

**Part 1 FY2008 2nd Quarter Financial Summary
and FY 2008 Projections**

Yukio Kinoshita,

Senior Executive Vice President (15 minutes)

Part 2 Management Strategy

Yoshinobu Nakamura,

President and CEO (15 minutes)

Part 3 Question and Answer

**Part 1 FY2008 2nd Quarter
Financial Summary and FY
2008 Projections**

Yukio Kinoshita

Senior Executive Vice President and CFO

Financial Summary for 2nd Quarter FY2008

Key Points

(1) Orders

- Record orders for the third straight year.
- Total orders passed 400 billion yen for first time.
- Growth across all segments.

(2) Net Sales

- Record high for the fifth straight year.

(3) Income

- Slight decrease for current period in both operating income and ordinary income.

<Orders Received>

Increase in environmental protection facilities and plants, ship & steel structure, and industrial Machinery segments.

<Sales>

Rise in mass produced machinery, construction machinery, and ship & steel structure segments.

<Operating Income>

Increase in ship & steel structure and environmental protection facilities and plants segments.

<Ordinary Income>

Fall in investment return on equity method.

Units: JPY billion

	1 st Half FY2008	1 st Half FY2007	Change
Orders	422.5	343.8	78.7
Net Sales	340.8	305.1	35.7
Operating Income	34.4	35.0	(0.6)
Operating Income Ratio	10.1%	11.5%	(1.4%)
Ordinary Income	34.0	35.0	(1.1)
Ordinary Income Ratio	10.0%	11.5%	(1.5%)
Extraordinary Income or Loss	(0.2)	(2.2)	2.1
Quarterly Net Income	19.8	20.2	(0.4)
Quarterly Net Income Ratio	5.8%	6.6%	(0.8%)

Operating Income by Segment

Mass-produced machinery

Growth in profits in precision instruments offset by declining income from power transmission and plastics machinery sectors.

Environmental protection facilities, plants & others

Boilers experienced improved profit and loss.

Ship, steel structure and other specialized equipment

Increased profit through improved sales of new ships and steel structures and equipment.

Industrial machinery

Continuing strong performance in material handling systems, turbines, and pumps.

Construction machinery

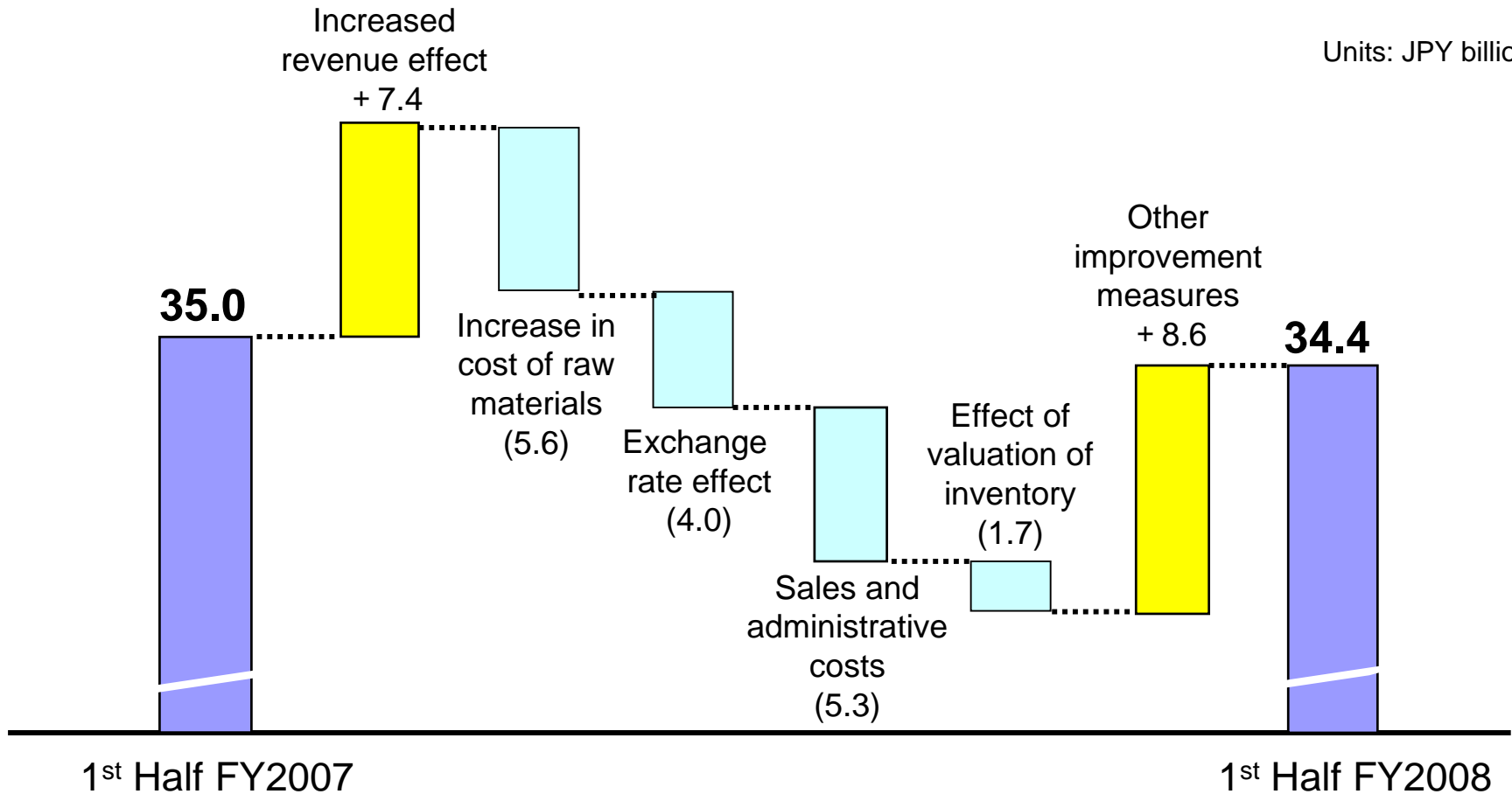
Hydraulic excavators experiencing rising income with falling profits. U.S. mobile crane continues to enjoy robust growth.

Units: JPY billion

	1st Half FY2008	1st Half FY2007	Change
Mass-produced machinery	9.9	12.7	(2.8)
Environmental protection facilities, plants & others	3.7	1.9	1.8
Ship, steel structure and other specialized equipment	7.3	5.7	1.6
Industrial machinery	5.5	5.5	0.0
Construction machinery	7.8	9.0	(1.2)
Total	34.4	35.0	(0.6)

Analysis of Change in Operating Income (1st Half FY2007 to 1st Half FY2008)

Units: JPY billion



Consolidated Balance Sheet

Units: JPY billion

	September 2008	March 2008	Change		September 2008	March 2008	Change
Current Assets	386.6	381.9	4.6	Liabilities	431.7	432.3	(0.5)
Cash and deposits	34.2	30.3	3.9	Notes and accounts payable	164.8	167.0	(2.3)
Notes and accounts payable	174.9	185.9	(11.0)	Advance payments	61.8	48.6	13.2
Inventory assets	147.9	130.5	17.4	Interest-bearing debt	83.1	89.6	(6.5)
Other	29.6	35.3	(5.7)	Other	122.0	127.1	(5.0)
Fixed assets	303.0	296.7	6.3	Net Assets	257.8	246.4	11.5
Tangible assets	211.0	204.5	6.5	Common equity	208.2	192.0	16.2
Intangible assets	14.4	15.8	(1.3)	Variations in estimates and exchanges	39.9	45.1	(5.1)
Investments and other assets	77.7	76.5	1.2	Minority interests	9.7	9.3	0.4
Total	689.6	678.6	10.9	Total	689.6	678.6	10.9
				Ratio of interest bearing debt	12.1%	13.2%	(1.1%)
				Stockholders' equity ratio	36.0%	34.9%	1.1%

Consolidated Statements of Cash Flow

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Units : JPY billion

Category	1 st Half FY2008	1 st Half FY2007	Change
Cash flows from operating activities	28.3	11.4	16.9
Working capital	3.2	(6.2)	9.4
Operating income before interest and depreciation	42.1	39.2	2.9
Other	(17.0)	(21.5)	4.5
Investing activities	(14.0)	(11.4)	(2.6)
Free cash flow	14.3	0.0	14.3
Financing activities	(10.0)	(15.2)	5.2
Change in cash and cash equivalents	3.9	(14.7)	18.7
Cash and cash equivalents at the end of the year	33.8	32.8	1.0

FY 2008 Forecast

Key Points

- (1) Record highs expected for both sales and orders
- (2) While increased income is expected for sixth consecutive year, the impact of rising costs of raw materials and other factors such as the strong yen against the dollar is expected to lead to a fall in profits.

Orders: Increase expected across all segments
(excepting construction machinery)

Sales: Expected increase across all segments.

Operating Income: Potential impact from anticipated rising cost of raw materials and effect of exchange rates.

Units: JPY billion

	1 st Half of FY2008 Actual	1 st Half of FY2007 Actual	FY2008 Forecast	FY2007 Actual
Orders	422.5	343.8	770.0	716.4
Net Sales	340.8	305.1	720.0	660.8
Operating Income	34.4	35.0	70.0	77.8
Operating Income Ratio	10.1%	11.5%	9.7%	11.8%
Ordinary Income	34.0	35.0	66.5	75.5
Ordinary Income Ratio	10.0%	11.5%	9.2%	11.4%
Extraordinary Income or Loss	(0.2)	(2.2)	(5.5)	(3.0)
Net Income	19.8	20.2	31.0	43.0
Net Income Ratio	5.8%	6.6%	4.3%	6.5%
Dividend	JPY6	JPY5	JPY12	JPY10
Dividend Ratio			23.4%	14.0%
ROIC (after tax)			11.5%	14.0%
Projected Exchange Rate (US dollar)			JPY100 (2 nd half FY2008)	JPY112

FY 2008 Forecast of Net Sales and Operating Income by Segment

1-7

Key Points

- (1) Expected increase in orders across all segments (excepting construction machinery), achieving a record total of 770 billion yen.
- (2) Sales also expected to increase across all segments, with increased revenue for the sixth consecutive year and with record net sales.
- (3) Factors such as a sharp rise in cost of raw materials and stronger yen are expected to contribute to a fall in profits.

		1 st Half of FY2008 Actual	1 st Half of FY2007 Actual	Change	FY2008 Forecast	FY2007 Actual	Change
		Units: JPY billion					
Mass-produced machinery	Orders	132.4	121.4	10.9	265.0	247.4	17.6
	Sales	125.1	110.2	14.9	253.0	232.6	20.4
	Operating Income	9.9	12.7	(2.8)	22.0	28.2	(6.2)
Environmental protection facilities, plants & others	Orders	60.0	43.1	16.9	118.0	91.8	26.2
	Sales	39.9	35.3	4.6	97.0	91.2	5.8
	Operating Income	3.7	1.9	1.8	10.0	6.9	3.1
Ship, steel structure & other specialized equipment	Orders	70.5	36.0	34.5	93.0	90.7	2.3
	Sales	39.2	31.1	8.1	83.0	76.4	6.6
	Operating Income	7.3	5.7	1.6	12.5	14.1	(1.6)
Industrial machinery	Orders	62.1	48.6	13.5	108.0	98.8	9.2
	Sales	35.9	38.5	(2.7)	87.0	81.2	5.8
	Operating Income	5.5	5.5	0.0	12.5	12.1	0.4
Construction machinery	Orders	97.5	94.6	2.9	186.0	187.7	(1.7)
	Sales	107.7	89.9	10.7	200.0	179.4	20.6
	Operating Income	7.8	9.0	(1.2)	13.0	16.3	(3.3)
Total	Orders	422.5	343.8	78.7	770.0	716.4	53.6
	Sales	340.8	305.1	35.7	720.0	660.8	59.2
	Operating Income	34.4	35.0	(0.6)	70.0	77.8	(7.8)

Present Financial Policy

In light of the present economic climate facing the Group, the financial policy in order to maintain the Group's basic policy of "securing sound finances" for the foreseeable future is outlined below.

- 1. Stringent selection of capital investment projects, and reduction of fixed costs and variable costs**
- 2. Measures against stronger yen**
(Dollarization of costs through comprehensive and effective utilization of current global supply chain)
- 3. Maintenance of fiscal discipline**

Part 2: Management Strategy

Yoshinobu Nakamura, President and CEO

FY2008 Order Status by Segment

Each segment achieved year-on-year growth in the first half of FY2008, led by growth in resources, energy, and infrastructure-related sectors.

Despite a slowdown, total FY2008 orders are expected to reach 770 billion yen in the second half of FY2008. Backlogged orders as of the end of September reached a record high of 627 billion yen.

Units: JPY billion

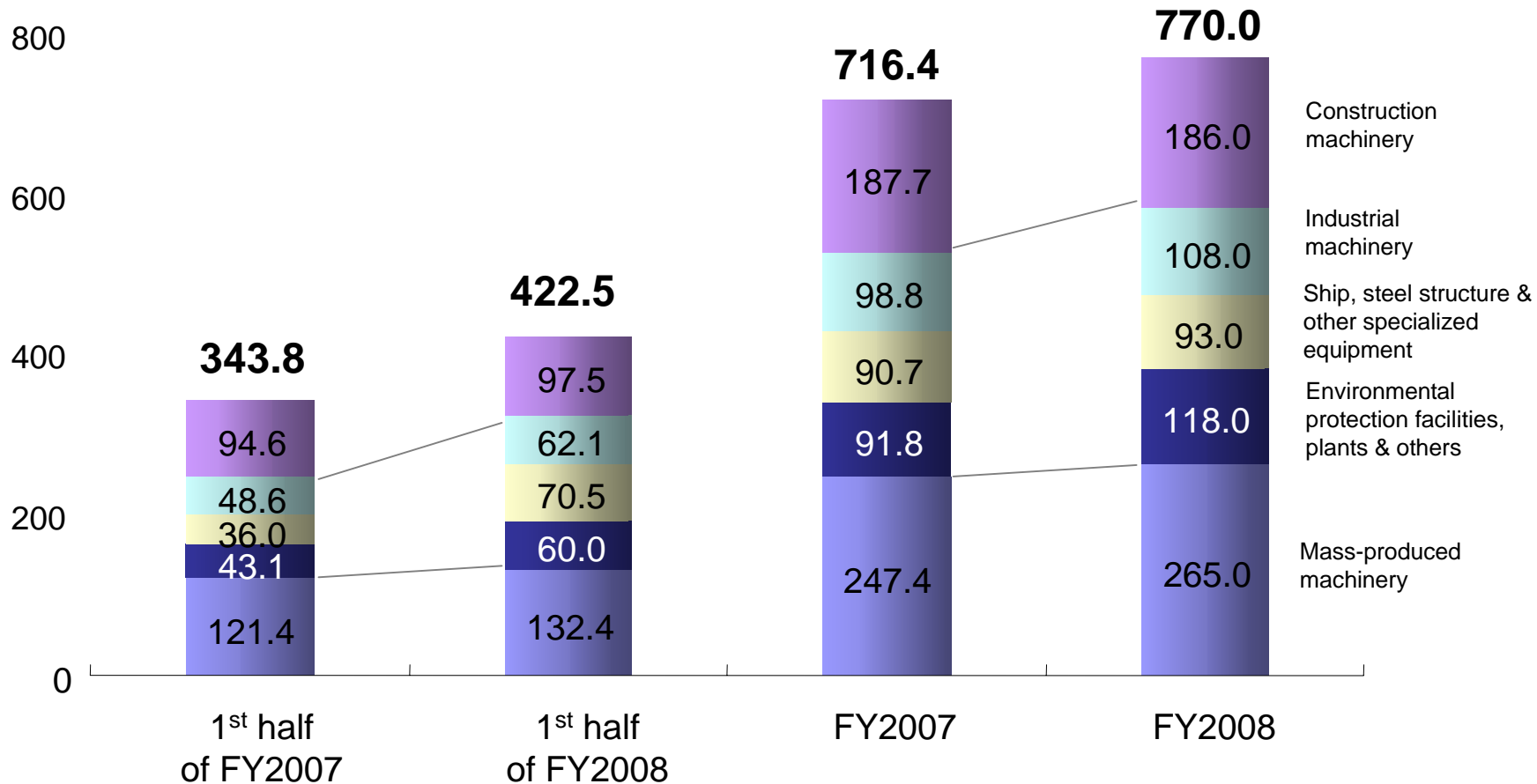
Segment		Order Status	Order Amount for FY2008	
			1 st Half Performance	Planned Full Fiscal Year
Mass-produced machinery	Power transmission & control	<ul style="list-style-type: none"> Robust growth of resources-related orders in Asia, U.S., and BRICs countries (as heavy machinery). Reduced demand for small and medium-sized machinery due to effects of restraints on capital investment. Fall in orders most evident in Japan and Europe. 	54.5	110.0
	Plastics machinery	<ul style="list-style-type: none"> Global slowdown in demand. Effects of restraints on capital investment seen especially in the IT and automobile sectors. 	36.7	71.0
	Precision control machinery, components, and others	<ul style="list-style-type: none"> Constraints on capital investment in liquid crystal and semiconductor fields affecting orders. Domestic market saturation for medical-related equipment, while overseas markets continued to see robust growth. 	41.2	84.0
Subtotal			132.4	265.0
Environmental protection facilities, plants and others		<ul style="list-style-type: none"> Boilers continue to see healthy growth both overseas and domestically 	60.0	118.0
Ship, steel structure and other specialized equipment		<ul style="list-style-type: none"> Orders received for 7 tankers. Second half of FY2008 expected to see market stagnation. Orders for coke drums were strong in the first half of the year but expected to see stagnation in the second half. 	70.5	93.0
Industrial machinery		<ul style="list-style-type: none"> Steady demand for small and medium-sized turbines and pumps, primarily in emerging countries. Buoyant demand for cranes and unloaders for use in steel plants. 	62.1	108.0
Construction machinery		<ul style="list-style-type: none"> Slowing global demand for hydraulic excavators (other than China). Continuing strong demand for mobile cranes for use in U.S. infrastructure projects. 	97.5	186.0
Total			422.5	770.0

Year-on-Year Changes in Order Status by Segment for FY2007 to FY2008

Each segment expected to see year-on-year growth for first half of FY2008, with expected record high based on second quarter figures. Backlog of orders also at record high level.

Despite a slowdown, total FY2008 orders are expected to reach 770 billion yen in the second half of FY2008, a record high.

Units: JPY billion



Specific Measures by Segment for FY2008

2-3

Units: JPY billion

Segment		1st Half FY2008 Performance		Measures	FY2008 Forecast	
		Sales	Operating income		Sales	Operating income
Mass-produced machinery	Power transmission & control	50.3	9.9	<ul style="list-style-type: none"> Start operations at China's Tangshan gearbox plant ahead of schedule. Improve productivity at Vietnam motor plant. Enhance competitiveness through improvement and use of global network. 	104.0	22.0
	Plastics machinery	36.6		<ul style="list-style-type: none"> Pursue integration effect with Demag. Enhance global sales of electric motors. 	71.0	
	Precision control machinery and others	38.2		<ul style="list-style-type: none"> Focus attention on medical treatment and other robust sectors. Strengthen product appeal and cost competitiveness. 	78.0	
Subtotal		125.1		Subtotal	253.0	
Environmental protection facilities, plants and others		39.9	3.7	<ul style="list-style-type: none"> Strengthen development of international boiler operations. Enhance project management ability. 	97.0	10.0
Ship, steel structures and other specialized equipment		39.2	7.3	<ul style="list-style-type: none"> Improve productivity at shipbuilding yards through adoption of Toyota manufacturing system. Improve coke drum productivity. 	83.0	12.5
Industrial machinery		35.9	5.5	<ul style="list-style-type: none"> Improve productivity and make efforts to reduce costs. 	87.0	12.5
Construction machinery		100.7	7.8	<ul style="list-style-type: none"> Start of operations at China's Tangshan hydraulic excavator plant ahead of schedule. Improve productivity of mobile crane production. 	200.0	13.0
Total		340.8	34.4	Total	720.0	70.0

Mass-Produced Machinery

Power Transmission & Controls:

We will look to actively expand sales particularly in high-demand areas such as Asia, Europe, and North and South America, in fields relating to resources, energy, and infrastructure. We will also continue to develop the self-manufacturing process in our plants in China and Vietnam and to strengthen our supply chain. The launch of operations at our Tangshan plant ahead of schedule will promote cost reductions in this segment.

Plastics Machinery:

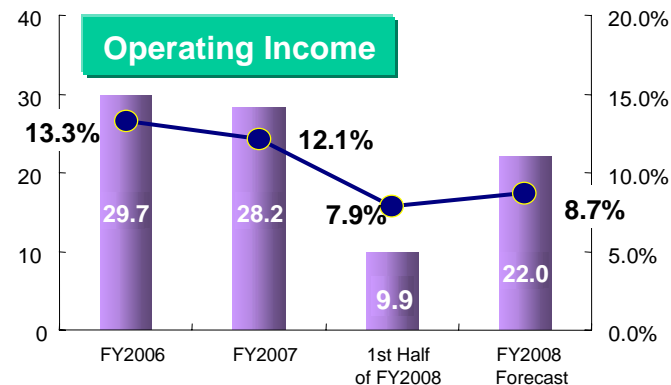
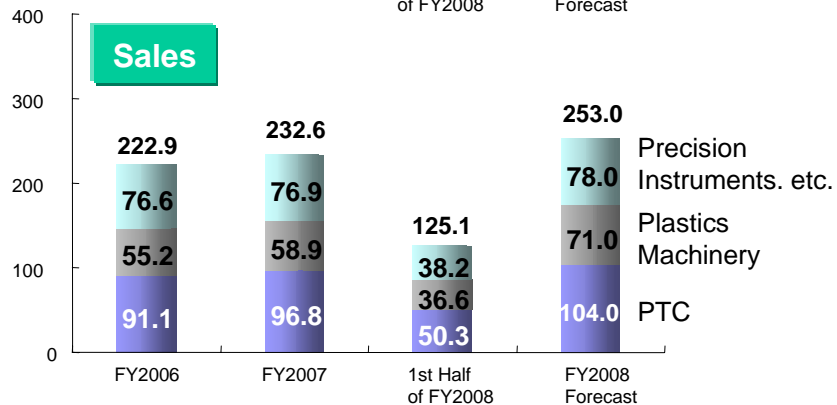
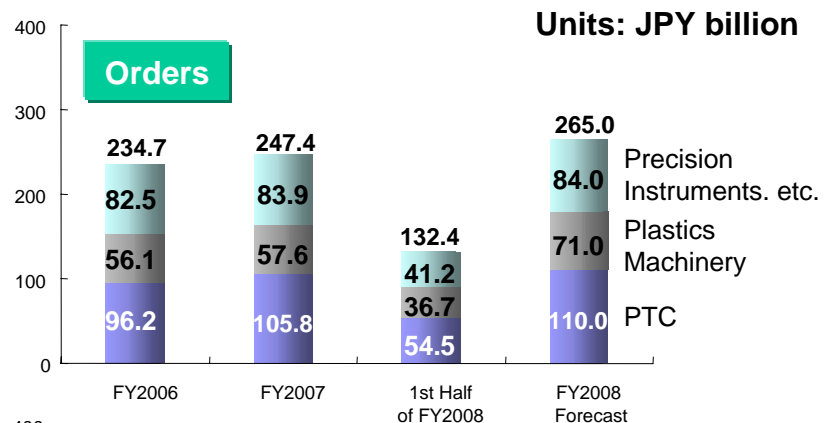
We will look to strengthen development of our sales strategy in Asia, Europe, and North and South America through promotion of our integration efforts with Demag. We will also strive to increase our share of the IT sector and the automobile industry.



Gearboxes experiencing robust growth in resources and energy-related fields



Promoting integration of Sumitomo and Demag at German trade show for plastics machinery



Environmental Protection Facilities, Plants and Others

Energy Plants:

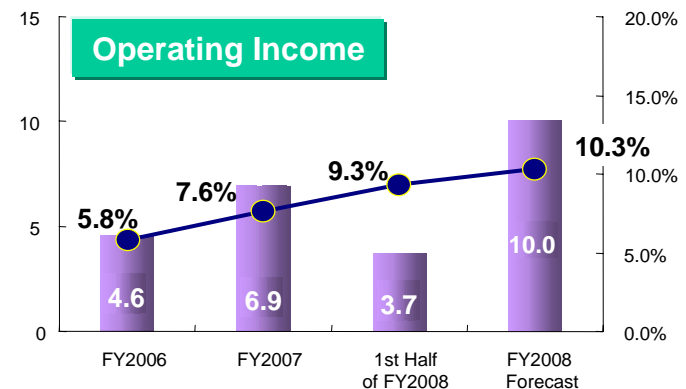
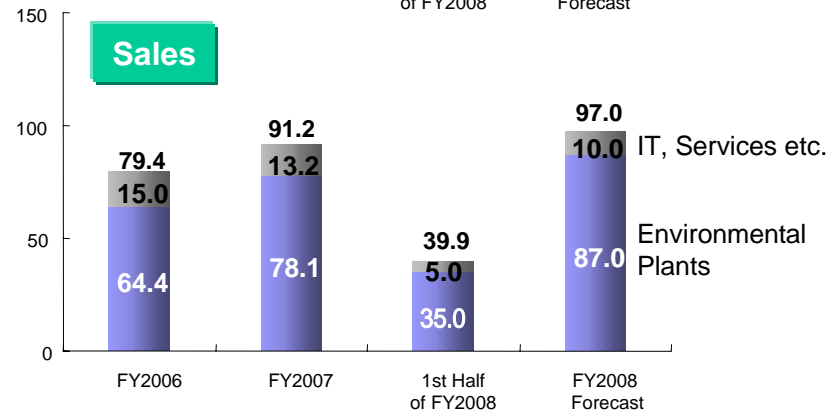
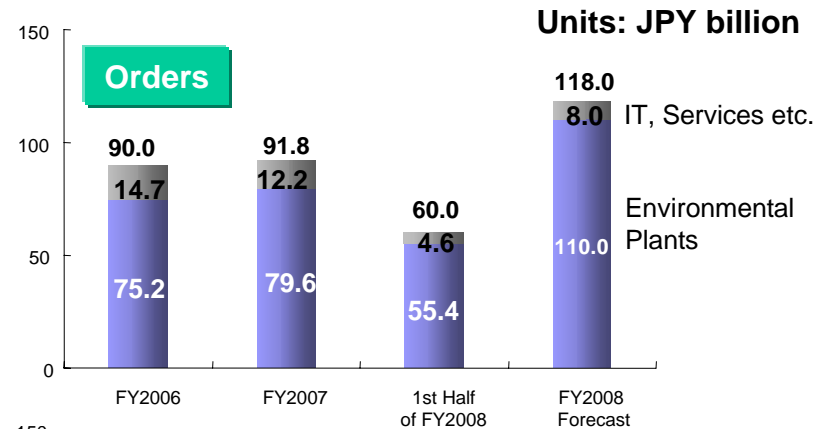
Our plans for this segment include further penetration of the domestic market through small-scale machinery. We will also seek to accelerate development of overseas markets, primarily in Asia and ensure maintenance of profitability through strengthening the segment's project management ability.

Water Treatment Plants:

We will further deepen our involvement in existing markets (including food, paper and pulp, and steel), and develop into new sectors through the enhancement of our products' appeal.



Use of CFB boilers contribute to reducing CO₂ emissions through effective utilization of energy resources and use of diversified fuels.



Ship, Steel Structure and Other Specialized Equipment

Ships:

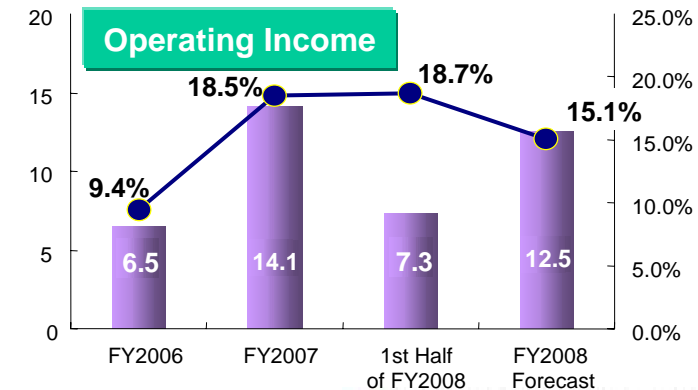
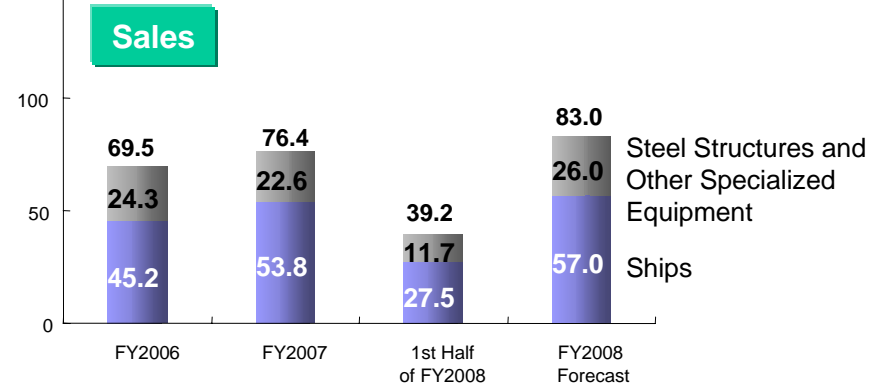
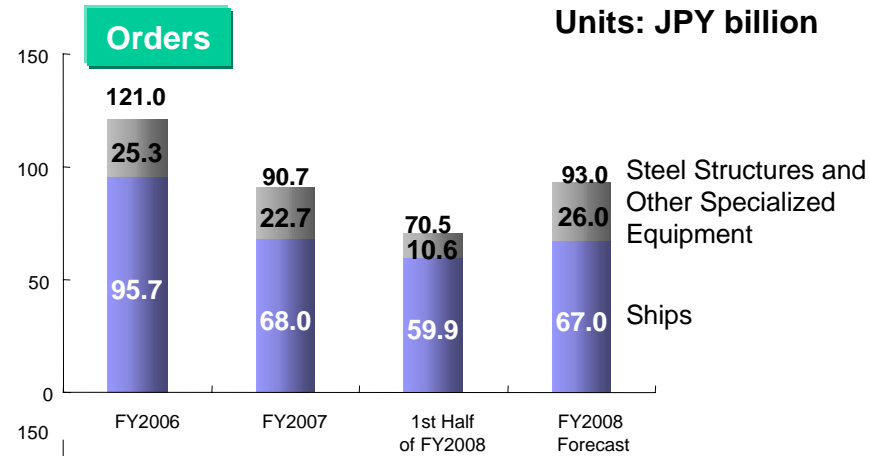
By adopting the Toyota manufacturing process we aim to further improve and maintain this segment's productivity and further promote efforts to reduce costs.

Steel Structures:

This area will see our focus on improving productivity of reactor vessels and continuing with efforts to reduce costs. We also intend to establish further use of the Toyota manufacturing process in this area.



Aframax-class tanker built using continuous manufacturing to realize high profit margins



Industrial Machinery

Material Handling Systems:

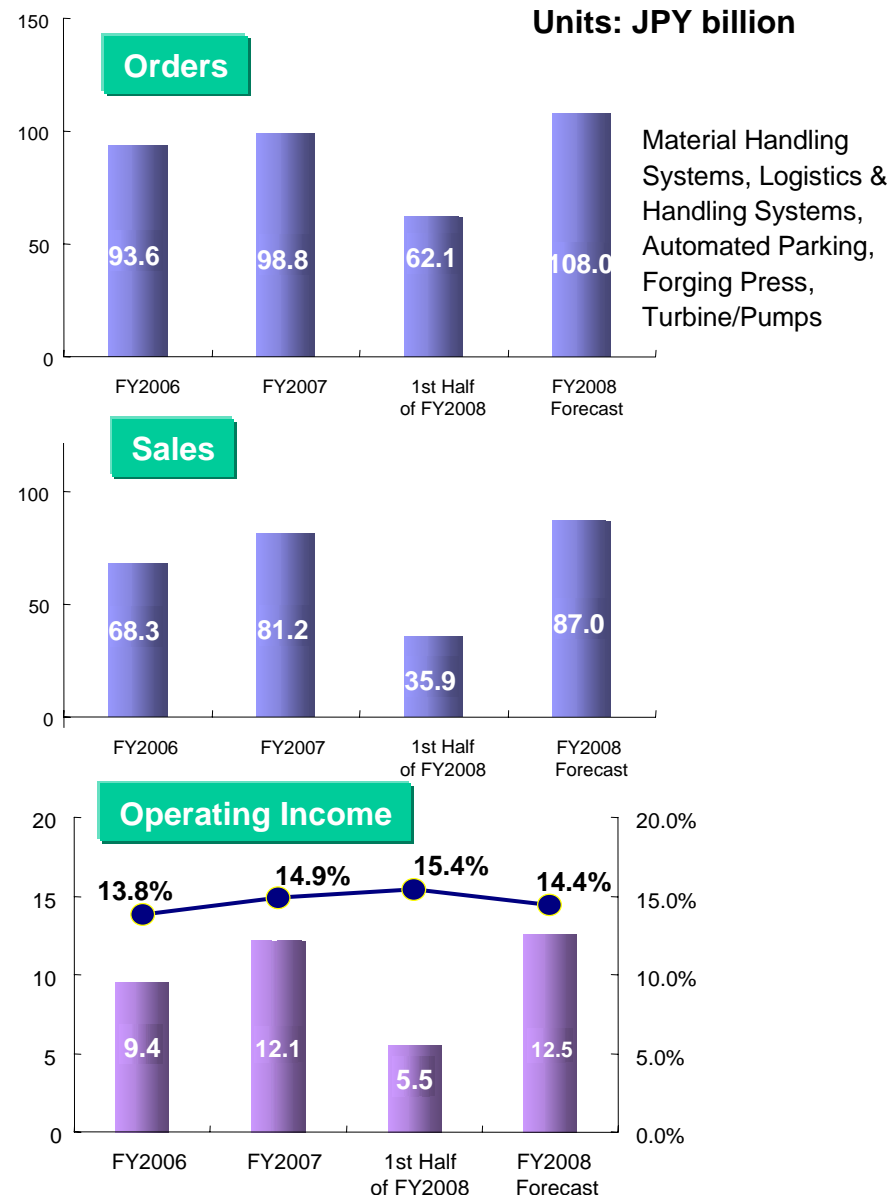
We will look to deepen our involvement in the domestic steel industry. This is in addition to Improving our production capacity to further ensure a stable supply of products and reduction of costs.

Turbine/Pumps:

Expanding sales in India, North America, and Southeast Asia will be accompanied by efforts to reduce costs through a strengthened self-manufacturing process and procurement ability, and to increase sales of new medium-sized turbines.



Our leading clean loading technology meets all of our customers' needs through loading efficiency



Construction Machinery

Hydraulic Excavators:

We will look to promote expanded sales in Asian markets such as in China. Together with the completion of the Tangshan plant in China ahead of schedule, and the plan to increase the productivity of the plant in Chiba, Japan, we will continue to reduce costs.

Cranes:

Based on introduction of new products, we will look to increase our share of the North American market. Through start of full scale operations of our new production facilities, we will also aim to improve productivity and increase our internal added value.

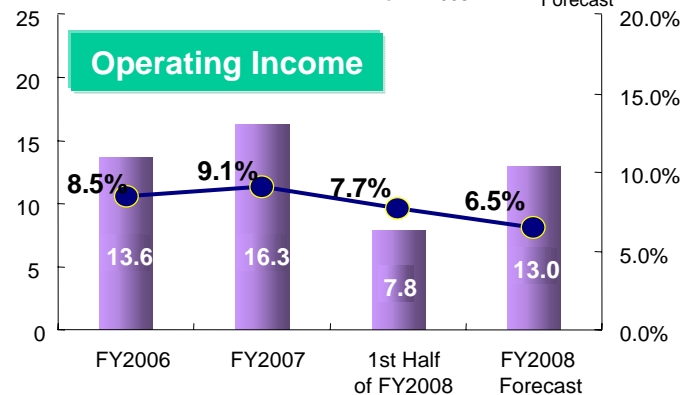
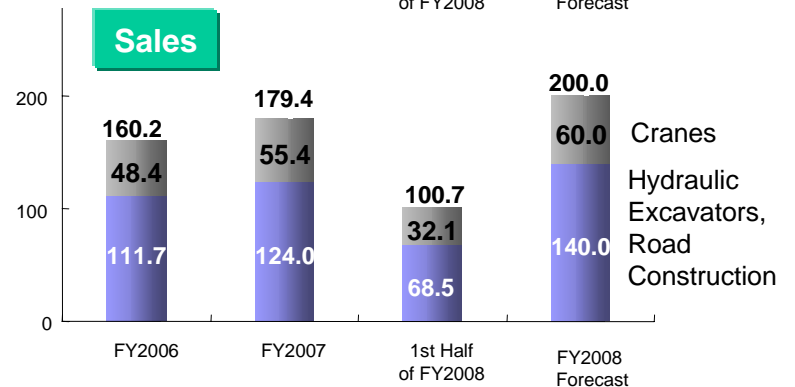
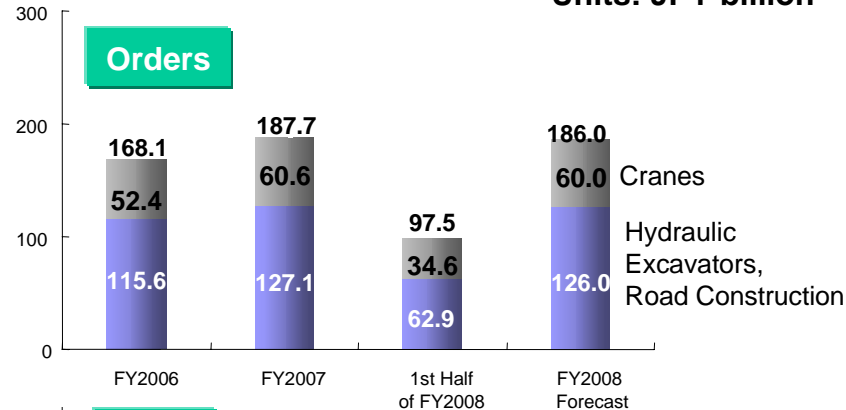


LEGEST Hydraulic Excavator realizes outstanding durability and fuel efficiency (20% reduction)



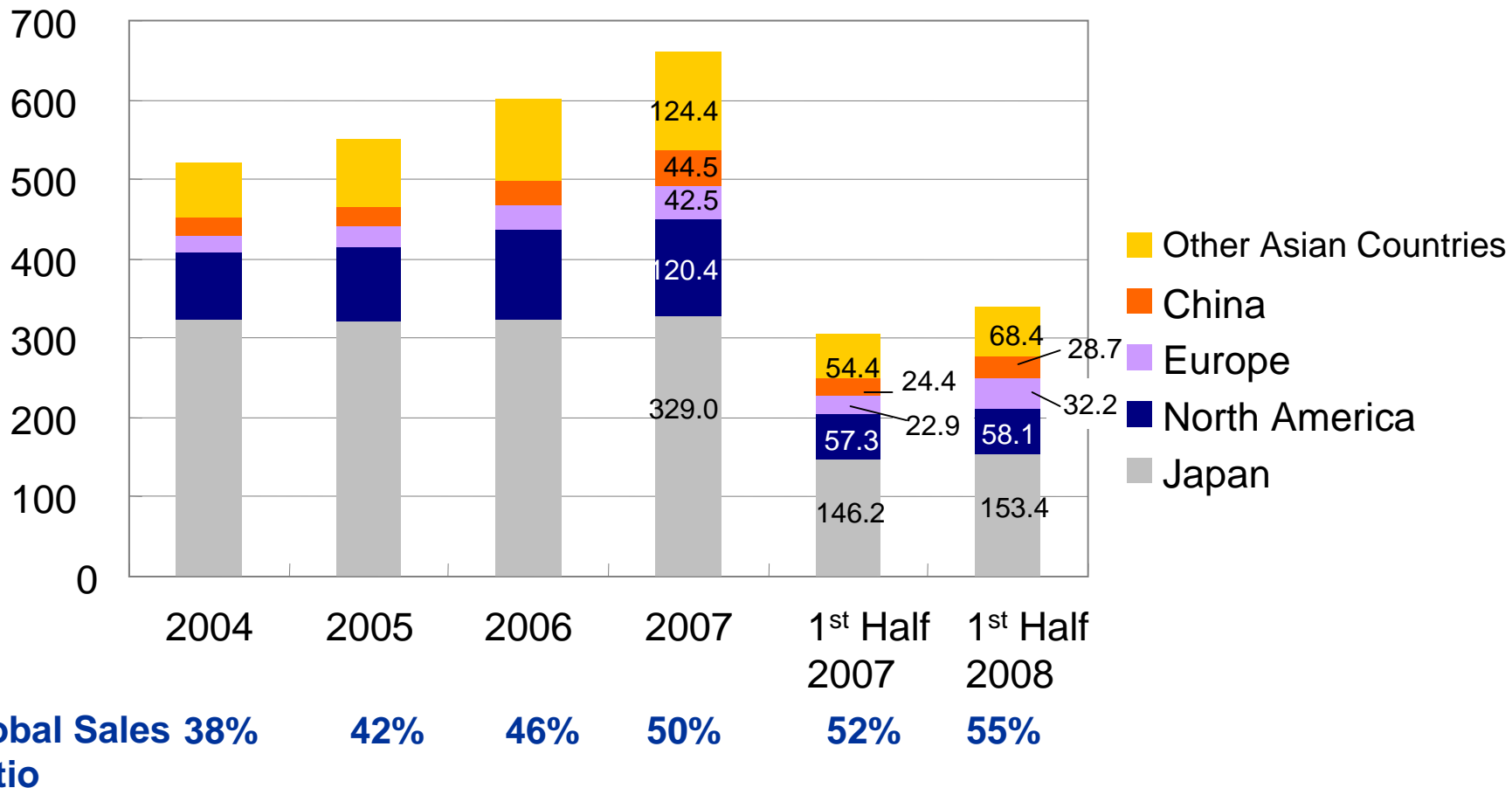
Mobile crane used in U.S. domestic infrastructure projects

Units: JPY billion



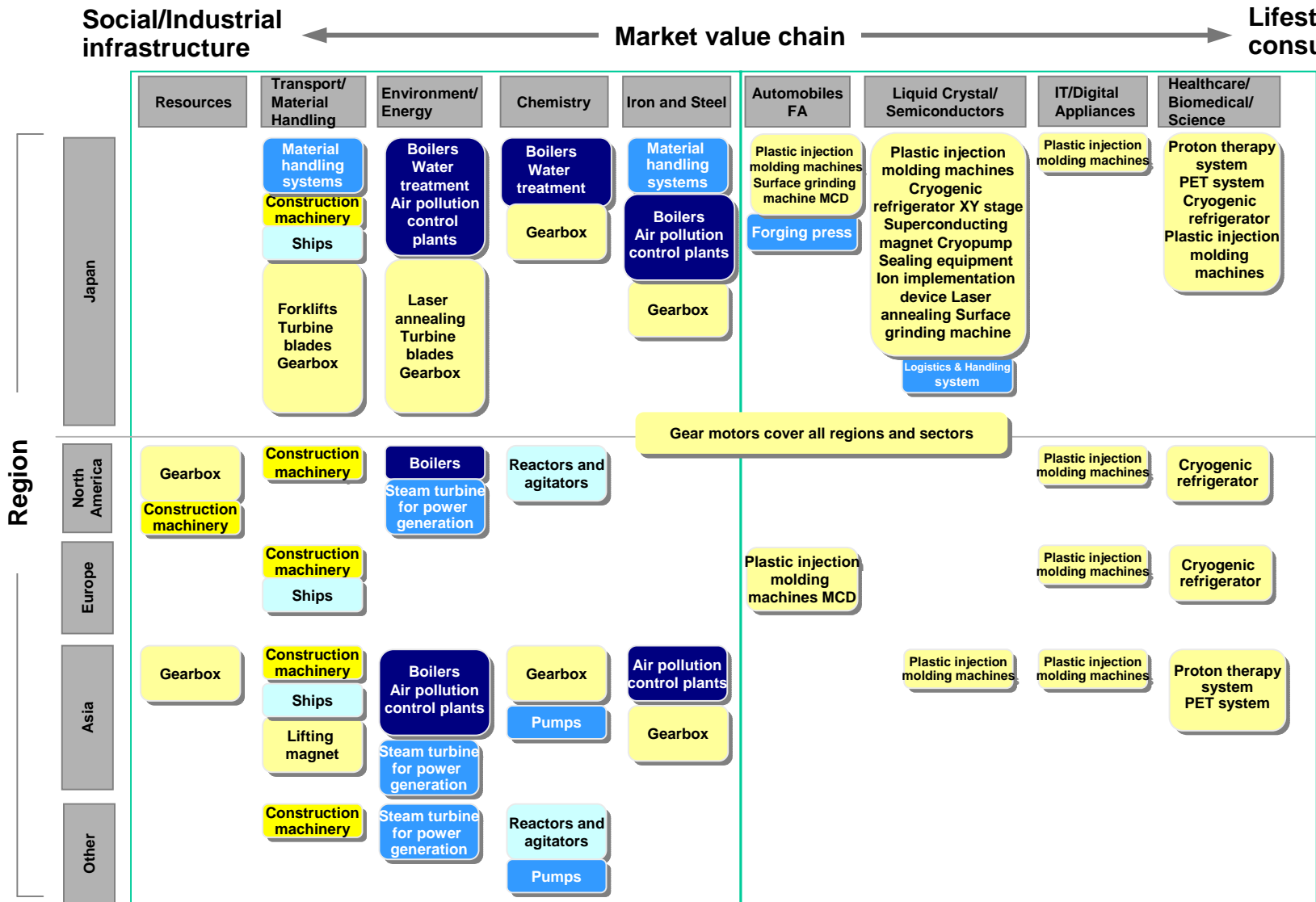
Global Sales

Units: JPY billion



- **Asia: Increased sales growth throughout all segments**
- **Europe: Increased sales from incorporation of Demag Group**

Strong Business Portfolio for Changes in Economic Climate



Future Management Policy

Future environmental awareness

- Slump in U.S. and European markets
- Exchange rate fluctuations
- Sharp hike in cost of raw materials
- Intensifying competition for orders

Further Improve SHI's Independent Business Model

- Careful handling of ROIC management
- Strong portfolio for financial environment fluctuation risk
- Seek competitive advantage through first-class products
- Use of vertically integrated value chain to achieve differentiation
- Pursuit of enhanced productivity through adoption of Toyota manufacturing process
- Enhanced competitiveness through utilization of global network

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.