Sumitomo Heavy Industries, Ltd.

CONSOLIDATED FINANCIAL REPORT

For the Three-Month Period from April 1 to June 30, 2020

All financial information has been prepared in accordance with generally accepted accounting principles in Japan. This document has been translated from the Japanese original as a guide to non-Japanese investors, and contains forward-looking statements that are based on management's estimates, assumptions, and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. Amounts shown in this financial statement have been rounded to the nearest million yen.

Summary of Consolidated Financial Results
For the Three-Month Period from April 1 to June 30, 2020
Presented July 31, 2020

Sumitomo Heavy Industries, Ltd.

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Scheduled date for submitting quarterly report	August 7, 2020
Scheduled date of payment of cash dividends	—
Availability of supplementary explanations for quarterly financial statement	No
Holding of meeting to explain quarterly financial statement	No

1. FY2020 First Quarter Consolidated Results *(April 1, 2020, to June 30, 2020)*

(1) Business Results

(Units: millions of yen)

	First Quarter April 1 to June 30, 2020		First Quarter April 1 to June 30, 2019	
		% change		% change
Net sales	180,657	(11.5)	204,181	0.7
Operating profit	7,006	(48.2)	13,531	(21.4)
Ordinary profit	5,693	(57.3)	13,339	(21.7)
Profit attributable to owners of parent	2,603	(70.8)	8,907	(18.1)
Profit attributable to owners of parent ratio (yen)	21.25		72.69	
Fully diluted profit attributable to owners of parent ratio	—		—	

Note: Comprehensive income:
Fiscal quarter ended June 30, 2020: (2,566) million yen, (— %)
Fiscal quarter ended June 30, 2019: 10,057 million yen, (128.2%)

(2) Financial Position

(Units: millions of yen)

	End of First Quarter As of June 30, 2020	End of Previous Full Year March 31, 2020
Total assets	980,386	996,111
Total net assets	471,438	477,648
Equity ratio (%)	46.8	46.6

Reference: Equity:
Fiscal quarter ended June 30, 2020: 459,115million yen
Fiscal year ended March 31, 2020: 464,457 million yen

(Note) In the three months ended June 30, 2020, a provisional accounting treatment related to a business combination was finalized and consolidated financial statements for the previous consolidated fiscal year reflect the finalized provisional accounting treatment.

2. Dividends

(Unit: yen)

	Year Ended March 31, 2020	Year Ended March 31, 2021	Year Ending March 31, 2021 **(forecast)**
Annual dividends per share			
First quarter	—	—	
Second quarter	56		—
Third quarter	—		—
End of term	35		—
Annual dividends	91		—

(Note) Dividends forecasts for the fiscal year ending March 31, 2021 remain undetermined due to difficulty in calculating forecasts for the full-year consolidated results as of now.

3. FY 2021 Consolidated Forecasts (April 1, 2020, to March 31, 2021)

(Units: millions of yen)

	Full Year April 1, 2020, to March 31, 2021
	% change
Net sales	
Operating profit	
Ordinary profit	
Profit attributable to owners of parent	
Profit attributable to owners of parent ratio (yen)	

With regard to forecasts for consolidated results for the fiscal year ending March 31, 2021, due to the impact of the global COVID-19 pandemic, we currently have difficulty in making a reasonable estimate of such results and therefore the forecasts remain undetermined. We will promptly disclose the forecasts when it becomes possible to calculate them.

Additional Notes

(1) Transfers of important subsidiaries during the three months ended June 30, 2020: None

(moves of specific subsidiaries due to change in scope of consolidation)

Newly consolidated: —

Excluded from consolidation: —

(2) Special accounting measures applied in the quarterly consolidated financial report: Applicable

(3) Changes to accounting policies, changes to accounting estimates, and retrospective restatements

(i) Changes to accounting policies due to revisions to accounting standards: None

(ii) Changes to accounting policies not otherwise stated in (i): None

(iii) Changes to accounting estimates: None

(iv) Retrospective restatements: None

(4) Number of shares issued (share capital)

(i) Number of shares issued at end of fiscal period (including treasury shares):

As of June 30, 2020	122,905,481 shares
As of March 31, 2020	122,905,481 shares

(ii) Number of treasury shares at end of fiscal period:

As of June 30, 2020	389,796 shares
As of March 31, 2020	389,392 shares

(iii) Average number of shares during fiscal period (cumulative quarterly period):

As of June 30, 2020	122,515,795 shares
As of June 30, 2019	122,524,923 shares

* The Quarterly Summary of Financial Results is not subject to the Quarterly Review by a Certified Public Accountant or an Independent Auditor

Explanations and Other Special Items regarding the Pertinent Reasons for the Earnings Forecast

Earnings forecasts and outlooks concerning future financial results are believed to be reasonable based on information available at the time of publication. Actual financial results may vary from the above forecast and outlook due to a variety of factors. For information on the assumptions that form the basis of the earnings forecast and items to note concerning the use of earnings forecasts, please refer to the *Explanation of the Consolidated Earnings Forecast and Other Forward-Looking Estimates* in the *Supplementary Materials* section beginning on page 9.

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I. Qualitative Information regarding Current Quarterly Consolidated Business Performance

1. Explanation of Business Performance

As for the business environment surrounding the Group during the first quarter of the current consolidated fiscal year under review, the spread of COVID-19 infections resulted in issuance of a declaration of an emergency situation in Japan, which dampened various activities, and turning to overseas regions, pandemic lockdowns were enforced, leading to a deterioration in the economic environment. These and other factors prompted a global downturn in demand for machinery. Also, uncertainty over the global economy increased mainly due to escalation of trade disputes between the US and China, ongoing geopolitical risks, fluctuations in oil prices and their slump in addition to the aforementioned factors.

In this business environment, the Group moved forward with responsive measures to COVID-19, such as securing safety of employees and providing the maximum cooperation to meet social demands, and worked to implement a short-term business continuity plan (BCP) including maintenance of production in the case of an employee being infected, maintain the business amid declining orders, ensure continuation of factory operations, and carry our other activities.

Under these conditions, orders decreased in the Machinery Components, Precision Machinery and Construction Machinery segments and amounted to JPY174.7 billion, a 9% decrease as compared to the previous fiscal year. In addition, sales declined in all segments except for the Industrial Machinery and Environmental Facilities & Plants segments. In total, the Group posted a sales figure of JPY180.7 billion, a 12% decrease as compared to the previous fiscal year.

Turning to income, profits decreased in the Machinery Components, Construction Machinery and Ships segments. As a result, operating profit was JPY7.0 billion, a 48% decrease as compared to the previous fiscal year, and ordinary profit was JPY5.7 billion, a 57% decrease as compared to the previous fiscal year. Quarterly profit attributable to the shareholders of the parent company also decreased by 71% as compared to the previous fiscal year to finish at JPY2.6 billion.

Conditions in each business segment of the Group were as follows:

(i) Machinery Components

Orders and sales decreased as the impact of spread of COVID-19 infections was seen all around the world. In addition, a decrease in sales resulted in operating loss. As a result, orders decreased by 4% as compared to the previous fiscal year to finish at JPY32.9 billion, while sales decreased by 11% as compared to the previous fiscal year to finish at JPY28.4 billion. Further, the segment posted operating loss of JPY0.2 billion.

(ii) Precision Machinery

For the plastic machinery business, orders, sales and operating profit all decreased as there was a decline in demand from the electric and electronic sector in China and decreased global automotive demand due partially to the spread of COVID-19 infections. With regard to other product areas, orders decreased as compared to the previous fiscal year, but sales and operating profit increased because demand for semiconductor-related products was strong. As a result, orders decreased by 21% as compared to the previous fiscal year to finish at JPY33.6 billion, sales came to JPY38.3 billion, down 9% from the previous fiscal year, and operating profit increased by 5% as compared to the previous fiscal year to finish at JPY3.6 billion.

(iii) Construction Machinery

With regard to the hydraulic excavator business, the spread of COVID-19 infections dampened demand from across the world, resulting in a decrease in all of orders, sales and operating profit. As the new coronavirus also impacted the mobile crane business, prompting a drop in demand, and a slump in oil prices resulted in weaker demand from the North America. Thus, orders, sales and operating profit all decreased. As a result of the above, orders across the segment decreased by 29% as compared to the previous fiscal year to finish at JPY50.1 billion, while sales decreased by 26% as compared to the previous fiscal year to finish at JPY52.3 billion. The segment posted an operating profit of JPY1.1 billion, an 81% decrease as compared to the previous fiscal year.

(iv) Industrial Machinery

With regard to the material handling business, orders, sales and operating profit increased due to a rise in orders for large-scale projects. For other product areas, the spread of COVID-19 infections dampened marketing activities, which, along with other factors, led to a decrease in orders and sales. However, operating profit increased due to a change in a model composition in sales. As a result of the above, orders across the segment increased by 4% as compared to the previous fiscal year to finish at JPY21.3 billion, while sales increased by 22% as compared to the previous fiscal year to finish at JPY22.2 billion. The segment posted an operating profit of JPY1.9 billion, a 188% increase as compared to the previous fiscal year.

(v) Ships

Amid the continuing sluggish market during the first quarter of the current consolidated fiscal year under review, the segment booked an order for one new vessel, one vessel more than in the previous fiscal year. The segment delivered one vessel, one vessel more than in the previous fiscal year, but the number of ship repair projects declined, resulting in reduced sales and operating loss. As a result of the above, orders across the segment increased by 79% as compared to the previous fiscal year to finish at JPY7.9 billion, while sales decreased by 20% as compared to the previous fiscal year to finish at JPY7.6 billion. The segment also posted an operating loss of JPY1.2 billion.

(vi) Environmental Facilities & Plants

Orders in the energy plant business increased partly because orders were received for large-scale projects for biomass-fueled power generation plants in Europe, and sales and operating profit increased due primarily to a backlog of orders in Japan. With respect to the water treatment plant business, orders decreased partly because the number of projects for waste water treatment equipment declined from the previous fiscal year. However, sales and operating profit increased because of a backlog of orders. As a result of the above, orders across the segment increased by 55% as compared to the previous fiscal year to finish at JPY27.6 billion, while sales increased by 2% as compared to the previous fiscal year to finish at JPY30.5 billion. The segment posted an operating profit of JPY1.4 billion, a 63% increase as compared to the previous fiscal year.

(vii) Others

Orders decreased by 35% to JPY1.3 billion, sales decreased by 9% to JPY1.4 billion, and operating profit increased by 28% to JPY0.3 billion from the previous fiscal year, respectively.

2. Explanation of the Group's Consolidated Financial Position

1. Condition of Assets, Liabilities, and Net Assets

Total assets at the end of the first quarter of the current consolidated fiscal year under review (ended June 30, 2020) amounted to JPY980.4 billion, a decrease of JPY15.7 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to decreases of JPY21.6 billion in trade notes and accounts receivable and JPY6.5 billion in cash and deposits, while inventory assets increased by JPY10.7 billion.

Total liabilities declined to JPY508.9 billion, a decrease of JPY9.5 billion as compared to the end of the previous consolidated fiscal year. This was partly because notes and accounts payable – trade decreased by JPY13.4 billion.

Net assets amounted to JPY471.4 billion, a decrease of JPY6.2 billion as compared to the end of the previous consolidated fiscal year. This was mainly due to a decrease of JPY6.2 billion in foreign currency translation adjustments.

As a result of the above, the shareholders' equity ratio increased by 0.2 points from the end of the previous consolidated fiscal year to finish at 46.8%.

2. Cash Flow Condition

Cash and cash equivalents at the end of the first quarter of the current consolidated fiscal year under review came to JPY77.7 billion, a decrease of JPY6.0 billion from the end of the previous consolidated fiscal year. Cash flows for the three months ended June 30, 2020 and the factors contributing to increases or decreases in cash flows are as follows.

(Cash Flow from Operating Activities)

Cash flow from operating activities increased by JPY3.9 billion during the three months ended June 30, 2020 and decreased by JPY9.7 billion from the same period of the previous fiscal year. This is partly because a decrease in notes and accounts receivable slowed down and income before tax decreased, although there was a decrease in payment of corporate and other taxes.

(Cash Flow from Investing Activities)

Cash flow from investing activities decreased by JPY13.4 billion during the three months ended June 30, 2020 and cash outflow increased by JPY4.6 billion from the same period of the previous fiscal year. This is partly attributable to an increase in expenses for acquiring the shares of, and money invested in, a subsidiary, which results in a change in the scope of consolidation.

(Cash Flow from Financing Activities)

Cash flow from financing activities increased by JPY4.2 billion during the three months ended June 30, 2020 and cash inflow increased by JPY14.9 billion from the same period of the previous fiscal year. The main reason for the cash inflow was an increase in interest-bearing debts.

3. Explanation of the Consolidated Earnings Forecast and Other Forward-Looking Estimates

With regard to forecasts for results for the fiscal year ending March 31, 2021, mainly the Machinery Components, Precision Machinery and Construction Machinery segments where a short lead time after order receipt is offered have been greatly affected by the global COVID-19 pandemic, and because currently there are a lot of uncertainties, we have difficulty in making a reasonable estimate of such results and therefore the forecasts remain undetermined. We will promptly disclose the forecasts when it becomes possible to calculate them.

II. Quarterly Consolidated Financial Statements and Key Explanatory Notes

1. Quarterly Consolidated Balance Sheets

(Units: millions of yen)

	End of Full Year As of March 31, 2020	End of First Quarter As of June 30, 2020
	Amount	Amount
Assets		
Current assets		
Cash and deposits	87,067	80,560
Notes and accounts receivable	271,406	249,763
Inventory assets	200,978	211,656
Other	36,673	35,574
Allowance for doubtful accounts	(3,341)	(3,250)
Total current assets	592,784	574,304
Fixed assets		
Tangible fixed assets		
Land	107,535	107,315
Other (net)	160,530	161,807
Total tangible fixed assets	268,066	269,121
Intangible fixed assets		
Goodwill	28,831	30,948
Other	45,280	44,836
Total intangible fixed assets	74,111	75,784
Investments and other assets		
Other	65,448	65,402
Allowance for doubtful accounts	(4,297)	(4,225)
Total investments and other assets	61,151	61,177
Total Fixed assets	403,327	406,083
Total assets	996,111	980,386

(Units: millions of yen)

	End of Full Year As of March 31, 2020	End of First Quarter As of June 30, 2020
	Amount	Amount
Liabilities		
Current liabilities		
Notes and accounts payable - trade	158,489	145,140
Short-term loans payable	28,139	35,798
Current portion of long-term loans payable	4,499	4,493
Commercial Papers	35,000	32,000
Provision for construction warranties	13,742	13,004
Other provision amount	4,233	4,047
Other	121,554	117,781
Total current liabilities	365,657	352,262
Fixed Liabilities		
Bonds payable	30,000	30,000
Long-term debt due after one year	27,032	32,163
Allowance	154	153
Defined benefit liability	53,628	53,134
Deferred income taxes on revaluation	20,628	20,628
Other	21,365	20,609
Total non-current liabilities	152,806	156,686
Total liabilities	518,463	508,948
Net assets		
Shareholders' equity		
Capital stock	30,872	30,872
Capital surplus	26,070	26,070
Retained earnings	367,229	366,984
Treasury shares	(1,080)	(1,081)
Total Shareholders' equity	423,091	422,845
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,410	3,253
Deferred gains or losses on hedges	(532)	(383)
Revaluation reserve for land	40,626	40,626
Foreign currency translation adjustments	4,911	(1,326)

	End of Full Year As of March 31, 2020	End of First Quarter As of June 30, 2020
	Amount	Amount
Remeasurements of defined benefit plans	(6,049)	(5,900)
Total accumulated other comprehensive income	41,366	36,270
Non-controlling interests	13,191	12,323
Total net assets	477,648	471,438
Total liabilities and net assets	996,111	980,386

2. Quarterly Consolidated Income Statements and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Income Statements

Three months ended June 30, 2020

(Units: millions of yen)

	Previous First Quarter April 1, 2019 to June 30, 2019	Present First Quarter April 1, 2020 to June 30, 2020
	Amount	Amount
Net sales	204,181	180,657
Cost of sales	156,592	140,755
Gross income	47,589	39,901
Selling, general and administrative expenses	34,058	32,895
Operating profit	13,531	7,006
Non-operating profit		
Interest income	223	221
Dividend income	400	199
Other	598	452
Total non-operating profit	1,221	872
Non-operating expenses		
Interest expenses	247	284
Foreign exchange losses	361	1,025
Other	804	876
Total non-operating expenses	1,412	2,185
Ordinary profit	13,339	5,693
Profit before income taxes	13,339	5,693
Income taxes	3,826	2,964
Profit	9,513	2,729
Profit attributable to no-controlling interests	606	126
Profit attributable to owners of parent	8,907	2,603

Quarterly Consolidated Statement of Comprehensive Income

Three months ended June 30, 2020

(Units: millions of yen)

	Previous First Quarter April 1, 2019 to June 30, 2019	Present First Quarter April 1, 2020 to June 30, 2020
	Amount	Amount
Profit	9,513	2,729
Other comprehensive income		
Valuation difference on available-for-sale securities	(362)	843
Deferred gains or losses on hedges	267	148
Foreign currency translation adjustments	415	(6,433)
Adjustment to retirement benefits	222	144
Share of other comprehensive income of entities accounted for using equity method	2	2
Total other comprehensive income	544	(5,296)
Comprehensive income	10,057	(2,566)
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	9,430	(2,493)
Quarterly comprehensive income attributable to non-controlling interests	627	(74)

3. Items of Special Note Concerning the Quarterly Consolidated Financial Statements

(Significant Events or Conditions that Question the Premise of a Going Concern)

There are no applicable items.

(Notes regarding Significant Fluctuations to Shareholders' Equity)

There are no applicable items.

(Application of Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements)

(Calculation of tax expenses)

The effective tax rate expected to be imposed on pretax profit (after tax effect accounting) applicable to the consolidated fiscal year in which the first quarter of the current consolidated fiscal year under review is included was estimated based on reasonable assumptions, and tax expenses were calculated by multiplying the quarterly pretax profit by the estimated effective tax rate.

(Changes to Accounting Policies)

There are no applicable items.

(Subsequent Events of Significant Importance)

There are no applicable items.

III. Supplemental Information

1. Orders Received, Sales, and Balance of Orders Received, by Segment

(1) Orders Received

(Units: millions of yen)

Segment	April 1, 2019 to June 30, 2019	April 1, 2020 to June 30, 2020	Y/Y Change	
	Amount	Amount	Amount	%
Machinery Components	34,085	32,868	(1,217)	(3.6)
Precision Machinery	42,527	33,634	(8,893)	(20.9)
Construction Machinery	70,567	50,132	(20,435)	(29.0)
Industrial Machinery	20,413	21,305	893	4.4
Ships	4,406	7,898	3,492	79.3
Environmental Facilities & Plants	17,791	27,561	9,770	54.9
Others	2,015	1,317	(697)	(34.6)
Total	191,804	174,716	(17,087)	(8.9)

(2) Sales and operating profit/loss

(Units: millions of yen)

Segment	April 1, 2019 to June 30, 2019		April 1, 2020 to June 30, 2020		Y/Y Change	
	Sales	Operating profit/loss	Sales	Operating profit/loss	Sales	Operating profit/loss
Machinery Components	31,912	1,881	28,395	(190)	(3,517)	(2,070)
Precision Machinery	41,923	3,441	38,290	3,605	(3,633)	163
Construction Machinery	71,151	5,792	52,325	1,124	(18,825)	(4,668)
Industrial Machinery	18,235	644	22,172	1,857	3,937	1,213
Ships	9,452	621	7,574	(1,177)	(1,878)	(1,798)
Environmental Facilities & Plants	29,954	886	30,493	1,449	540	562
Others	1,554	286	1,407	433	(147)	147
Adjustment	—	(21)	—	(94)	—	(73)
Total	204,181	13,531	180,657	7,006	(23,525)	(6,524)

(3) Balance of Orders Received

(Units: millions of yen)

Segment	End of Full Year As of March 31, 2020	April 1, 2020 to June 30, 2020	Y/Y Change	
	Amount	Amount	Amount	%
Machinery Components	33,419	37,891	4,473	13.4
Precision Machinery	87,101	82,444	(4,656)	(5.3)
Construction Machinery	59,063	56,870	(2,193)	(3.7)
Industrial Machinery	97,754	96,888	(866)	(0.9)
Ships	37,135	37,460	324	0.9
Environmental Facilities & Plants	246,087	243,155	(2,932)	(1.2)
Others	1,296	1,207	(89)	(6.9)
Total	561,855	555,915	(5,940)	(1.1)

Business segments of the Company are categorized as follows.

Businesses	Main Products
Machinery Components	Power transmission, control equipment, motors, inverters
Precision Machinery	Plastics machinery, film forming machines, semiconductor production equipment, laser processing systems, cryogenic equipment, precision positioning equipment, precision forgings, control components, defense equipment, machining tools
Construction Machinery	Hydraulic excavators, mobile cranes, road machinery
Industrial Machinery	Ion accelerators, medical machines and equipment, forging press machines, material handling systems, logistics systems, automated parking systems, turbines, pumps
Ships	Ships
Environmental Facilities & Plants	Private power generation facilities, boilers, industrial waste treatment facilities, air pollution control equipment, water and sewage treatment systems, process equipment, pressure vessels, mixing vessels, air-conditioning equipment, food processing machinery

2. (Summary) Quarterly Consolidated Cash Flows Statement

(Units: millions of yen)

	Previous First Quarter April 1, 2019 to June 30, 2019	Present First Quarter April 1, 2020 to June 30, 2020	Y/Y Change
Profit before income taxes	13,339	5,693	(7,646)
Depreciation	6,896	7,362	465
(Increase) decrease in notes and accounts receivable	31,863	21,695	(10,167)
(Increase) decrease in inventories	(18,020)	(10,883)	7,137
Increase (decrease) in notes and accounts payable - trade	(7,222)	(12,963)	(5,741)
Payments for income taxes	(11,660)	(3,649)	8,012
Other	(1,612)	(3,360)	(1,747)
Cash flows from operating activities	13,583	3,896	(9,687)
Purchase of fixed assets	(10,349)	(8,547)	1,802
Other	1,483	(4,883)	(6,367)
Cash flows from investing activities	(8,865)	(13,430)	(4,565)
Increase (decrease) in loans payable	(2,259)	9,448	11,707
Cash dividends paid	(7,373)	(4,158)	3,215
Other	(1,122)	(1,135)	(13)
Cash flows from financing activities	(10,754)	4,155	14,909
Other	973	(595)	(1,567)
Cash and cash equivalents at beginning of year	69,776	83,630	13,854
Cash and cash equivalents at end of quarter	64,712	77,656	12,944