

“Medium-Term Management Plan 2019”

May 2017

 Sumitomo Heavy Industries, Ltd.

President and CEO
Shunsuke Betsukawa

Result of “MTMP16”

➤ Overall

Unit : JPY billion

	FY14			FY15			FY16			Three-Year Total		
	Plan	Actual	Difference	Plan	Actual	Difference	Plan	Actual	Difference	Plan	Actual	Difference
Sales	650.0	667.1	17.1	670.0	700.8	30.8	700.0	674.3	(25.7)	2,020.0	2,042.3	22.2
Operating income	37.0	46.0	9.0	49.0	50.6	1.6	52.5	48.4	(4.1)	138.5	145.0	6.8
Operating income ratio	5.7%	6.9%	1.2%	7.3%	7.2%	(0.1%)	7.5%	7.2%	(0.3%)	6.9%	7.1%	0.2%
ROIC	5.3%	6.5%	1.2%	6.3%	7.6%	1.3%	7.0%	7.3%	0.3%	—	—	—
[Ref.] ROE		7.1%			9.0%			8.7%		—	—	—

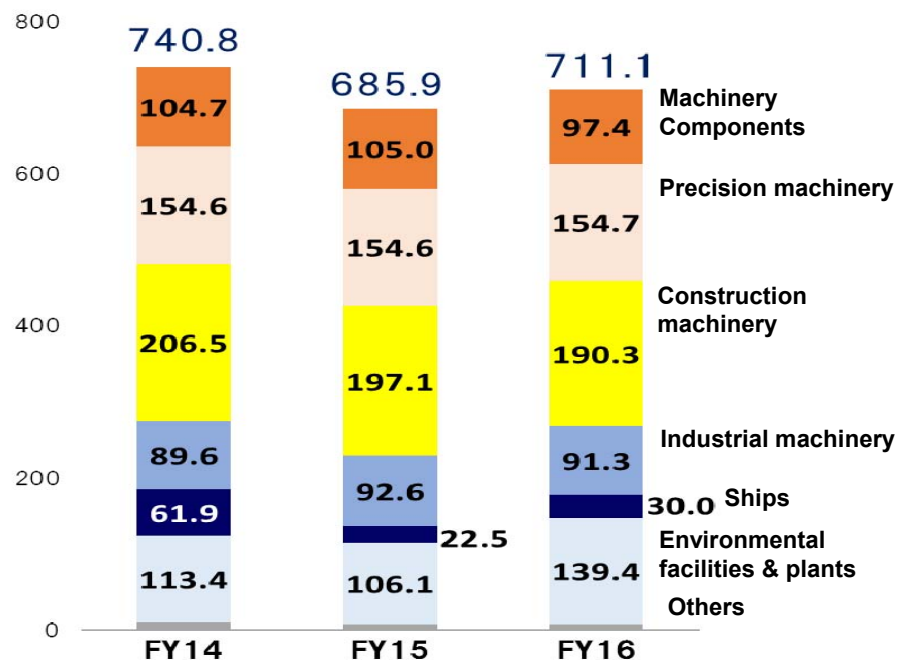
➤ Three-Year Total Investment

Capital Investment		R&D Expenses		Domestic Hires	M & A
Plan	Actual	Plan	Actual	Actual	Actual
JPY50.0 billion	JPY67.0 billion	JPY45.0 billion	JPY40.6 billion	1,392 people	JPY26.0 billion

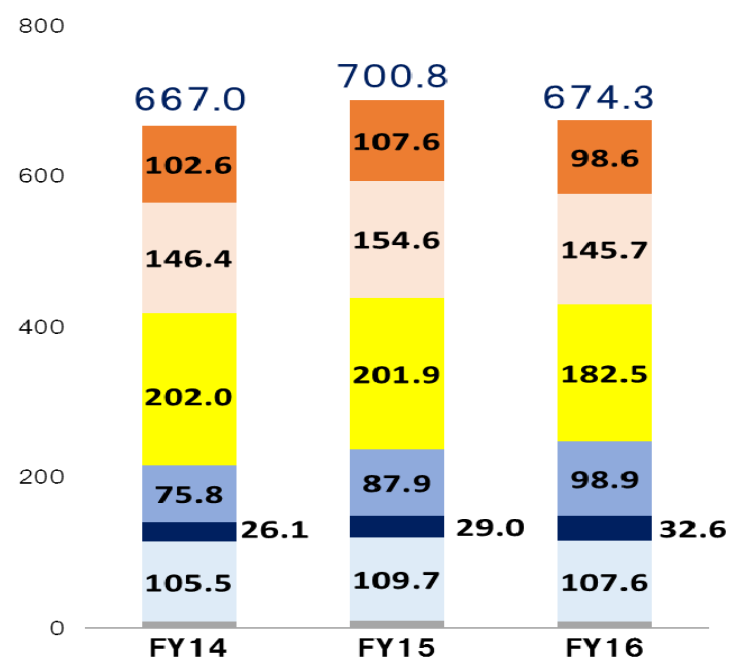
Result of “MTMP16” by Segment

Orders	Net Sales
<p>After <u>posting record orders in FY2014</u>, orders dropped in FY2015 mainly due to the decline in demand for hydraulic excavators from China. In FY2016, the growth in the Environment and Plant segments as well as strong market conditions in the Precision Machinery and Industrial Machinery segments, resulted in order levels exceeding the JPY700 billion mark.</p>	<p>As a result of the strong order environment, <u>record sales figures were recorded for two consecutive years</u> in FY2014 and FY2015. This meant that <u>the sales target established in the MTMP16 was achieved one year in advance of the target date</u>. As a result of the drop in construction machinery in FY2016, the final year target was not achieved. However, due to strong order levels, exceeding the JPY700 billion mark is within the realistic range for FY2017.</p>

Unit : JPY billion



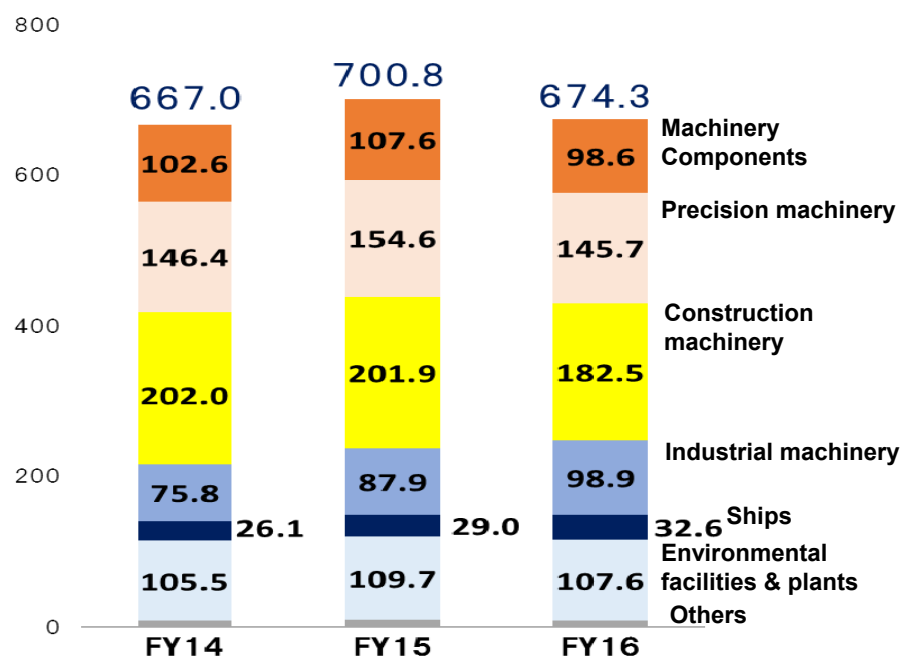
Unit : JPY billion



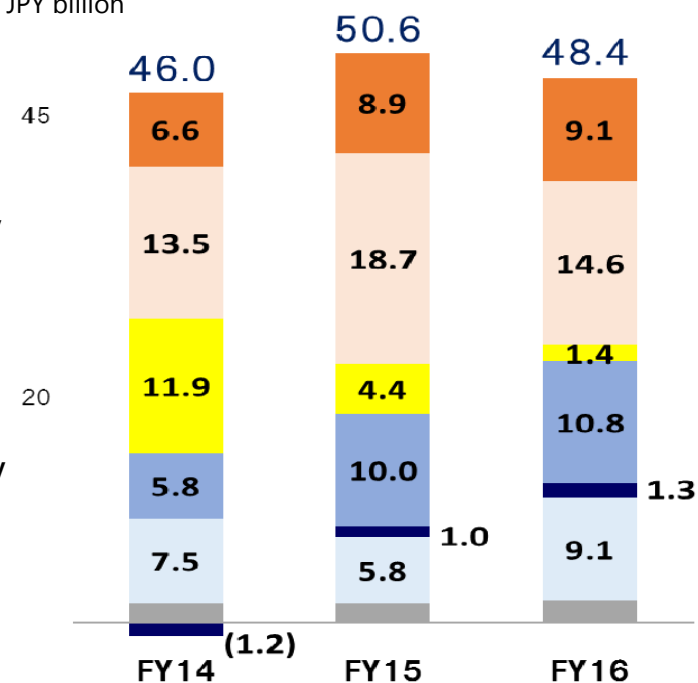
Result of “MTMP16” by Segment

Net Sales	Operating income
<p>As a result of the strong order environment, <u>record sales figures were recorded for two consecutive years in FY2014 and FY2015</u>. This meant that <u>the sales target established in the MTMP16 was achieved one year in advance of the target date</u>.</p> <p>As a result of the drop in construction machinery in FY2016, the final year target was not achieved. However, due to strong order levels, exceeding the JPY700 billion mark is within the realistic range for FY2017.</p>	<p>Operating income ratio was 7.2% in FY2015 and FY2016 meaning that <u>the target established in the MTMP16 was almost met</u>.</p> <p>The Construction Machinery segment was impacted by a drop in demand. However, growth in the Industrial Machinery segment and the high-profit Precision Machinery and Machinery Components segments contributed to profits.</p> <p>The Ships segment posted profitable results as per the projections.</p>

Unit : JPY billion



Unit : JPY billion



Result of "MTMP16"

< Overall Activities >

"Steady growth"

- **Globalization**
 - ✓ Become number one globally in the CFB boiler field.
 - ✓ Develop new products for Japan and Europe with the aim to capture the number one position for electric injection molding machines.
 - ✓ Expand the after-market service businesses across the entire Group.
- **Innovation**
 - ✓ Aggressive investments to be made in high-growth, high-profit businesses to ensure the development of new innovative products.
- **Group-wide Synergies**
 - ✓ Enhance cooperation across the Group (ONE-SHI) with the Corporate Technology Operations Group taking the lead. Focus on promoting production innovation and enhancing product capabilities.

"Return to higher levels of profitability"

- **Achieve 5% operating income ratio in all segments excluding Ships and Hydraulic Excavators**

"Persistent efforts for operational quality improvements"

- **Accounting of expenses associated with large scale defects has settled down**
- **Formulate a new corporate philosophy with Sumitomo's business philosophy at its core. Look to further permeate this philosophy across the entire Group.**

< Results >

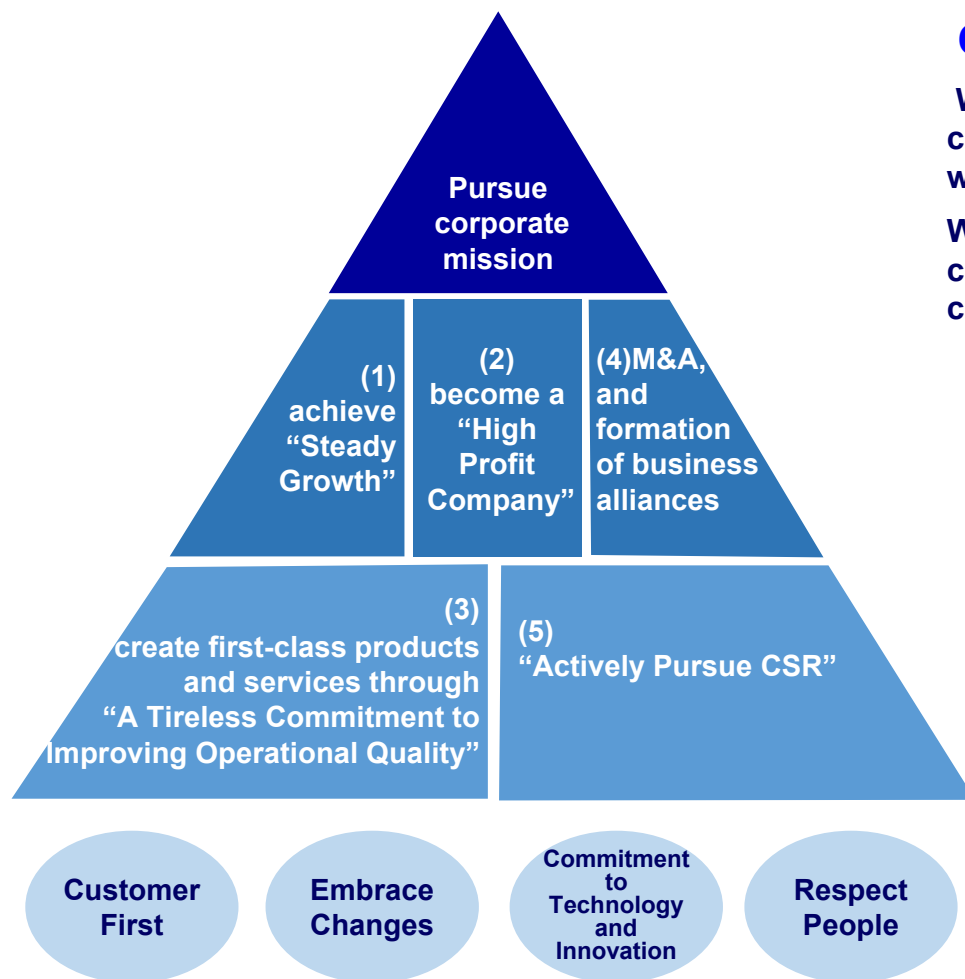
Weakness in forecasting the external environment meant that although targets for year 1 and year 2 in the MTMP16 were achieved, the numbers fell short in year 3.



< Towards the Next MTMP >

- **Achieve steady growth after strictly examining the external environment**
- **Further improve profitability with the aim to become a high profit company**
- **Further improve operational quality**

“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”

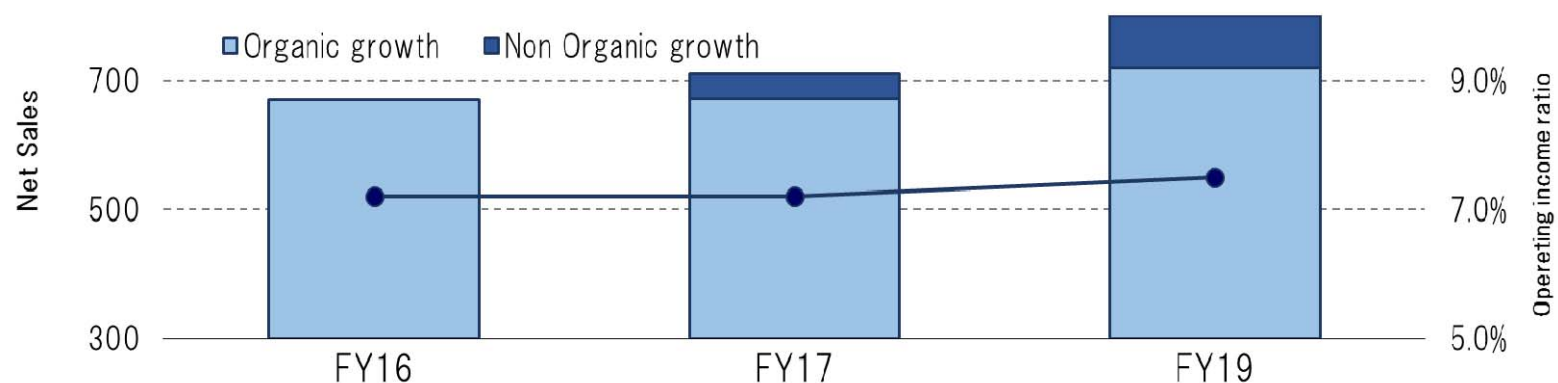
Framework for the Basic Principles of the MTMP19

“Medium-Term Management Plan 2019” Overall Plan

➤ Overall Plan

Unit : JPY billion

	FY16 Actual	FY17 Plan	FY19 Target
Net Sales	674.3	710.0	800.0
Operating income	48.4	51.0	60.0
Operating income ratio	7.2%	7.2%	7.5%
ROIC	7.3%	7.3%	Over 7.5%
Projected currency exchange rate (US dollars)	¥ 108	¥110	
【Ref.】 ROE	8.7%	8%	9%



“Medium-Term Management Plan 2019” Capital Policy

➤ 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	JPY80.0 billion	JPY52.0 billion	1,400 people	JPY30.0 billion

“Medium-Term Management Plan 2019” Principal Measures by Segment

Segment	FY16 Actual		FY19 Target		Principal Measures
	Net Sales	Operating income	Net Sales	Operating income	
Machinery components	98.6	9.1	115.0	11.0	<ul style="list-style-type: none"> Establish manufacturing framework that allows for the early launch of new products that responds to greater robot diversification (high precision trajectory, cooperative models) Enter growth markets through M&A and formation of alliances Complete structural reforms after the integration of the domestic large-scale gear reducer business
Precision machinery	145.7	14.6	175.0	17.0	<ul style="list-style-type: none"> Injection molding machines: Strengthen activities targeting the automotive and lifestyle segments Enhance IoT-related technologies Increase business scope in the semiconductor-related cryogenic refrigerator market Ion Implantation Device: Establish global service network
Construction machinery	182.5	1.4	220.0	10.0	<ul style="list-style-type: none"> Hydraulic excavators: Maximize profitability in the stable markets of Japan, North America and Europe Further increase collaboration with CNHi Mobile cranes: Establish collaborative relationship between HSC and LBC
Industrial machinery	98.9	10.8	95.0	7.5	<ul style="list-style-type: none"> Medical: Make active R&D related investments and enhance product capabilities Metal plasticity casting: Complete demonstration model and pursue full-fledged marketing activities Industrial cranes: Develop overseas market Turbines: Improve order levels through product differentiation
Ships	32.6	1.3	35.0	0.5	<ul style="list-style-type: none"> Ensure stable profitability through selective order taking
Environmental facilities and plants	107.6	9.1	150.0	13.0	<ul style="list-style-type: none"> Pursue synergies with Amec Foster Wheeler's boiler business Strengthen commercial water treatment business
Others	8.3	2.1	10.0	1.0	
Total	674.3	48.4	800.0	60.0	

“Medium-Term Management Plan 2019” Position by Segments

Role	Growth & High Profitability	Improve Profitability	Stabilize Profit Margins
Positioning	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	<p>Cryogenic equipment</p> <p>Core pillar of profitability and growth for the Group</p>	<p>Next generation growth devices (medical, semiconductor, automotive)</p>	<p>Medical-related equipment</p>
Device-Related Businesses	<p>Power transmission and control equipment</p> <p>Injection Molding Machines</p>	<p>Semiconductor Production Equipment</p> <p>Chemical Processing Equipment (e.g. agitators, food-related machinery)</p>	<p>Metal Processing Equipment (e.g. presses, flow-forming, etc.)</p>
Infra structure-Related Businesses	<p>Industrial Cranes / Mobile Cranes / Turbines</p> <p>Boilers / Water Treatment Facilities</p> <p>Maximize profitability and create a second core pillar of growth (e.g. energy, environmental, transportation, etc.)</p>		<p>Hydraulic Excavators</p> <p>Stabilize business without being concerned about scale</p> <p>Shipbuilding</p>

About recently M&A 【Mobile Cranes】

Consolidation of Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (HSC) into a subsidiary of SHI

- Production, repair and sale of construction machinery including crawler cranes and other related equipment and tools
- Established in 2002 between a joint investment by Hitachi Construction Machinery and SHI
- As of March 2017, HSC is a consolidated subsidiary of SHI after additional shares were purchased (SHI holds a 66% stake in HSC)
- Aim to accelerate enhancements to global competitiveness together with Link-Belt Cranes *1

*1 Company name change as of 4/12

FY16 Net Sales Actual	FY19 Net Sales Target
JPY41.8 billion	JPY38.0 billion

* Consolidate from FY17



About recently M&A 【Cryogenic equipment】

Expand semiconductor production equipment business

◆ Acquired shares in Persimmon Technologies Corporation

- Enhanced line-up of peripheral products in order to expand sales of cryo-pumps
- Expand and develop products in other segments using next-generation motor technology

◆ Acquired shares in Ferran Technology, Inc

- Ferran Technology holds unique technology relating to vacuum gauges
- Aim to increase business scope in the vacuum equipment market

FY16 Net Sales Actual	FY19 Net Sales Target
JPY0.6 billion	JPY2.1 billion

* Consolidate from FY17



Vacuum gauges

Vacuum robots

About recently M&A 【CFB Boilers】

Acquired the CFB boiler business of Amec Foster Wheeler

- Plant engineering and services relating to CFB boiler based power generation facilities
- Holds number one spot in the world for the delivery of CFB units
- Promote growth strategies in the energy field while further developing the overseas CFB boiler business

FY16 Net Sales Actual	FY19 Net Sales Target
JPY28.0 billion	JPY35.0billion

* FY16 sales are only acquisition section.
Consolidate from FY17



Organizational Integrations and Alliances

Segment	Outline		Purpose
Machinery components	Integration	Transfer large-scale gear reducer business of Sumitomo Heavy Industries Ltd. to Sumitomo Heavy Industries Gear Box Co., Ltd.	Concentrate management resources and improve competitiveness of the Group's large gear reducer business
Industrial machinery	Integration	Establishment of SHI-ATEX Co., Ltd. after the merger of S.H.I.Examination & Inspection, Ltd. and Japan Electron Beam Irradiation Services Co., Ltd.	Enhance the Group's diagnostics and irradiation technology service businesses
Environmental facilities and plants	Integration	The absorption-type merger of Sumiju Environmental Engineering Co., Ltd. by Sumitomo Heavy Industries Environment Co., Ltd.	Integration of the Group's O&M and service divisions relating to water treatment plants and waste treatment facilities
	Alliance	JV between SHI, Izumi Food Machinery and Krones	Target to enter the Asia market for food machinery
	Transfer	Operational transfer of the construction materials business of Nihon Spindle Manufacturing Co., Ltd. to Sanwa Holdings Corporation	—

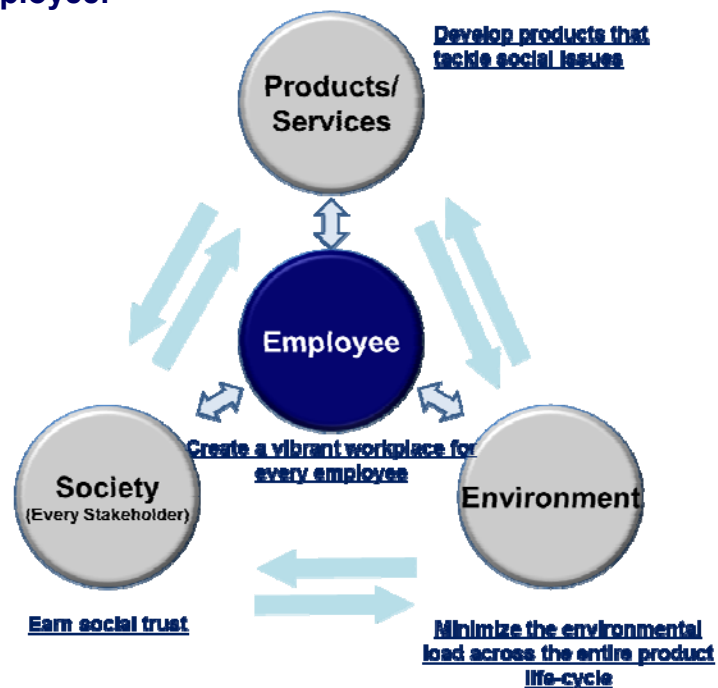
※ Date of Integrations and Transfer are April 1, 2017, Alliance is April 25, 2017

“Medium-Term Management Plan 2019” Long-Term Objectives and Key areas of CSR

Long-Term Objectives

1.The SHI Group will provide products and services that contribute towards both economic and technological development that targets the realization of a sustainable society.

2.The SHI Group will make every effort to minimize the environmental load of its products and services across the entire life-cycle. In addition, the Group will 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.



Key areas

	Key areas	Purpose
Conventional CSR	Products/ Services	Develop products that tackle social issues
	Environment “E”	Minimize the environmental load across the entire product life-cycle
	Society “S”	Gain the trust of society
	Employee	Create a vibrant workplace for every employee
Governance “G”		Earn social trust



- ✓ Everyone participates through business activities
- ✓ Activities that are easy to see and understand
- ✓ Contribute towards tackling societal problems.
- ✓ Nurture the growth of employees and increase corporate value

※CSV : Creating Shared Value



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.