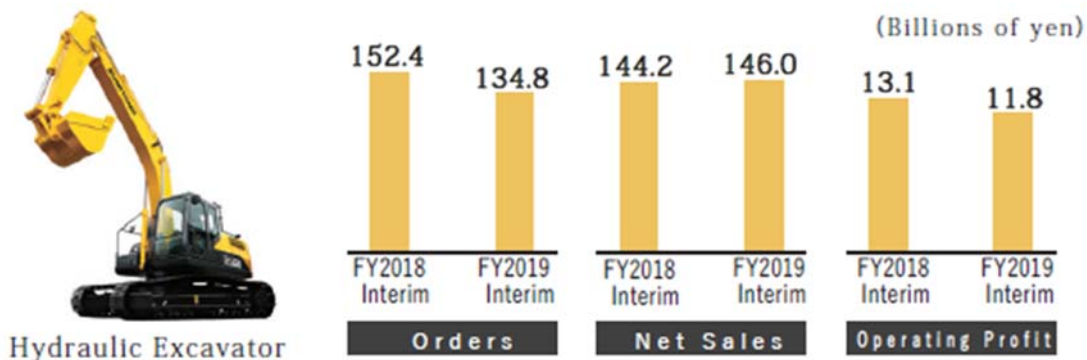
Construction Machinery

Major Products Hydraulic Excavators, Construction Cranes, Road Construction Machinery

Net Sales **¥146.0 billion** Year-on-Year Change **+1%**

Orders in the hydraulic excavator business declined from lower demand in the ASEAN region, but the domestic order backlog led to sales growth.

The construction crane business saw a decline in orders from lower demand in Japan and North America, but sales rose on the order backlog.



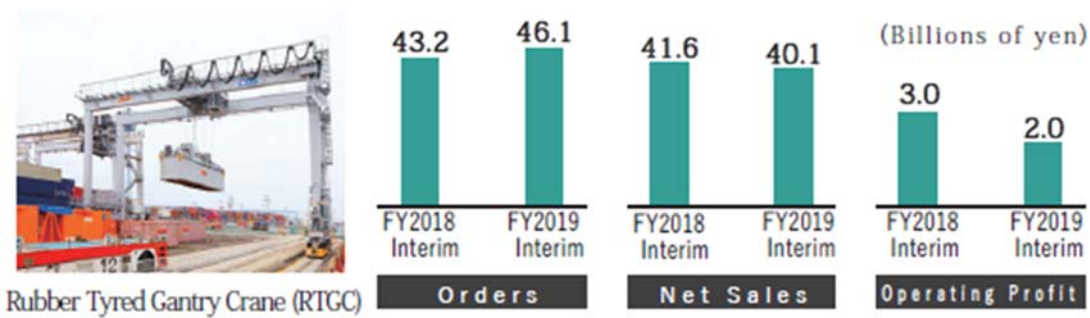
Industrial Machinery

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

Net Sales **¥40.1 billion** Year-on-Year Change **-4%**

Orders and sales both rose in the material handling systems business on strong demand from the electric power and ports segments, as well as solid results in logistics & handling systems and automated parking systems.

Other industrial machinery businesses saw orders rise from growth in industrial-use turbines, but a decrease in the order backlog resulted in lower sales.

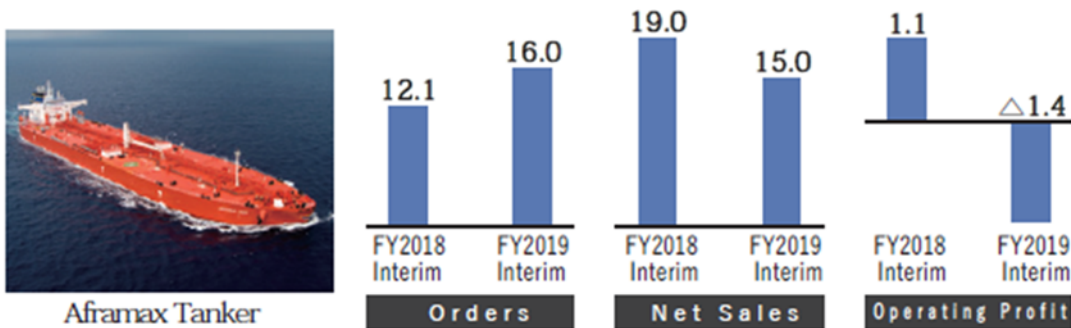


Ships

Major Products Ships

Net Sales **¥15.0 billion** Year-on-Year Change **-21%**

Amid a continued weak market, the business received an order for one new ship, compared with none in the year-earlier period, but in terms of sales, one ship was delivered, which was one fewer than in the year-earlier period.



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 Conditioners, Food Production Equipment

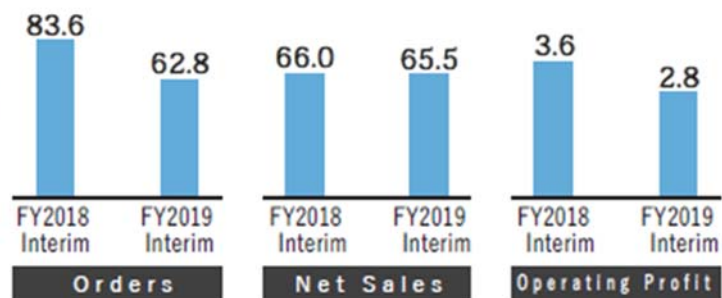
Net Sales **¥65.5 billion** Year-on-Year Change **-1%**

Both orders and sales in the energy plant business declined on a year-on-year decrease in the number of major domestic biomass-fueled power generation plant projects.

In the water treatment plant business, orders declined on a year-on-year decrease in the number of major wastewater treatment system projects, but the order backlog resulted in increased sales.



Biomass Power Generation Plant



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

Feature 2

Acquisition of inverter manufacturer to strengthen and grow power transmission and control equipment business

—Acquisition of Invertek Drives Ltd.—

SHI concluded an agreement in September 2019 to acquire all of the outstanding shares of the U.K.-based inverter manufacturer Invertek Drives Ltd., and the company was made a consolidated subsidiary in November. By adding control products (inverters) to our power transmission and electric motors, we intend to strengthen and grow the power transmission and control equipment business.

About Invertek Drives

Invertek Drives Ltd., established in Welshpool, United Kingdom, in 1998, is an inverter manufacturer providing products and services for material handling equipment, fans and pumps, and other industrial equipment, primarily in the automation and energy sectors. With flexible, high-mix, low-volume production capabilities, the company has customers in more than 80 countries in Europe, North America, and other regions.



Company name: Invertek Drives Ltd.

Established: 1998

Head office: Welshpool, United Kingdom

Businesses: Research and development, manufacturing, and sales of inverter products

Manufacturing site: United Kingdom (head office)

Sales offices: United States, China, Ireland, Germany, Spain, Poland, Czech Republic, Malaysia, Singapore

Future outlook

With the addition of Invertek Drives as a subsidiary, SHI gains technologies and a production site for control products (inverters). Together with last year's acquisition of Lafert's motor products, we have built a structure that will be able to provide power transmission and control equipment, motors, and inverters on an integrated basis, in response to demand for automation and labor savings.

Company Information (as of September 30, 2019)

Corporate Data

- Incorporated: November 1, 1934
- Paid-in capital: ¥30,871,651,300
- Number of employees (consolidated): 23,358
- 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.)
 - Laboratory: Technology Research Center (Yokosuka-shi, Kanagawa Pref.)

Directors and Corporate Auditors

Representative Director and Chairman of the Board	Shunsuke Betsukawa
Representative Director and President & CEO	Shinji Shimomura
Representative Director	Yoshiyuki Tomita
Director	Toshiharu Tanaka
Director	Tetsuya Okamura
Director	Hideo Suzuki
Director	Eiji Kojima
Director	Susumu Takahashi
Director	Hideo Kojima
Standing Corporate Auditor	Yuji Takaishi
Standing Corporate Auditor	Jun Nogusa
Corporate Auditor	Takeo Wakae
Corporate Auditor	Masaichi Nakamura

Executive Officers

President & CEO	Shinji Shimomura
Executive Vice President	Toshiharu Tanaka
Executive Vice President	Yoshiyuki Tomita
Executive Vice President	Tetsuya Okamura
Executive Vice President	Hideo Suzuki
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	Hideshi Shimamoto
Senior Vice President	Morihiro Kondo
Senior Vice President	Junichi Murakami
Senior Vice President	Kyouichi Manabe

Senior Vice President
Vice President
Vice President
Vice President

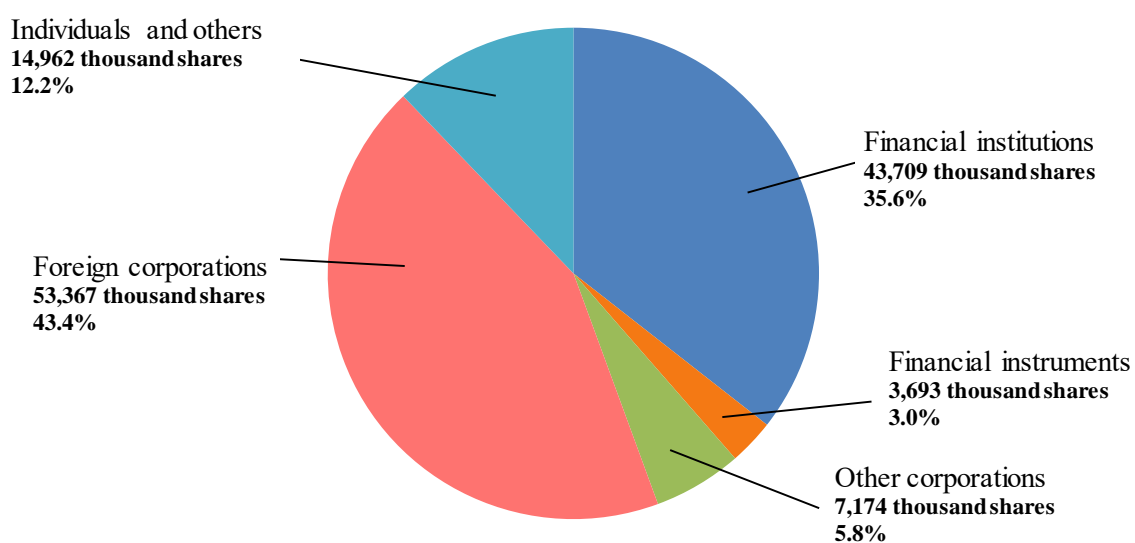
Yasunobu Kazumi
Toshihiko Chijiwa
Shaun Dean
Tatsuro Araki

Stock Information (as of September 30, 2019)

Stock Data

• Total number of authorized shares:	360,000,000
• Total number of issued shares:	122,905,481
• Number of shareholders:	33,775

Breakdown of Shareholders



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

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 31
	Payment of Interim Dividends	September 30
	Payment of Term-end Dividends	March 31
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] https://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 following 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 following 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 following telephone number.

Contact: Stock Transfer Agency 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)

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