

Sumitomo Heavy Industries, Ltd.

Part I: Financial Summary for FY2008 and Projections for FY2009

Financial Summary for FY2008

1-1

■ Key points

<Orders> Although a new record was set for orders in the first half of the fiscal year, a significant drop occurred in all market segments during the second half.

<Net sales> Although a new record was set for net sales in the first half of the fiscal year, mass-produced machinery and construction machinery experienced a significant drop in the second half.

<Operating income> The record for the first half of the fiscal year was about the same as the previous fiscal term, but a significant drop occurred during the second half.

<Ordinary income> Decrease in equity method investment gain.

<Extraordinary income or loss> Deterioration occurred due to entries of a reduction in value of invested securities as well as one-time amortization of goodwill in accounting for the fiscal term.

<Current net income> An increased burden in the tax amount was due to partial reversal of deferred tax assets (non-consolidated deficits).

Unit: JPY billion

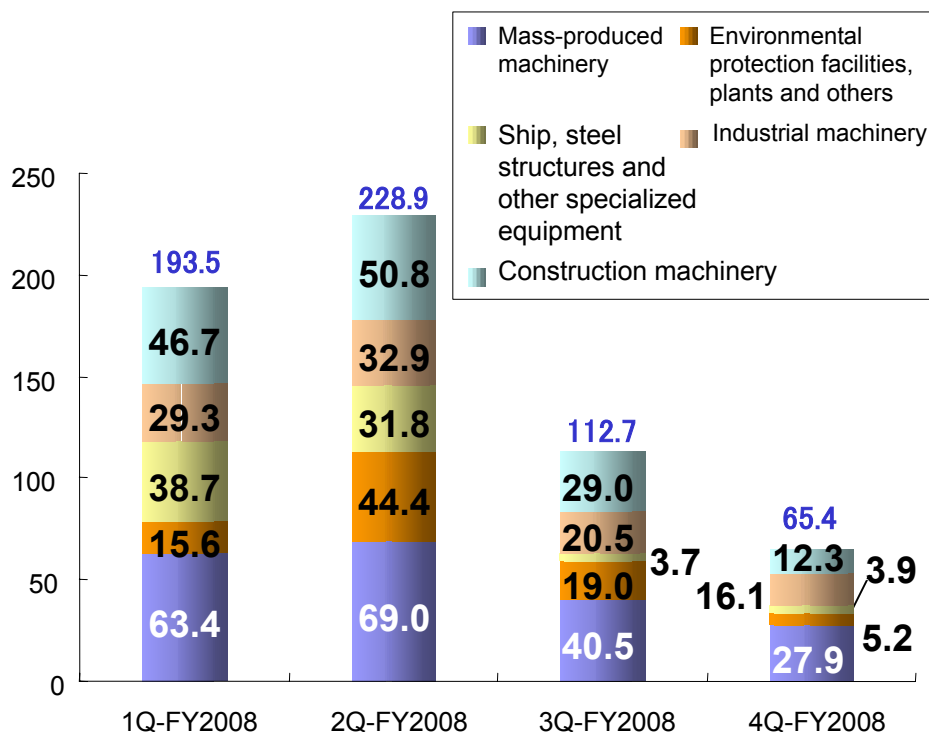
	FY2008	FY2007	Change
Orders	600.7	716.4	△115.7
Net sales	642.9	660.8	△17.9
Operating income	56.9	77.8	△20.8
Operating income ratio	8.9%	11.8%	△2.9%
Ordinary income	50.3	75.5	△25.2
Ordinary income ratio	7.8%	11.4%	△3.6%
Extraordinary income or loss	△16.5	△3.0	△13.6
Current net income before tax adjustments	33.7	72.5	△38.8
Current net income	13.6	43.0	△29.3
Current net income ratio	2.1%	6.5%	△4.4%

FY2008 Quarterly Transition of Orders and Net Sales

Unit: JPY billion

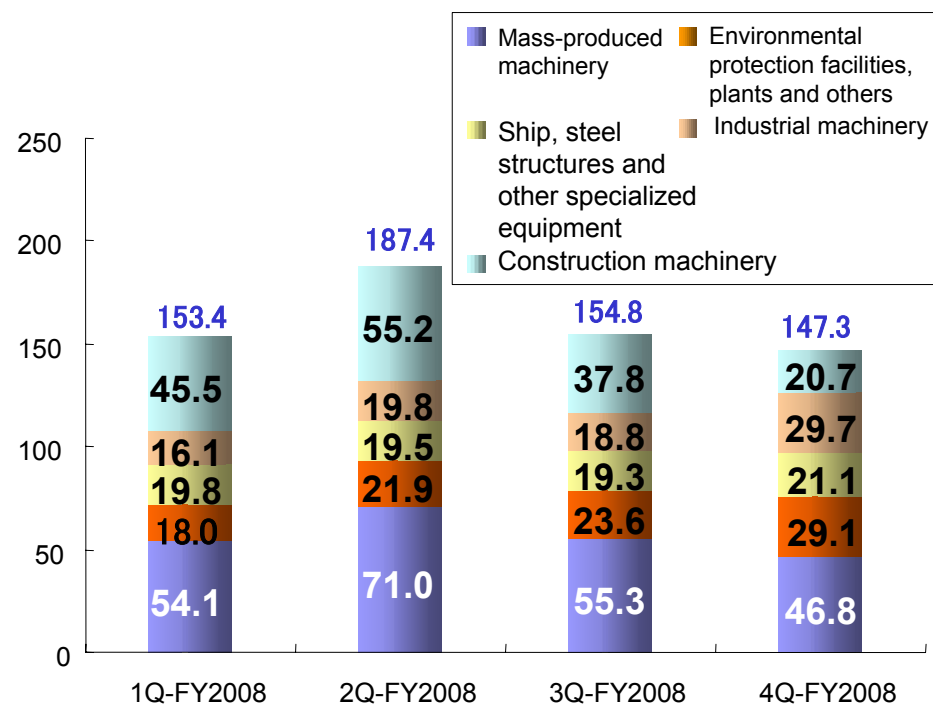
Orders

A rapid drop in the amount of orders taken began in the third quarter.



Net sales

Reduction in orders received for mass-produced machinery and construction machinery had a significant impact, but heavy machinery maintained a steady transition.



Operating Income by Segment

■ Mass-produced machinery

A significant reduction in income occurred due to the rapid deterioration of the market for PTC and plastics machinery. Plastics machinery recorded losses for the entire fiscal term. Precision machinery and others leveled off.

■ Environmental protection facilities, plants and others

Favorable progress was experienced with the construction of CFB boilers, resulting in an improved profit ratio.

■ Ship, steel structures and other specialized equipment

The profit ratio declined due to the impact from the rising cost of raw materials and fluctuation of currency exchange rates.

■ Industrial machinery

Turbine pumps and cranes maintained a favorable performance.

■ Construction machinery

Hydraulic excavators recorded a loss for the second half due to the rapid deterioration of the market. Mobile cranes, on the other hand, maintained a favorable performance.

Unit: JPY billion

	FY2008	FY2007	Change
Mass-produced machinery	12.3	28.2	△15.9
Environmental protection facilities, plants and others	10.7	6.9	3.8
Ship, steel structures and other specialized equipment	12.6	14.1	△1.5
Industrial machinery	13.6	12.1	1.5
Construction machinery	7.5	16.3	△8.7
Total	56.9	77.8	△20.8

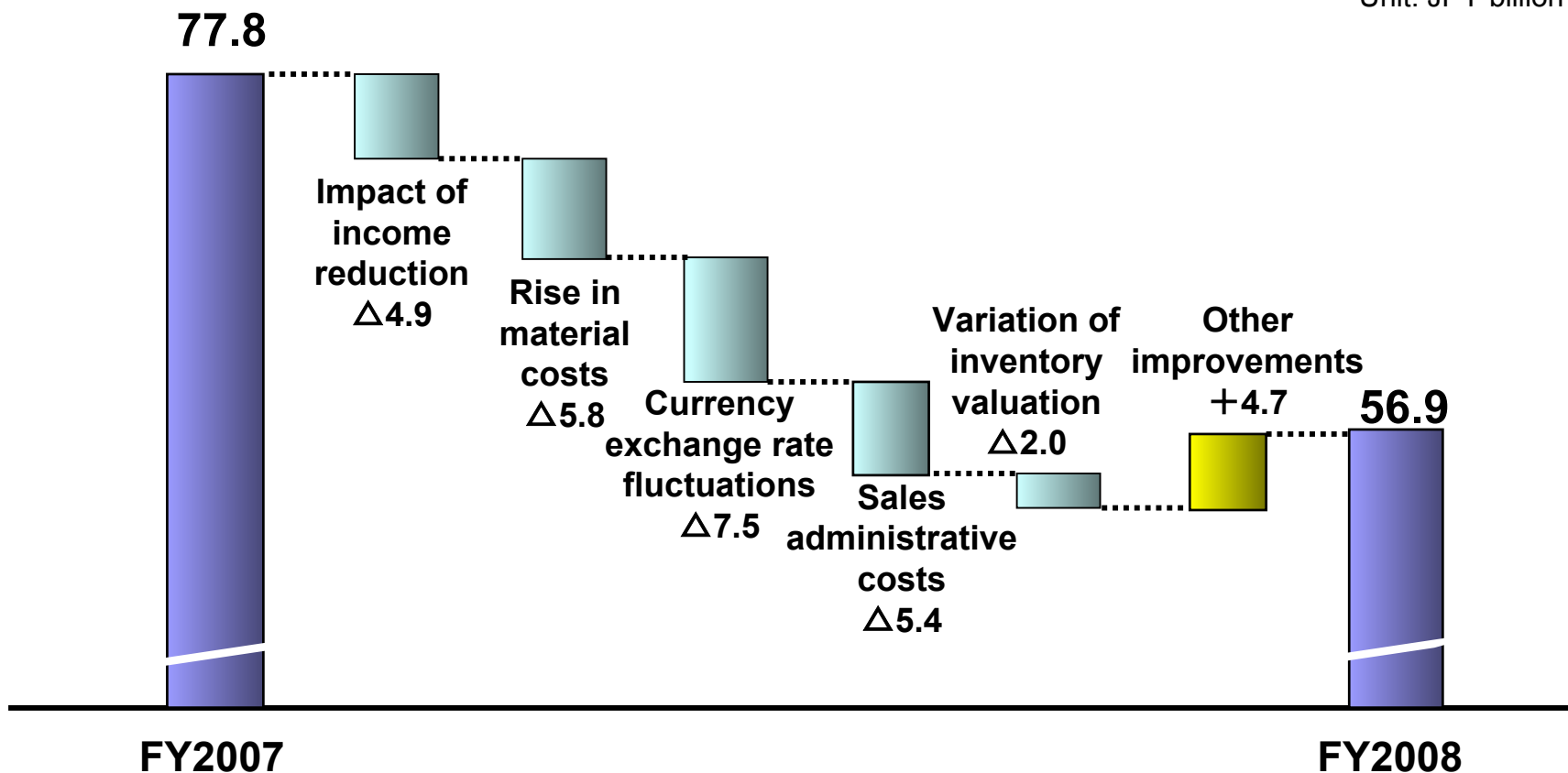
Breakdown of Extraordinary Income or Loss

Unit: JPY billion

Breakdown		FY2008	FY2007	Change
Extraordinary income	Profits made by selling invested securities	-	0.7	△0.7
	Total	-	0.7	△0.7
Extraordinary loss	Losses incurred from selling invested securities	6.0	-	6.0
	Goodwill amortization	4.9	-	4.9
	Business restructuring expenses	2.0	-	2.0
	Depletion losses	1.9	0.7	1.2
	Losses arising from violation of antitrust law	1.6	-	1.6
	Settlement figures	-	1.2	△1.2
	Amortization of difference arising from switching of accounting standards for retirement funds of newly consolidated subsidiaries	-	1.0	△1.0
	Headquarters relocation expenses	-	0.8	△0.8
Total	16.5	3.6	12.9	
Net total		△16.5	△3.0	△13.6

Analysis of Change in Operating Income (FY2007 to FY2008)

Unit: JPY billion



Consolidated Balance Sheet

Unit: JPY billion

	End March 2009	End March 2008	Change		End March 2009	End March 2008	Change
Current assets	380.3	381.9	△1.7	Liabilities	418.7	432.3	△13.5
Cash and deposits	44.7	30.3	14.4	Notes and accounts payable	136.1	167.0	△30.9
Notes and accounts payable	155.7	185.9	△30.2	Advance payments	50.0	48.6	1.4
Inventories	149.4	130.5	18.9	Interest-bearing debts	110.3	89.6	20.8
Others	30.6	35.3	△4.8	Others	122.3	127.1	△4.8
Fixed assets	277.1	296.7	△19.5	Net assets	238.7	246.4	△7.7
Tangible assets	214.0	204.5	9.6	Common equity	198.6	192.0	6.6
Intangible assets	6.4	15.8	△9.4	Valuation variations and currency exchange fluctuations	30.0	45.1	△15.1
Investments and other assets	56.7	76.5	△19.7	Minority interests	10.1	9.3	0.8
Total	657.4	678.6	△21.2	Total	657.4	678.6	△21.2
				Net ratio of interest-bearing debts	10.0%	8.7%	
				Stockholders' equity ratio	34.8%	34.9%	

Consolidated Statement of Cash Flow

1-7

Unit: JPY billion

Category	FY2008	FY2007	Change
Operating activities	34.7	29.1	5.6
Working capital	△14.0	△25.5	11.5
Operating income before interest payments and accounting of amortizations and depreciations	69.0	86.4	△17.4
Others	△20.3	△31.8	11.5
Investing activities	△35.9	△41.3	5.3
Free cash flow	△1.2	△12.2	10.9
Financing activities	15.6	△5.2	20.9
Change in cash and cash equivalents	12.6	△17.5	30.1
Cash and cash equivalents at end of fiscal year	42.4	29.9	12.5

FY2009 Forecast of Business Performance by Segments

- Key points (1) Orders hit bottom during the second half of FY2008. Orders are expected to level off during the first half of FY2009 and start to show a recovery towards the second half.
 (2) Net sales are expected to hit bottom during the first half of FY2009, then show a recovery towards the second half.
 (3) An improvement to profitability for mass-produced machinery and construction machinery is the key for securing operating income.

Unit: JPY billion

		Record 2nd half FY2008	Forecast 1st half FY2009	Forecast 2nd half FY2009	Forecast FY2009	Record FY2008
Mass-produced machinery	Orders	68.4	72.0	93.0	165.0	200.8
	Net sales	102.1	73.0	92.0	165.0	227.2
	Operating income	2.4	△6.5	1.5	△5.0	12.3
Environmental protection facilities, plants and others	Orders	24.2	27.0	42.0	69.0	84.2
	Net sales	52.7	36.0	45.0	81.0	92.6
	Operating income	7.0	1.5	5.0	6.5	10.7
Ship, steel structures and other specialized equipment	Orders	7.6	8.0	21.0	29.0	78.1
	Net sales	40.4	40.0	42.0	82.0	79.6
	Operating income	5.2	1.0	3.5	4.5	12.6
Industrial machinery	Orders	36.6	38.0	34.0	72.0	98.8
	Net sales	48.5	45.0	41.0	86.0	84.3
	Operating income	8.1	5.0	5.0	10.0	13.6
Construction machinery	Orders	41.3	55.0	60.0	115.0	138.8
	Net sales	58.5	56.0	60.0	116.0	159.2
	Operating income	△0.2	△1.0	△1.0	△2.0	7.5
Total	Orders	178.2	200.0	250.0	450.0	600.7
	Net sales	302.1	250.0	280.0	530.0	642.9
	Operating income	22.6	0.0	14.0	14.0	56.9

FY2009 Forecast of Business Performance

■ Key points

- (1) Operating income is expected to drop in all segments, particularly for mass-produced machinery and construction machinery, for which losses are anticipated.
- (2) A loss for the current term is anticipated in the first half of the fiscal year, due to a reduction in income arising from equity method investments.
- (3) An annual reduction of net income for the current fiscal term will be 74% in comparison with the previous fiscal year.

Unit: JPY billion

	Forecast 1st half FY2009	Forecast 2nd half FY2009	Forecast FY2009	Record FY2008
Orders	200.0	250.0	450.0	600.7
Net sales	250.0	280.0	530.0	642.9
Operating income	0.0	14.0	14.0	56.9
Operating income ratio	0%	5.0%	2.6%	8.9%
Ordinary income	△2.5	12.5	10.0	50.3
Ordinary income ratio	-	4.5%	1.9%	7.8%
Extraordinary income or loss	0.0	0.0	0.0	△16.5
Net income	△3.0	6.5	3.5	13.6
Net income ratio	-	2.3%	0.7%	2.1%
Dividends	JPY0	TBD	TBD	JPY6
Dividend ratio	-	-	-	26.5%
ROIC (after tax)			2.4%	9.6%
Projected currency exchange rate (US dollar)			JPY90	JPY103

Financial Discipline

■ Management Fundamental: Securing Sound Finances

The following action was implemented promptly beginning in the second half of FY2008:

1	Announcement of Emergency Financial Measures ① Increase thoroughness of credit management ② Thoroughly implement inventory management ③ Carefully screen facility investment projects ④ Reduce loans made to affiliated companies ⑤ Reduce fixed costs and implement operating strategies ⑥ Take preemptive action for order cancellations and customer credibility uncertainties (in collaboration with relevant corporate organizations at headquarters)	October 2008
2	Declare corporation-wide state of emergency and with rounds made by President	End of November to December 2008
3	① Reduce production organizations for plastics machinery and construction machinery ② Draft plans for restructure and improvement, as well as implement rationalization activities for corporate organizations incurring losses	Second half of FY2008
4	① Correct business performance forecasts ② Incorporate and enter implicated losses to accounting ... Enter extraordinary losses and non-operating losses in accounts for FY2008	January to March 2009
5	Correct dividend forecasts and cut remuneration for corporate executives	January to February 2009
6	Cut salaries for key corporate management personnel	From April 2009

Part II: Management Strategy

Medium-term Management Plan: Perception of Current Status

	Global 21	Perception of current status
Financial targets for FY2010	<ul style="list-style-type: none"> ➤ Net sales of JPY850.0 billion ➤ Operating income of JPY100.0 billion 	✓ Realization of quantitative targets set in “Global 21” is extremely difficult.
Keywords for growth	<ul style="list-style-type: none"> ➤ Globalization ➤ Innovation 	✓ Committed to continue with “Globalization” and “Innovation”
Investment policy (over three years)	<ul style="list-style-type: none"> ➤ Facility investment of JPY100.0 billion ➤ Research and development investment of JPY50.0 billion 	✓ Sustain financial discipline and exercise restraint in making major investments



Business performance record for FY2008

Significantly short of attaining planned targets

	(Planned for May)	(Record)
Orders	JPY770.0 billion	⇒ JPY600.7 billion
Sales	JPY740.0 billion	⇒ JPY642.9 billion
Operating income	JPY75.0 billion	⇒ JPY56.9 billion

Business environment

- ✓ Prolongation of global economic downturn
- ✓ Growth over the long term is anticipated in developing countries such as the BRICs

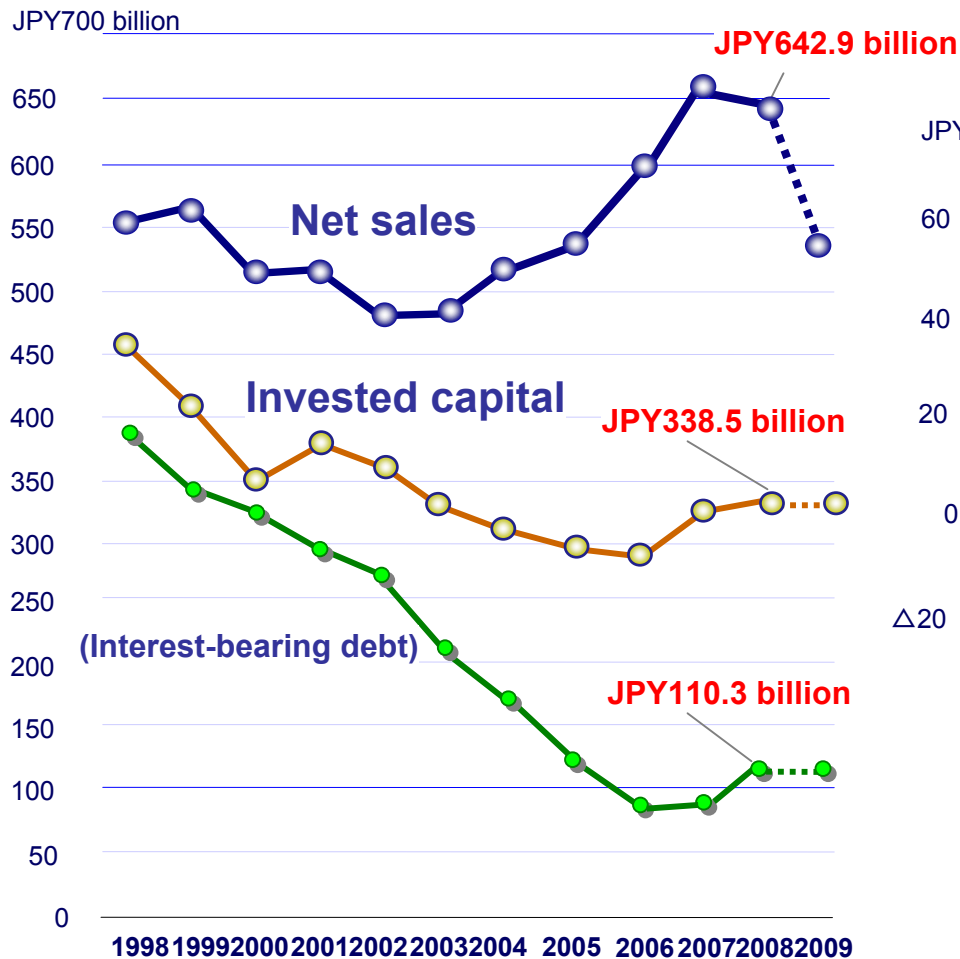


Business Performance Transition

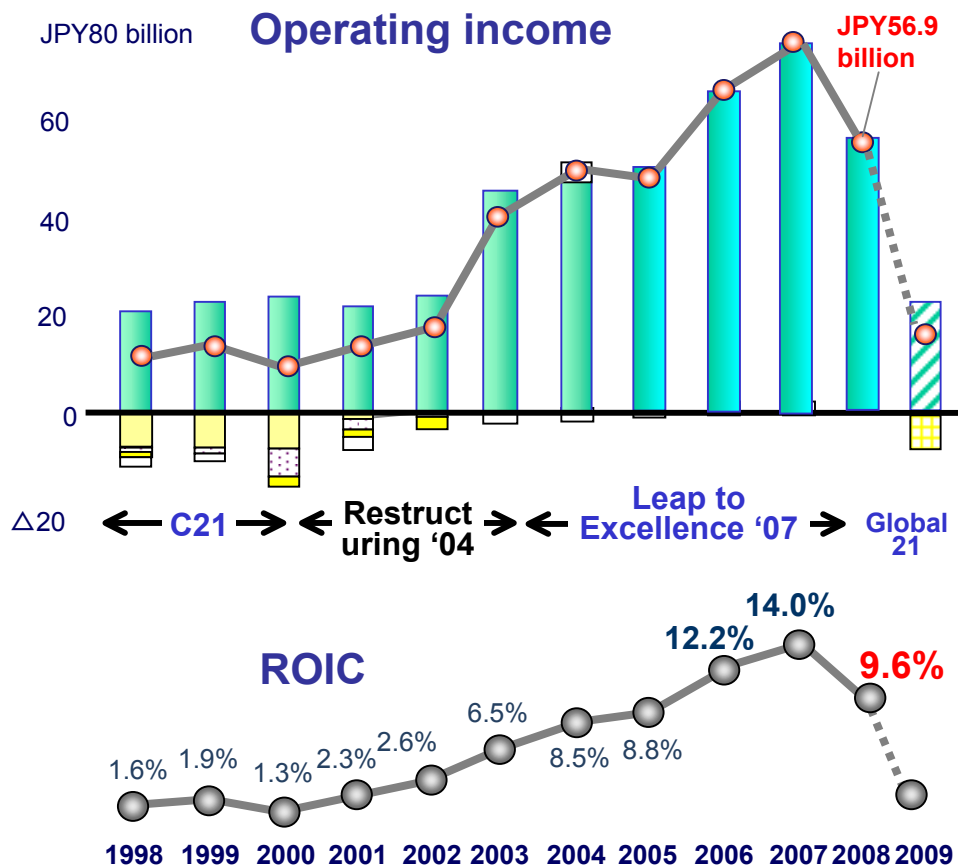
Record for FY2008: Figures fell below those of the previous year, with net sales of JPY642.9 billion and operating income of JPY56.9 billion.

Outlook for FY2009: Significant reduction in figures, with net sales of JPY530 billion and operating income of JPY14 billion.

Net sales and invested capital



Operating income and ROIC



Management Discipline

- **Management fundamental: Self-subsistence and cooperation**
Self-subsistence (autonomy) and cooperation (value chain) of individual corporate organizations, affiliated companies, and product models



Premise of self-subsistence: First and foremost is to be in the black
= Deficits in business, product models, and in orders received are all unacceptable



Setting up construction machinery, ship building, crane, press and water treatment businesses in the red as separate corporate entities
⇒ **Dedicated businesses adapted to unique market conditions and establishment of own competitive positions in market**

Presidential review on major orders
⇒ **Thorough risk management of received orders**

Scientific and rational management tools
... Six Sigma, etc.

Creation of competitive products
⇒ **Commercialization of first-class products**

Vertically integrated business model

Emphasis on autonomy of overseas subsidiaries, such as LBCE, with personnel hired locally

Measures Implemented in Response to Fluctuation of Demand Structures

	FY2008	Plan for FY2009
Business restructure	<p>(1) Plastics machinery business unit</p> <ul style="list-style-type: none"> Business restructuring of Demag (reorganization of business into autonomous organization) Scaling down of production organizations (lowering profit and loss break-even point) Integration of domestic sales companies into main corporate organization <p>(2) Sumitomo (S.H.I.) Construction Machinery Co., Ltd.,</p> <ul style="list-style-type: none"> Merger of manufacturing company, Sumitomo (S.H.I.) Construction Machinery Manufacturing Co., Ltd., ("SCMM"), with Sumitomo (S.H.I.) Construction Machinery Co., Ltd. ("SCM") Scaling down of production organizations (lowering profit and loss break-even point) 	<ul style="list-style-type: none"> Early start of operations at our manufacturing plant in Tangshan, China. ... PTC and Sumitomo (S.H.I.) Construction Machinery Co., Ltd. Improvement of cost competitiveness through aggressive utilization of overseas manufacturing plants Promotion of restructuring for business units experiencing drop in demand Strategies for improving earning capacities of individual businesses Review and improvement of efficiency for business operations
Optimization of personnel	<ul style="list-style-type: none"> Shifting of personnel to corporate organizations busy or subject to enhancement In-house implementation of outsourced business operations Number of fixed-term contracted employees: Approx. 2,800 at end of January 2009 ⇒ Approx. 1,000 at end of March 2009 	<ul style="list-style-type: none"> Shifting of personnel to corporate organizations busy or subject to enhancement In-house implementation of outsourced business operations Number of fixed-term contracted employees: Approx. 500 planned for end of September 2009
Investment plan	<p>Facility investment amount: JPY28.1 billion</p> <p>Research and development costs: JPY12.0 billion</p>	<p>Facility investment amount: JPY9.0 billion (based on executive decision for FY2009)</p> <p>Research and development costs: JPY11.7 billion</p>

Implementation of Measures by Segment for FY2009

Unit: JPY billion

Segment		FY2008 performance			Measures	FY2009 forecast			
		Orders	Net sales	Operating income		Orders	Net sales	Operating income	
Mass-produced machinery	Power transmission & control	82.9	91.9	12.3	<ul style="list-style-type: none"> Enhancement of cost competitiveness through aggressive utilization of manufacturing plants in China and Vietnam Improvement of sales capacities through enhancement of domestic service organizations in Japan 	65.0	65.0	Δ5.0	
	Plastics machinery	50.4	60.2			<ul style="list-style-type: none"> Enhancement of earning capacities through structural reforms Enhancement of competitiveness through utilization of our global networks 	35.0		35.0
	Precision control machinery and others	67.5	75.1			<ul style="list-style-type: none"> Concentrated efforts placed on business areas performing steadily, such as medical areas Enhancement of product performance and cost competitiveness 	65.0		65.0
Subtotal		200.8	227.2		Subtotal	165.0	165.0		
Environmental protection facilities, plants and others		84.2	92.6	10.7	<ul style="list-style-type: none"> Boilers: New market expansions with compact boilers. Enhancement of capabilities to respond to overseas projects. Water treatment: Enhancement of activities pertaining to water food and beverage fields 	69.0	81.0	6.5	
Ship, steel structures and other specialized equipment		78.1	79.6	12.6	Promotion of further increases in productivity and cost reductions.	29.0	82.0	4.5	
Industrial machinery		98.8	84.3	13.6	<ul style="list-style-type: none"> Material handling systems: Enhancement and expansion of service businesses. Implementation of cost reductions. Turbine pumps: Expansion of sales in overseas markets. 	72.0	86.0	10.0	
Construction machinery		138.8	159.2	7.5	<ul style="list-style-type: none"> Hydraulic excavators: Expansion of sales in the Chinese market and early startup of manufacturing plant in Tangshan, China. Mobile cranes: Promotion of cost reductions through enhancement of in-house productions 	115.0	116.0	Δ2.0	
Total		600.7	642.9	56.9	Total	450.0	530.0	14.0	

Mass-produced Machinery

Power transmission & control:

FY2008: Rapid deterioration in the economic climate impacted business, resulting in reductions both in orders received and sales for almost all product models, except for larger models. Profit ratio also suffered.

FY2009: Plans formulated for recovery towards the second half of the fiscal year.

Plastics machinery:

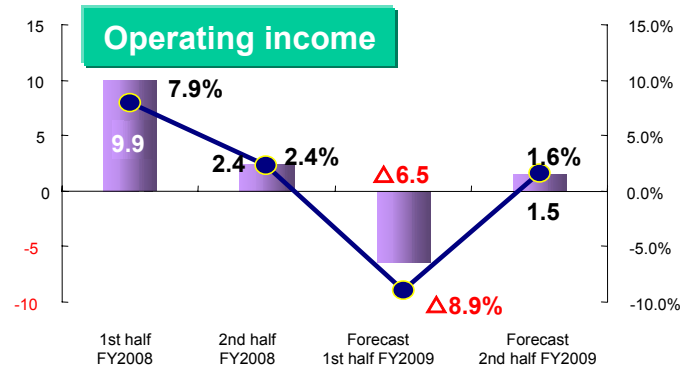
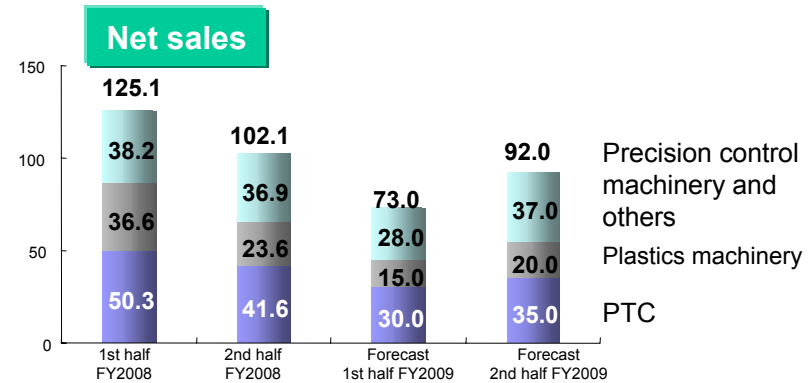
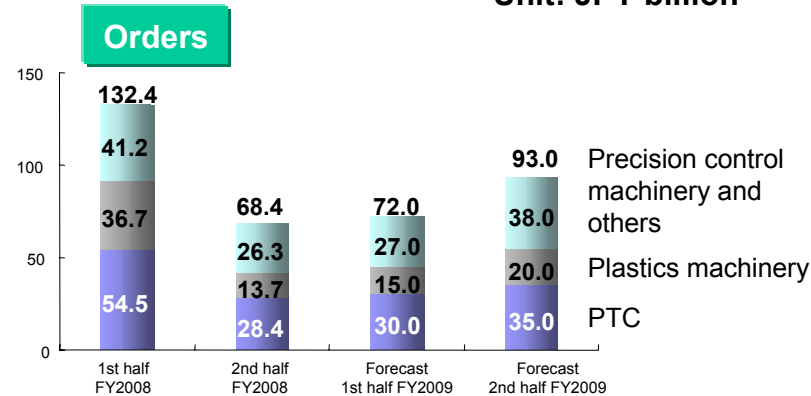
FY2008: A slight increase occurred in net sales due to the effects of acquired and merged overseas subsidiaries, in spite of deteriorating markets for electronic devices and automotive products. There was a significant deterioration in the profit ratio.

FY2009: Plans formulated for recovery towards the second half of the fiscal year



Tangshan Manufacturing Plant: Shipping of first large-scale power transmission equipment

Unit: JPY billion

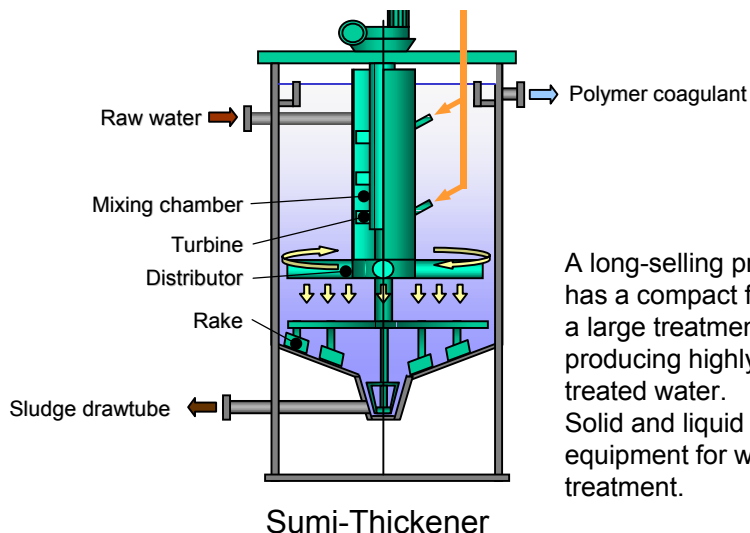


Energy plants:

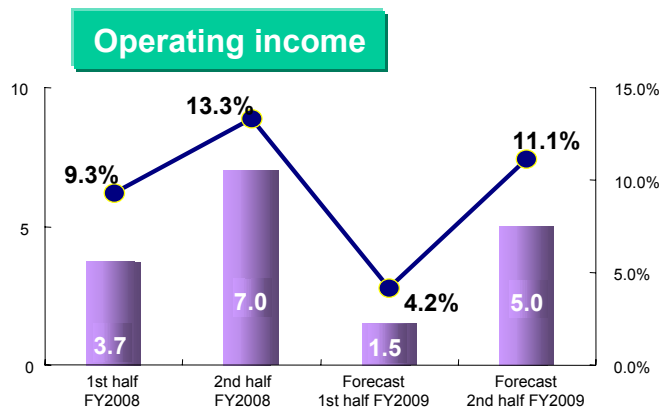
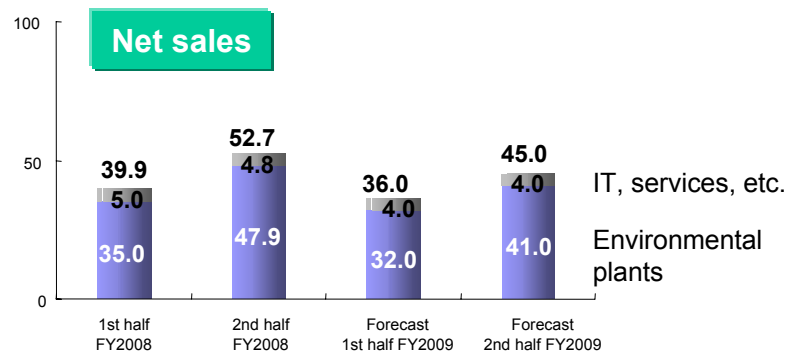
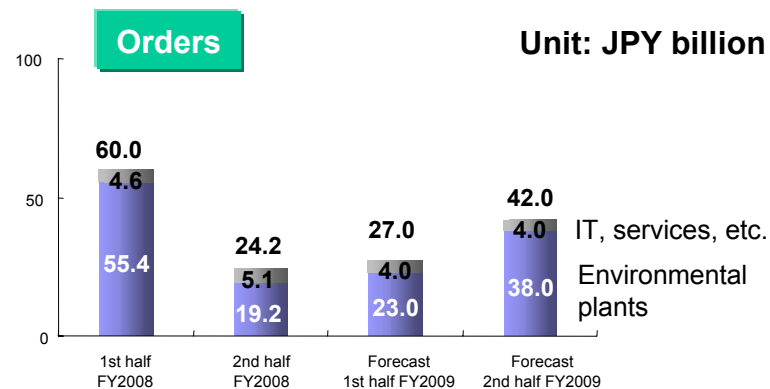
FY2008: The amount of orders received remained at about the same level as the previous fiscal term, as orders were received for industrial power generating boilers and atmospheric pollution prevention equipment for overseas customers. Although the amount of sales declined somewhat, the profit ratio showed a favorable turn.
 FY2009: An expansion of sales is sought in Southeast Asia.

Water treatment plants:

FY2008: Private sector demands declined, which brought down the amount of orders in comparison with the previous fiscal term. The amount of sales, however, showed an increase, due to a favorable turn in terms of orders received during the previous fiscal term.
 FY2009: Aim for an expansion in sales with component products, represented by Sumi-Thickener.



A long-selling product that has a compact facility with a large treatment capacity, producing highly clear, treated water. Solid and liquid separating equipment for water treatment.



Ship, Steel Structures and Other Specialized Equipment

Ships:

FY2008: Due to the impact of the rapidly deteriorating market conditions, only seven ships were on order, in the first half of the fiscal year. The sales amount resulted in eight vessels, an increase by one vessel over the previous fiscal term. The profit ratio suffered due to the impact of the rising cost of raw materials and fluctuating currency exchange rates.

FY2009: The sales amount will comprise nine vessels, however, the profit ratio will undergo further deterioration due to the impact of the rising cost of raw materials.

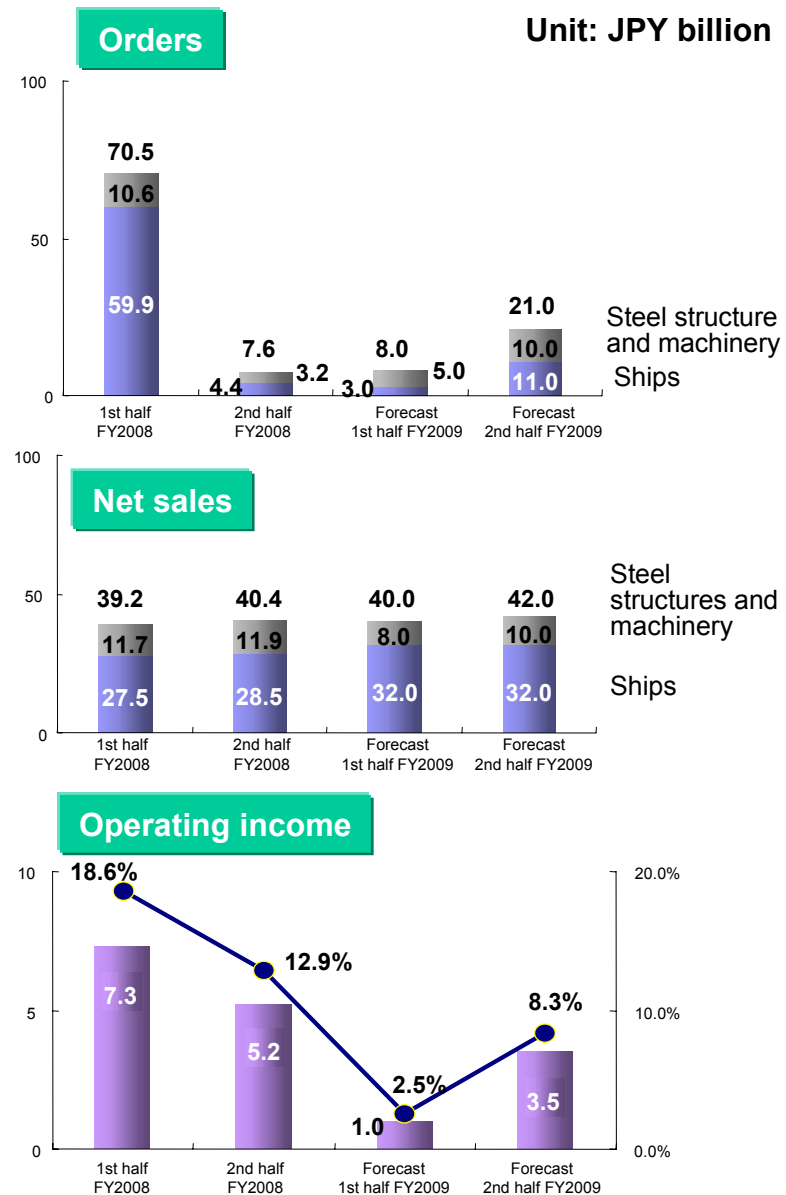
Steel structures and machinery:

FY2008: The amount of sales increased slightly due to the favorable number of orders received during the previous fiscal term, although the amount of orders received did decline during the fiscal year due to a deterioration in petrochemical-related markets. The impact was felt from the rising cost of raw materials and fluctuating currency exchange rates.

FY2009: Severe conditions in the receipt of orders are expected to continue.



Shipbuilding yard, where productivity improvements are being promoted



Industrial Machinery

Material handling systems:

FY2008: The amount of orders received dropped in comparison with the previous fiscal term, due to the drop in orders received from shipbuilding companies, although orders received from steel companies increased. The amount of sales transitioned steadily, due to the favorable amount of orders received during the previous fiscal term.

FY2009: Although the situation for receiving orders is expected to be severe, the amount of sales is expected to transition steadily, due to the remaining balance of received orders.

Turbines and pumps:

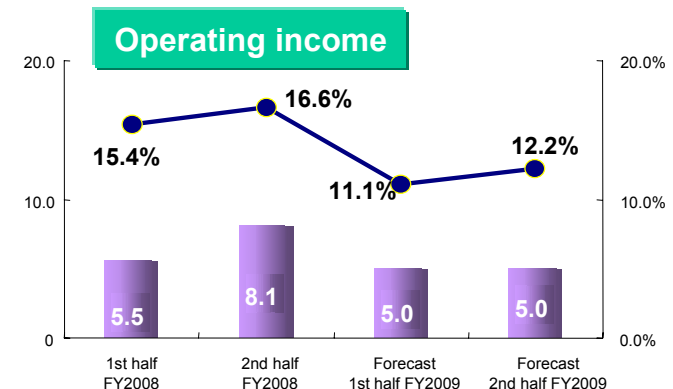
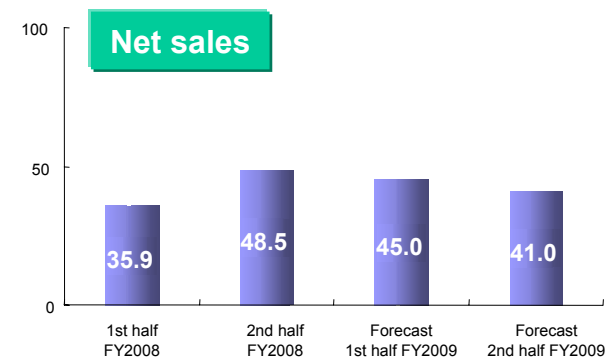
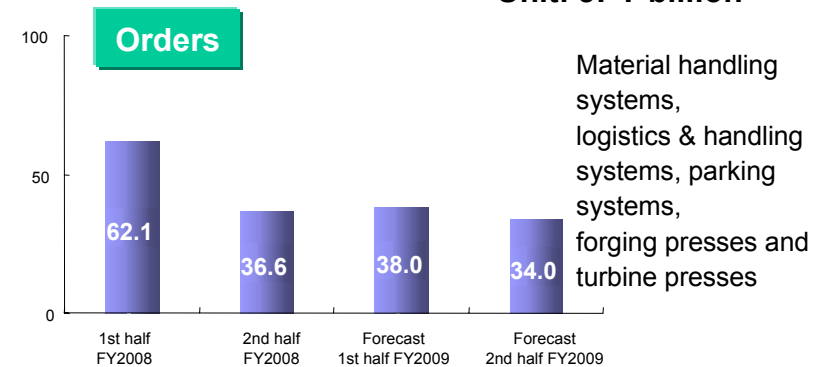
FY2008: The rate at which orders were received decelerated during the second half of the fiscal term, but turbines for biomass power generating facilities remained steady, as did the amount of sales.

FY2009: The amount of orders received is anticipated to decline, due to a reduced demand in developing countries.



The "Clean Cargo Handler," an unloader with top cargo handling efficiency, responding to customer needs.

Unit: JPY billion



Construction Machinery

Hydraulic excavators:

FY2008: A significant reduction occurred in both the amount of orders received and sales, due to a rapid decline in global demand during the second half of the fiscal term. In regional terms, all regions except China experienced a decline. The decline was significant in Japan, the United States, and Europe.

FY2009: High expectations for the start-up in the Chinese market.

Cranes:

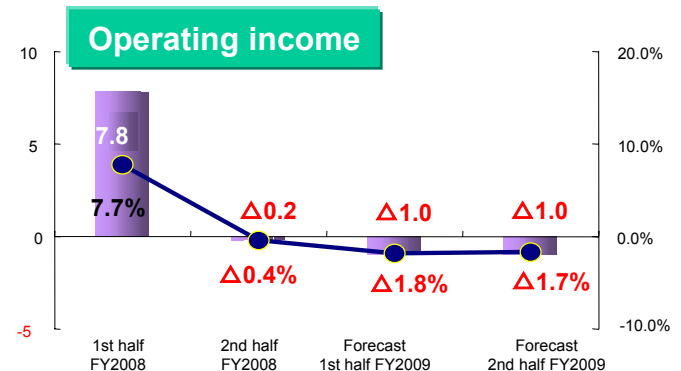
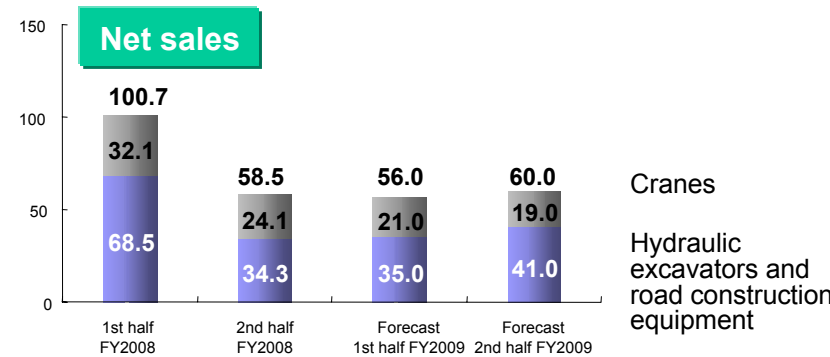
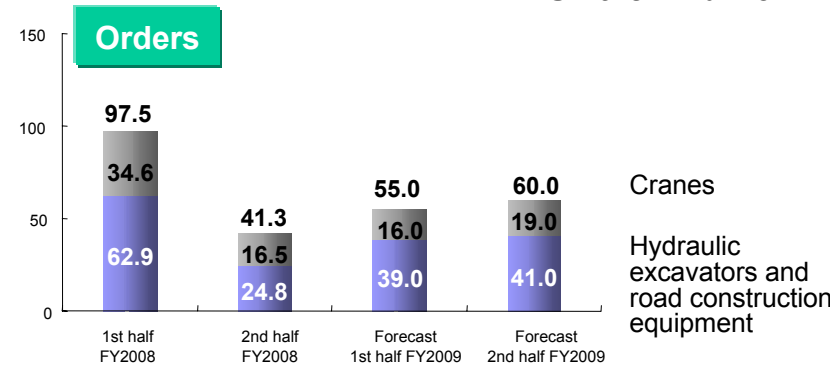
FY2008: A slight increase in sales was experienced in spite of the impact from the fluctuating currency exchange, as demand for infrastructure maintenance and improvement work did not rapidly decline in the markets of North America.

FY2009: The amount of orders received is expected to decline, due to the gradual turn of trends to deceleration in the markets of North America as well.



Mobile crane actively engaged in maintenance and improvement work performed on infrastructure in the United States

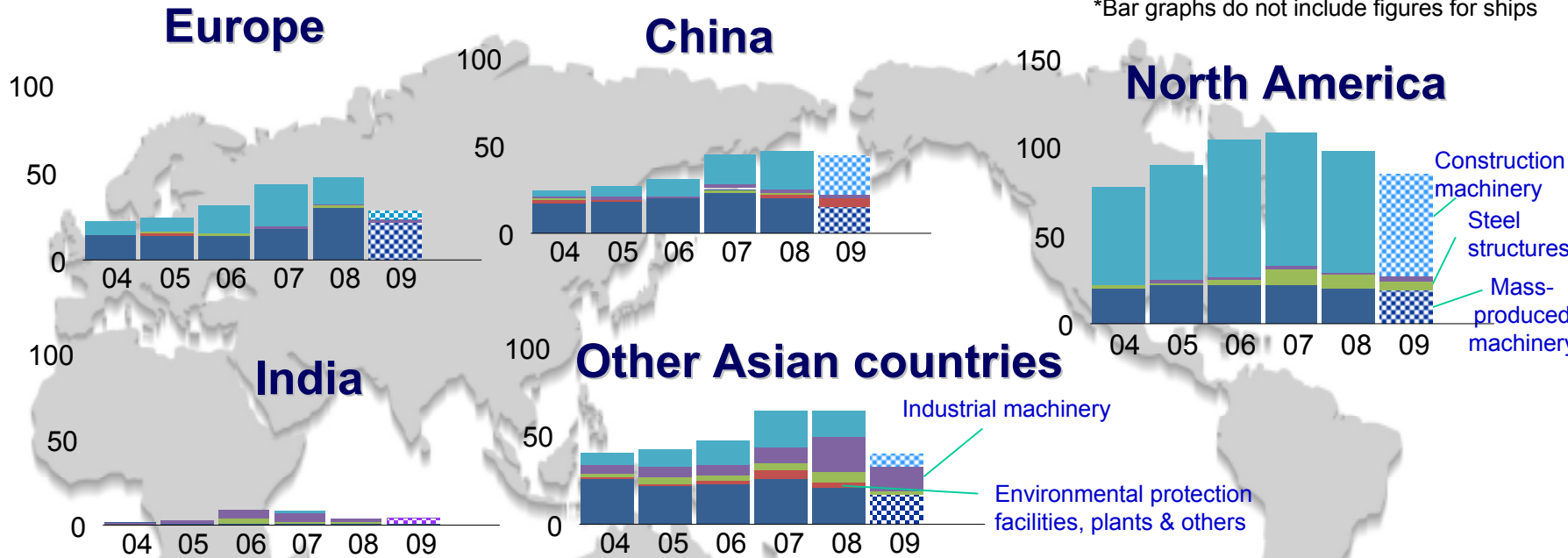
Unit: JPY billion



Global Sales Plan

Unit: JPY billion

*Bar graphs do not include figures for ships

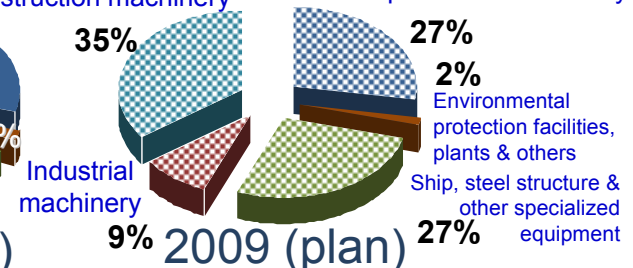
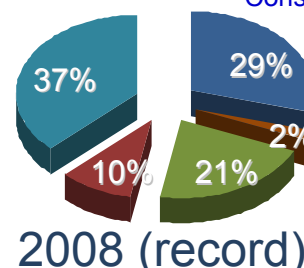
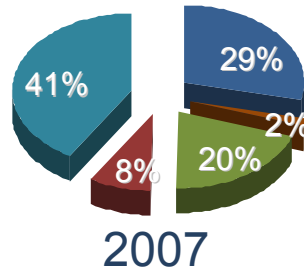
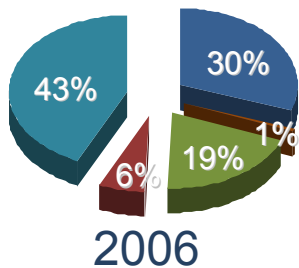


International sales (ratio)
JPY276.1 billion (46%)

JPY331.8 billion (50%)

JPY329.2 (51%)

JPY270 billion (51%)



Progress of Tangshan Manufacturing Plant

■ Construction and operation schedule

2009 January 15

Completion of construction for factories of construction machinery and large-scale power transmission systems

February 16

Shipping of first large-scale power transmission system

End of April

Start of trial operation for hydraulic excavator factory

June 6

Dedication ceremony for both factories planned, with line production starting

■ Production plan

Large-scale power transmission systems

Net sales for FY2010: JPY7 billion

Hydraulic excavators

Number of units produced in FY2010: 2,000 units

Gear boxes factory



Construction machinery factory



Shared management building



Management Policies

- ✓ **Abide by the Management Discipline and Financial Discipline regulations, seek to establish a sustainable competitive edge, and aim for sound development of business operations.**
- ✓ **Steady income must be secured at all times by utilizing our superior business portfolio and personnel.**
- ✓ **Implement offensive and defensive measures in a well-balanced manner, with a proper understanding of changes that occur over time.**

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 the business environment.