

Part I: Financial Summary for FY2009 and Projections for FY2010

Financial Summary for FY2009

1-1

■ Key points

(1) Orders

- Significant drop occurred in all market segments in comparison with previous year.
- Mass-produced machinery hit bottom during fourth quarter of FY2008 and since then has been recovering.

(2) Net sales

- Net sales dropped in comparison with previous year, reflecting reduction in orders.
- Mass-produced machinery hit bottom during first half of FY2009 and since then has been showing recovery.

(3) Operating income

- Although figures show a halving by comparison with previous year, cost reduction effects resulted in significant improvement over forecast.

(4) Net income

- Favorable turn of extraordinary income or loss figure resulted in improvement over the previous term.

Unit: JPY billion

	FY2009	FY2008	Change
Orders	403.4	600.7	△197.2
Net sales	516.2	642.9	△126.8
Operating income	28.3	56.9	△28.7
Operating income ratio	5.5%	8.9%	△3.4%
Ordinary income	26.3	50.3	△23.9
Ordinary income ratio	5.1%	7.8%	△2.7%
Extraordinary income or loss	△0.1	△16.5	16.5
Current net income before tax adjustments	26.3	33.7	△7.5
Current net income	13.3	13.6	△0.4
Current net income ratio	2.6%	2.1%	0.5%

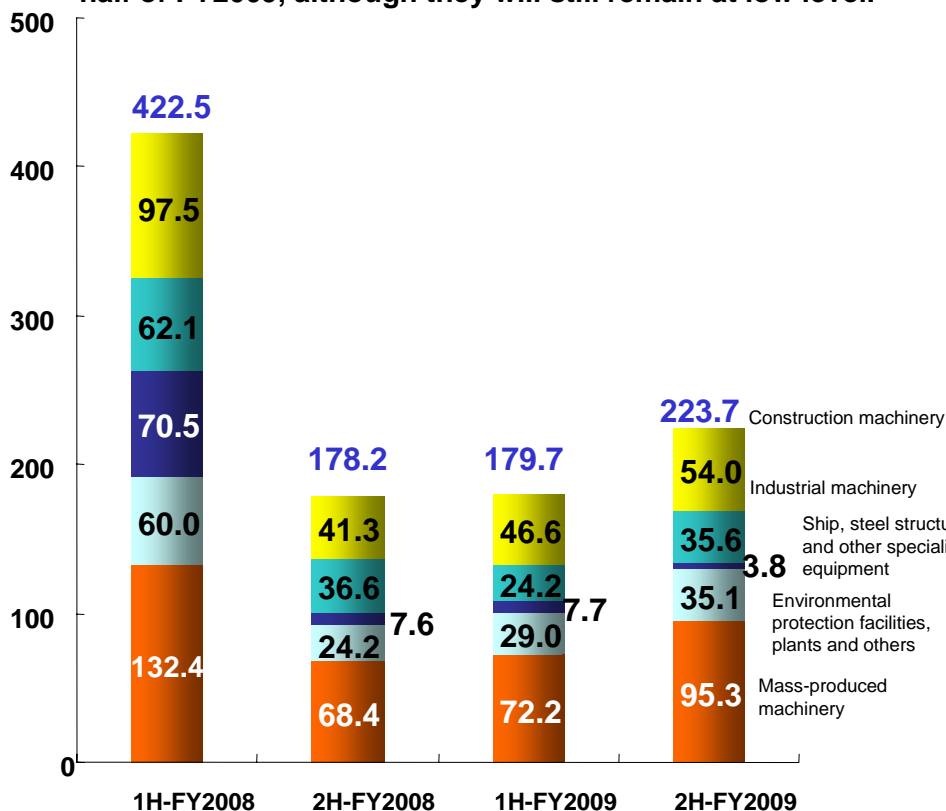
First Half Transition of Orders and Net Sales

Unit: JPY billion

Orders

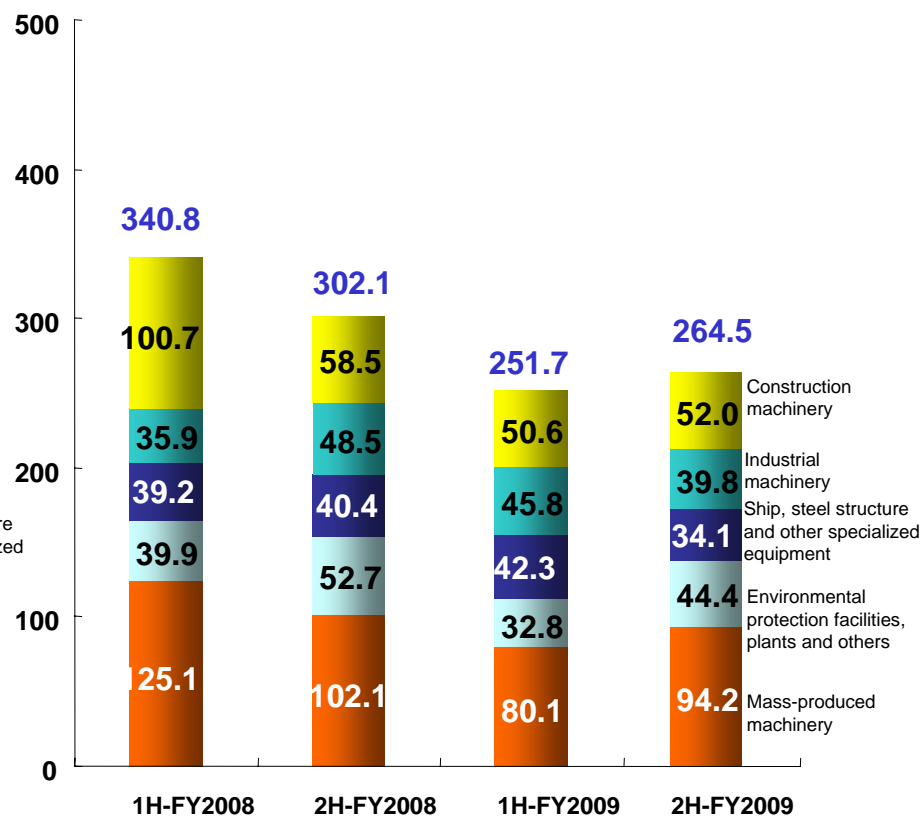
Orders reached bottom during second half of FY2008 and have been transitioning in recovery trend.

Figures are expected to increase further during second half of FY2009, although they will still remain at low level.



Net sales

Net sales underwent gradual recovery, reflecting status of orders.



Operating Income by Segment

■ Comparison with previous year

<Mass-produced machinery>

Revenue deteriorated due to reduction of sales for PTC, plastics, precision machinery and others.

<Environmental protection facilities, plants and others>

Revenue deteriorated due to reduction of sales for boilers and water treatment plants.

<Ship, steel structure and other specialized equipment>

Revenue decreased due to impact from rising cost of raw materials and fluctuation of currency exchange rates.

<Industrial machinery>

Although revenue for turbines and pumps deteriorated due to reduction in sales, revenue picked up for transportation machinery and forging presses.

<Construction machinery>

Revenue for hydraulic excavators and mobile cranes in United States deteriorated, due to decline in sales.

Unit: JPY billion

	FY2009	FY2008	Change
Mass-produced machinery	△1.7	12.3	△14.0
Environmental protection facilities, plants and others	7.9	10.7	△2.8
Ship, steel structure and other specialized equipment	7.2	12.6	△5.4
Industrial machinery	14.2	13.6	0.6
Construction machinery	0.6	7.5	△7.0
Total	28.3	56.9	△28.7

■ Comparison with forecast

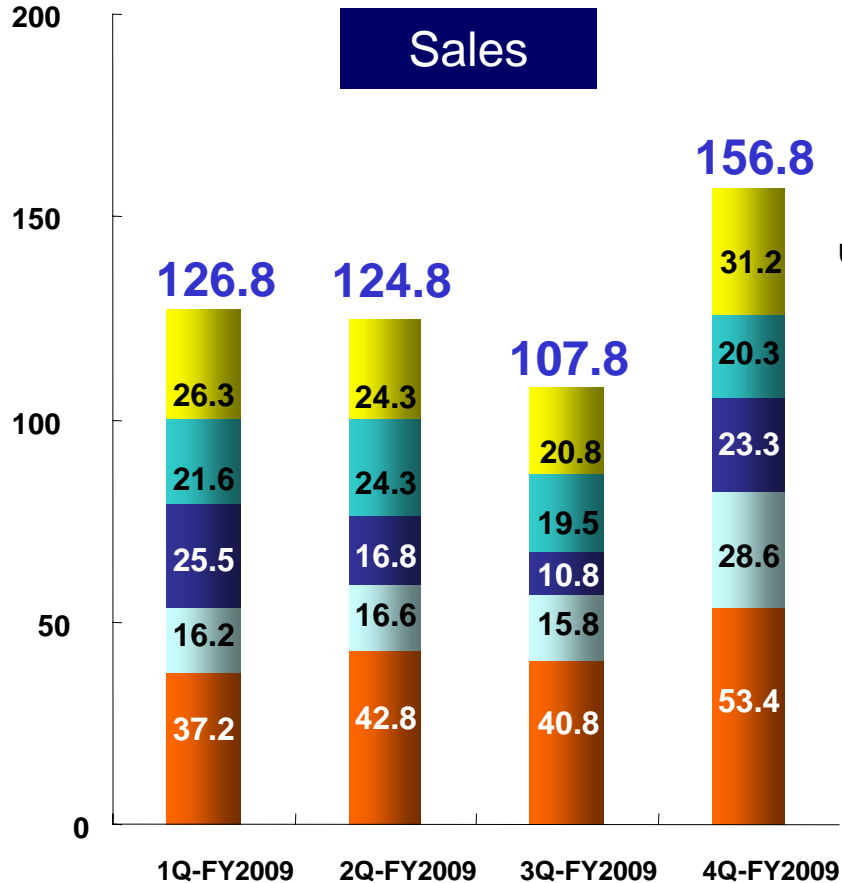
Significant improvements were made across all segments, due to cost reduction efforts.

Quarterly Transition of Operating Income

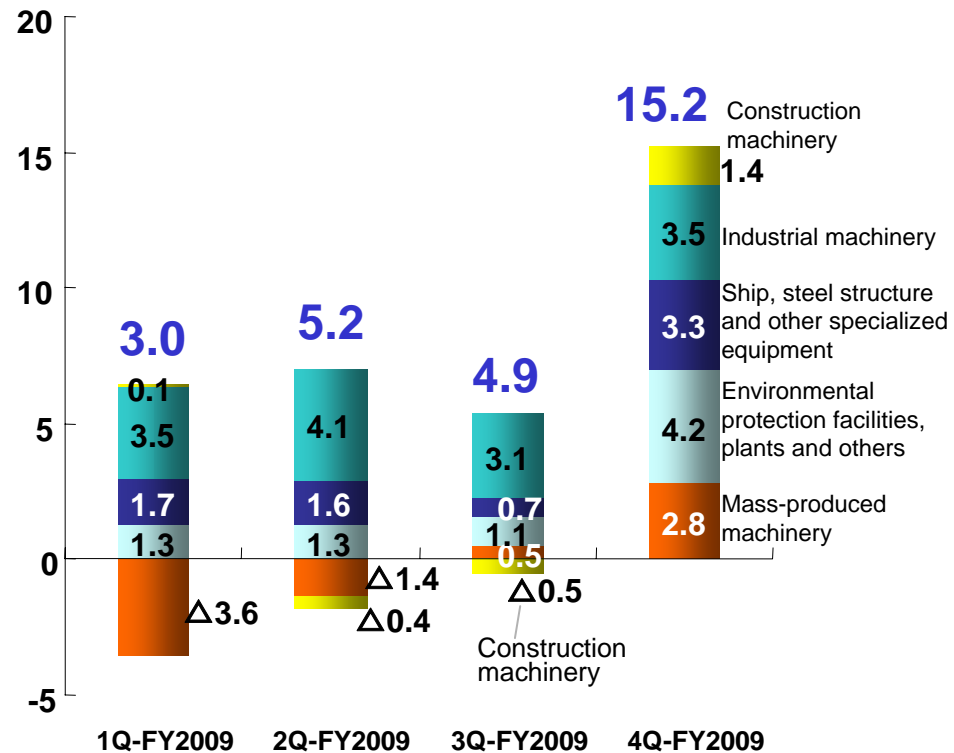
Mass-produced machinery and construction machinery show clear signs of transition for recovery.

Improvements take place with heavy machinery, due to cost reduction efforts.

Unit: JPY billion

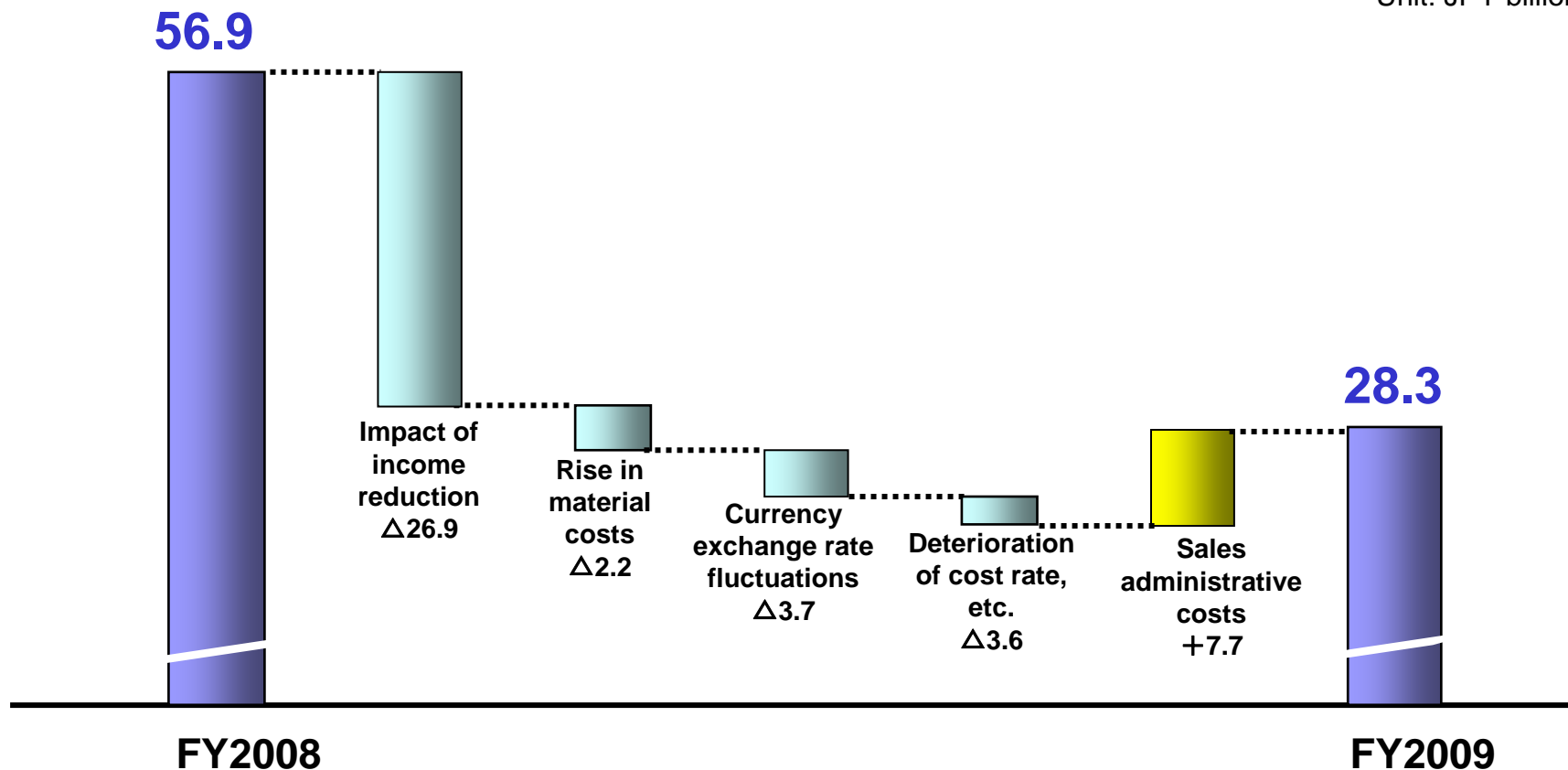


Unit: JPY billion



Analysis of Change in Operating Income (FY2008 to FY2009)

Unit: JPY billion



Consolidated Balance Sheet

				Unit: JPY billion			
	End arch 2010	End March 2009	Change		End March 2010	End March 2009	Change
Current assets	339.8	380.3	△40.5	Liabilities	355.9	418.7	△62.8
Cash and deposits	62.5	44.7	17.8	Notes and accounts payable	108.0	136.1	△28.1
Notes and accounts payable	131.9	155.7	△23.8	Advance payments	41.0	50.0	△9.0
Inventories	123.4	149.4	△26.0	Interest-bearing debts	87.7	110.3	△22.7
Others	22.0	30.6	△8.6	Others	119.3	122.3	△3.0
Fixed assets	270.3	277.1	△6.8	Net assets	254.2	238.7	15.5
Tangible assets	216.5	214.0	2.4	Common equity	211.8	198.6	13.2
Intangible assets	7.3	6.4	0.9	Valuation variations and currency exchange fluctuations	32.4	30.0	2.4
Investments and other assets	46.5	56.7	△10.2	Minority interests	9.9	10.1	△0.2
Total	610.1	657.4	△47.3	Total	610.1	657.4	△47.3
				Net ratio of interest-bearing debts	4.1%	10.0%	
				Stockholders' equity ratio	40.0%	34.8%	

Consolidated Statement of Cash Flow

1-7

Unit: JPY billion

Category	FY2009	FY2008	Change
Operating activities	57.5	34.7	22.8
Operating income before interest payments amortization and depreciation	46.8	69.1	△22.3
Working capital	14.3	△14.4	28.7
Others	△3.6	△20.1	16.5
Investing activities	△14.0	△35.9	22.0
Free cash flow	43.6	△1.2	44.8
Financing activities	△26.7	15.6	△42.3
Change in cash and cash equivalents	17.1	12.6	4.5
Cash and cash equivalents at end of fiscal year	61.5	42.4	19.0

FY2010 Forecast of Business Performance by Segment

1-8

■ Key points

- (1) Recovery of orders for mass-produced machinery and construction machinery will fully start commencing FY2010. Severe conditions will continue with regards to environmental protection facilities, plants and others, as well as steel structures and other specialized equipment and industrial machinery.
- (2) Recovery of net sales will also start in full swing together with orders, starting from second half of FY2010.
- (3) Operating income will move out of red and into black in all segments, with restoration of profitability for mass-produced machinery.

Unit: JPY billion

		Record 2 nd half FY2009	Forecast 1 st half FY2010	Forecast 2 nd half FY2010	Forecast FY2010	Record FY2009
Mass-produced machinery	Orders	95.3	103.0	114.0	217.0	167.5
	Net sales	94.2	92.5	112.5	205.0	174.2
	Operating income	3.3	2.0	8.5	10.5	△(1.7)
Environmental protection facilities, plants and others	Orders	35.1	26.5	36.5	63.0	64.0
	Net sales	44.4	27.0	48.0	75.0	77.2
	Operating income	5.3	0.5	5.0	5.5	7.9
Ship, steel structure and other specialized equipment	Orders	3.8	5.5	19.5	25.0	11.5
	Net sales	34.1	33.5	42.5	76.0	76.5
	Operating income	4.0	2.5	6.5	9.0	7.2
Industrial machinery	Orders	35.6	35.0	30.0	65.0	59.8
	Net sales	39.8	35.0	33.0	68.0	85.6
	Operating income	6.6	4.5	2.5	7.0	14.2
Construction machinery	Orders	54.0	60.0	60.0	120.0	100.5
	Net sales	52.0	57.0	59.0	116.0	102.7
	Operating income	0.9	1.5	2.5	4.0	0.6
Total	Orders	223.7	230.0	260.0	490.0	403.4
	Net sales	264.5	245.0	295.0	540.0	516.2
	Operating income	20.0	11.0	25.0	36.0	28.3

FY2010 Forecast of Business Performance

■ Key points

- (1) Operating income is expected to improve for mass-produced machinery segment to levels of FY2008.
- (2) Net sales are expected to show slight increase from figures of FY2009, with mass-produced machinery segment making up for losses in industrial machinery segment.
- (3) Dividends increased from JPY3 to JPY4 in FY2009. Although there will be no distribution of interim dividends for FY2010, annual amount of dividends is planned to reach JPY5.

Unit: JPY billion

	Forecast 1 st half FY2010	Forecast 2 nd half FY2010	Forecast FY2010	Record FY2009
Orders	230.0	260.0	490.0	403.4
Net sales	245.0	295.0	540.0	516.2
Operating income	11.0	25.0	36.0	28.3
Operating income ratio	4.5%	8.5%	6.7%	5.5%
Ordinary income	8.5	23.5	32.0	26.3
Ordinary income ratio	3.5%	8.0%	5.9%	5.1%
Extraordinary income or loss	△1.5	△1.0	△2.5	△0.1
Net income	3.0	13.5	16.5	13.3
Net income ratio	1.2%	4.6%	3.1%	2.6%
Dividends	JPY0	JYP5	JPY5	JPY4
Dividend ratio			18.3%	18.2%
ROIC (after tax)			6.0%	4.8%
Projected currency exchange rate (US dollar)			JPY90	JPY95

Part II: Management Strategy

Medium-term Management Plan: Perception of Current Status

	Global 21	Perception of current status
Targets for FY2010	<ul style="list-style-type: none"> ➤ Net sales of JPY850.0 billion ➤ Operating income of JPY100.0 billion 	<ul style="list-style-type: none"> ✓ Although realization of quantitative targets set in “Global 21” is difficult, growth is occurring through capture of opportunities becoming available as markets recover.
Keywords	<ul style="list-style-type: none"> ➤ Globalization ➤ Innovation 	<ul style="list-style-type: none"> ✓ Committed to continue with directions set for “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 	<ul style="list-style-type: none"> ✓ Sustain financial discipline while restarting investments for growth.



Business performance record for FY2009

Orders and sales will decline but operating income will improve significantly.

	(Planned for May)	⇒	(Record)
Orders	JPY450.0 billion	⇒	JPY403.4 billion
Sales	JPY530.0 billion	⇒	JPY516.2 billion
Operating income	JPY14.0 billion	⇒	JPY28.3 billion



Business environment

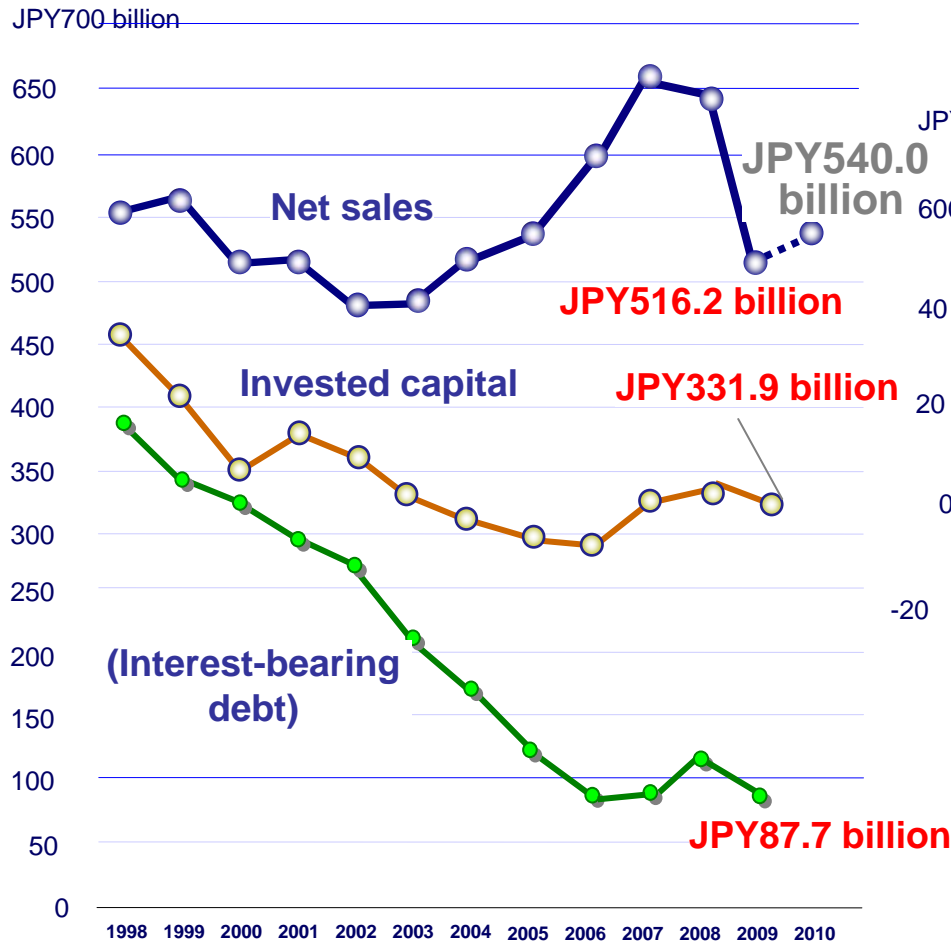
- ✓ Economies of industrialized nations are starting to come out of worst period, while those of emerging nations will return to their previous growth paths.
- ✓ Mass-produced machinery and construction machinery businesses are showing rapid recovery.

Business Performance Transition

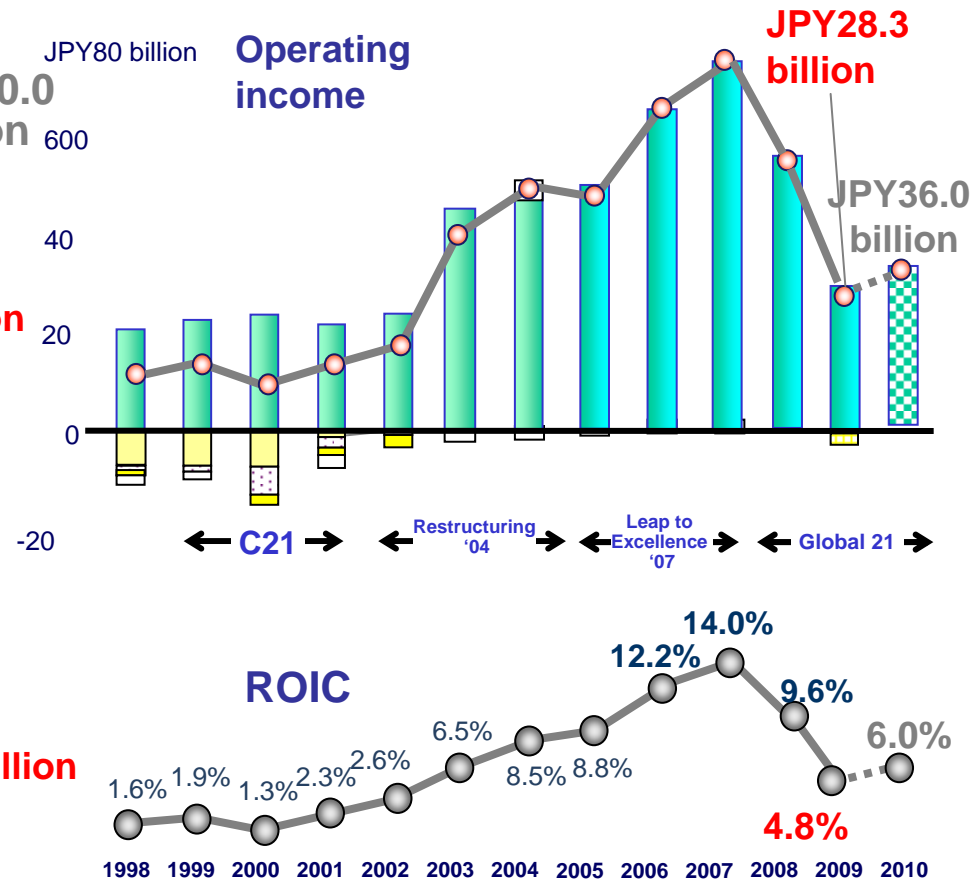
Record for FY2009: Figures fell below figures of previous year, with net sales of JPY516.2 billion and operating income of JPY28.3 billion.

Outlook for FY2010: Increased revenue and profits projected with net sales reaching JPY540 billion and operating income reaching JPY36 billion.

Net sales and invested capital



Operating income and ROIC



Management Discipline and Structural Reforms

2-3

■ 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 black

= Deficits in business, product models and in orders received, are all unacceptable

⇒ “Overcome market conditions and competition”: Promotion of structural reforms

Dedicated businesses adapted to unique market conditions and establishment of own competitive positions in market

⇒ Setting up separate corporate entities for steel structures and specialized equipment businesses (such as pressure vessels)
⇒ Establishment of wholly owned subsidiaries for semiconductor manufacturing equipment business

Pursuit of strategic effects

- Business reforms
- Portfolio management
- Vertically integrated business models

Scientific and rational business management

- Order profitability risk management
- ⇒ Presidential review on major orders
- Six Sigma method
 - Instruction and nurture of personnel

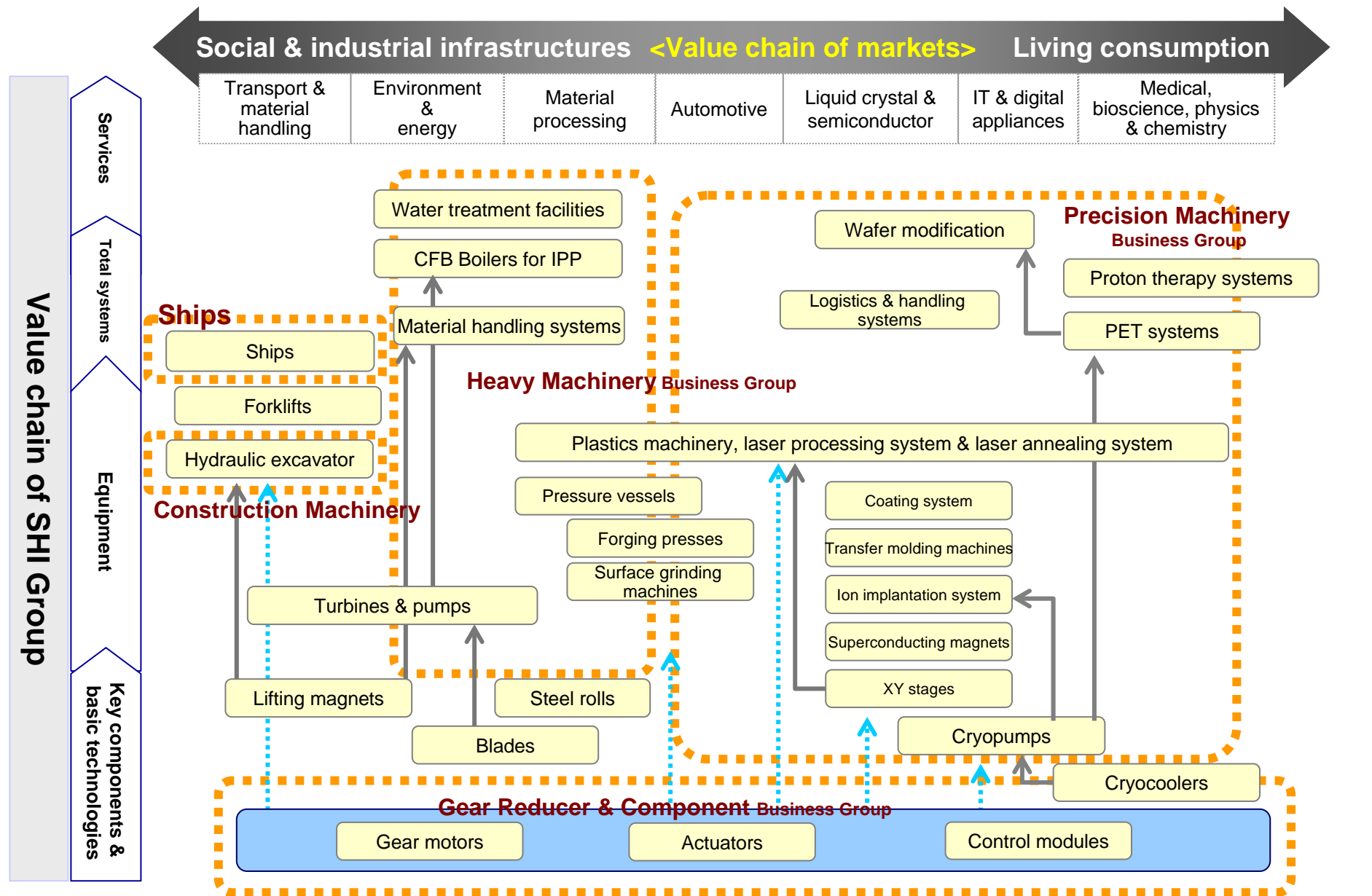
Innovation

- Creation of products with competitive edge
- ⇒ Commercialization of first-class products
- Operational process reforms
- ⇒ TPS activities, etc.

Globalization

- Placement of emphasis on autonomy of affiliated companies overseas
- Construction of manufacturing plants overseas
- Enhancement of regional administration of business activities

Business Portfolio and Value Chain: *One-SHI* ²⁻⁴



Wholly Owned Subsidiary Conversion of Nihon Spindle Manufacturing Co., Ltd.

■ Key points



■ Outline of Nihon Spindle Manufacturing Co., Ltd.

Address: 4-2-30 Shioe, Amagasaki City, Hyogo Prefecture

Representative officer: Junai Saito, President & CEO

Business description: Manufacturing and sales of:

Industrial machines (various rotational plasticity forming machines, food processing equipments, as well as thermal sterilizer, etc.),

Environmental machines (various dust collectors, dioxin treatment systems, etc.),

Air conditioning equipment (clean rooms, precision air-conditioning systems, cooling towers, ice- thermal systems, etc.),

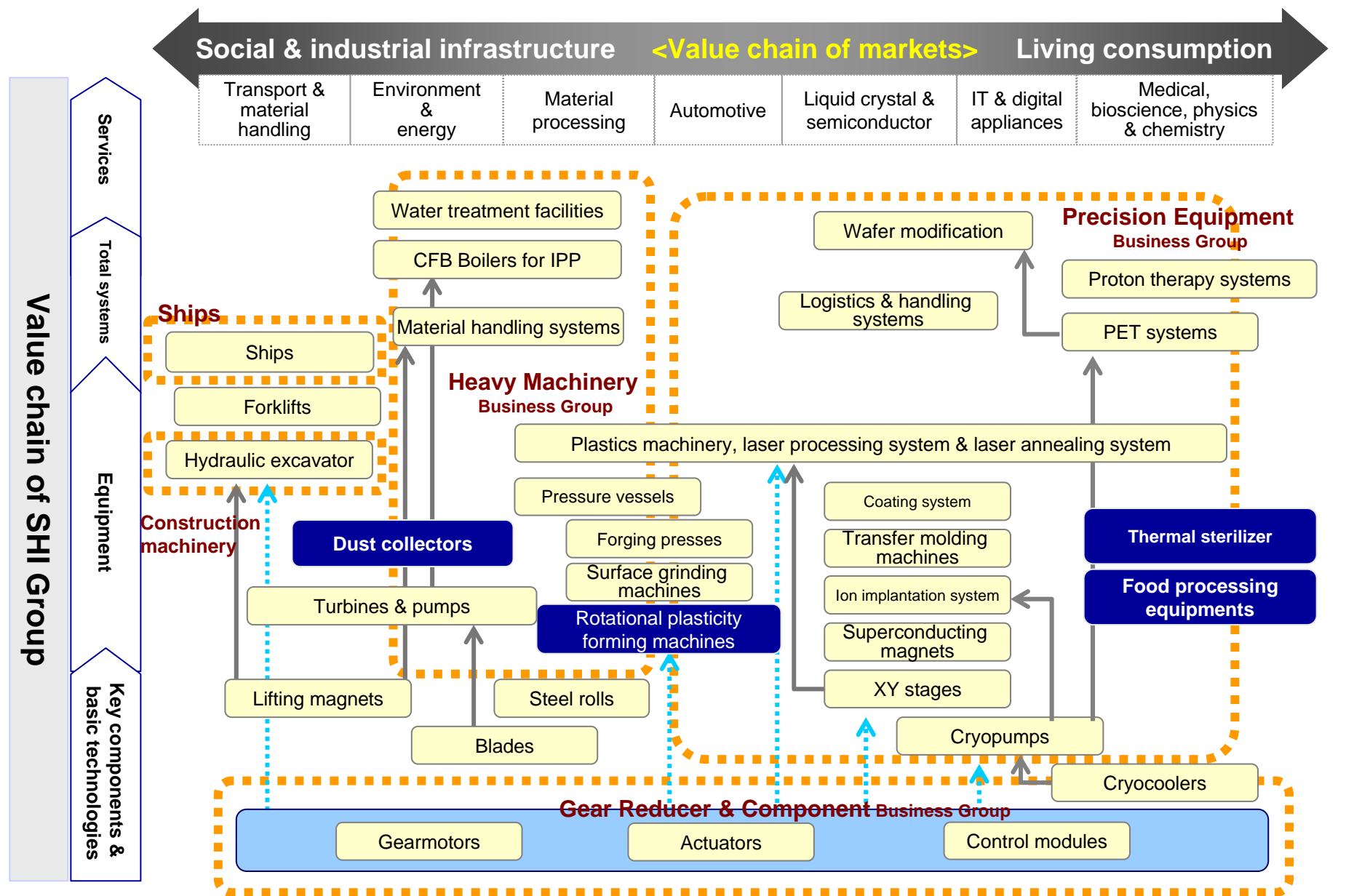
Construction materials (various partitions and dividers, as well as doors for welfare facilities) and so on.

Capital: JPY3.275 billion (as of March 31, 2010)

Establishment date: April 16, 1949

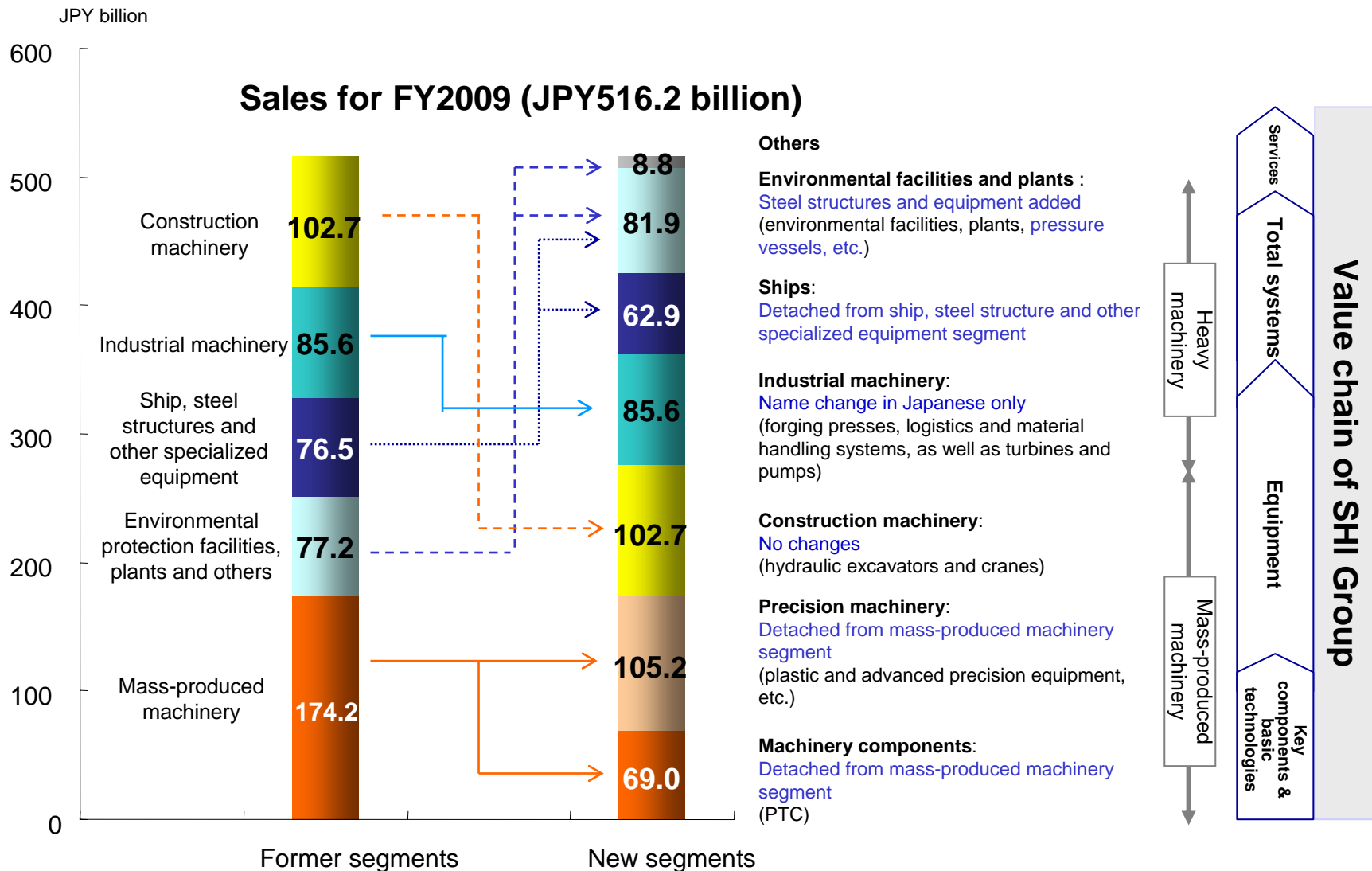
Number of employees: 727 persons (consolidated; as of March 31, 2010)

Consolidated sales: JPY20.113 billion (for fiscal term ending March 2010)



Change in Disclosure of Segment Information

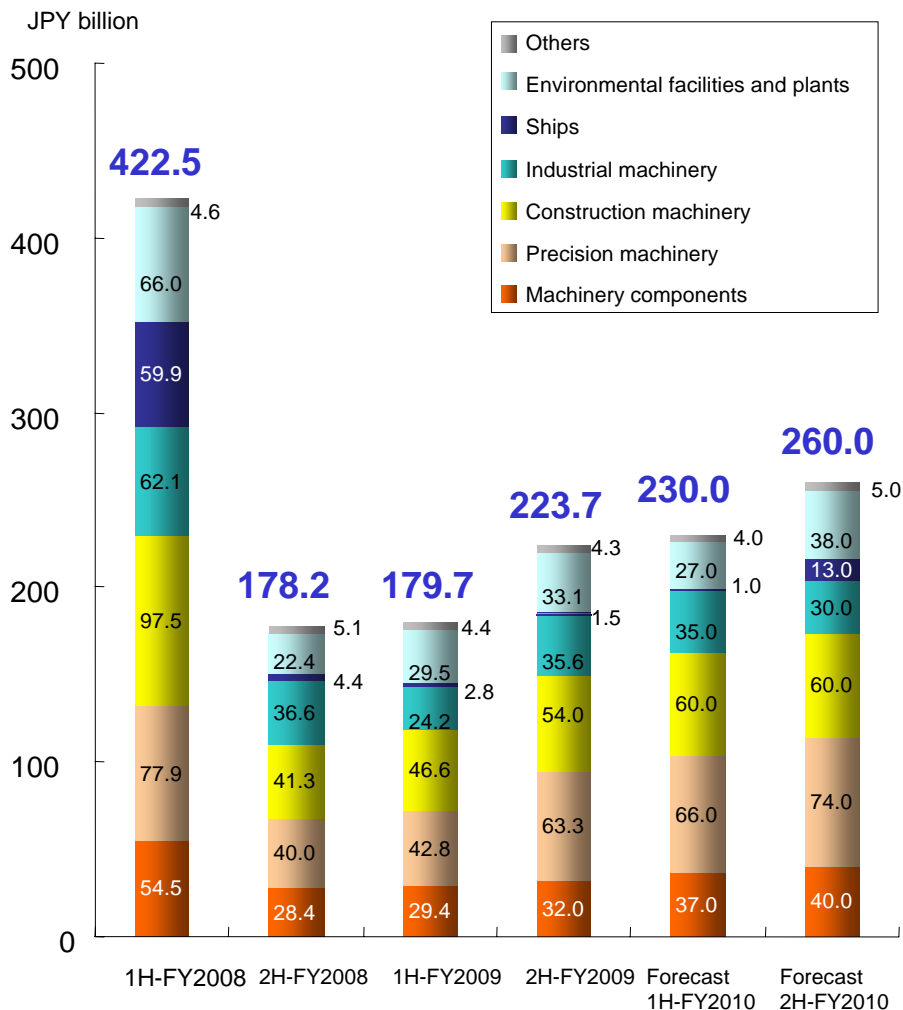
Business segments and names of business segments were changed as shown below, due to changes in corporate management segments implemented in April 2010:



Transition of Orders and Net Sales by New Segments

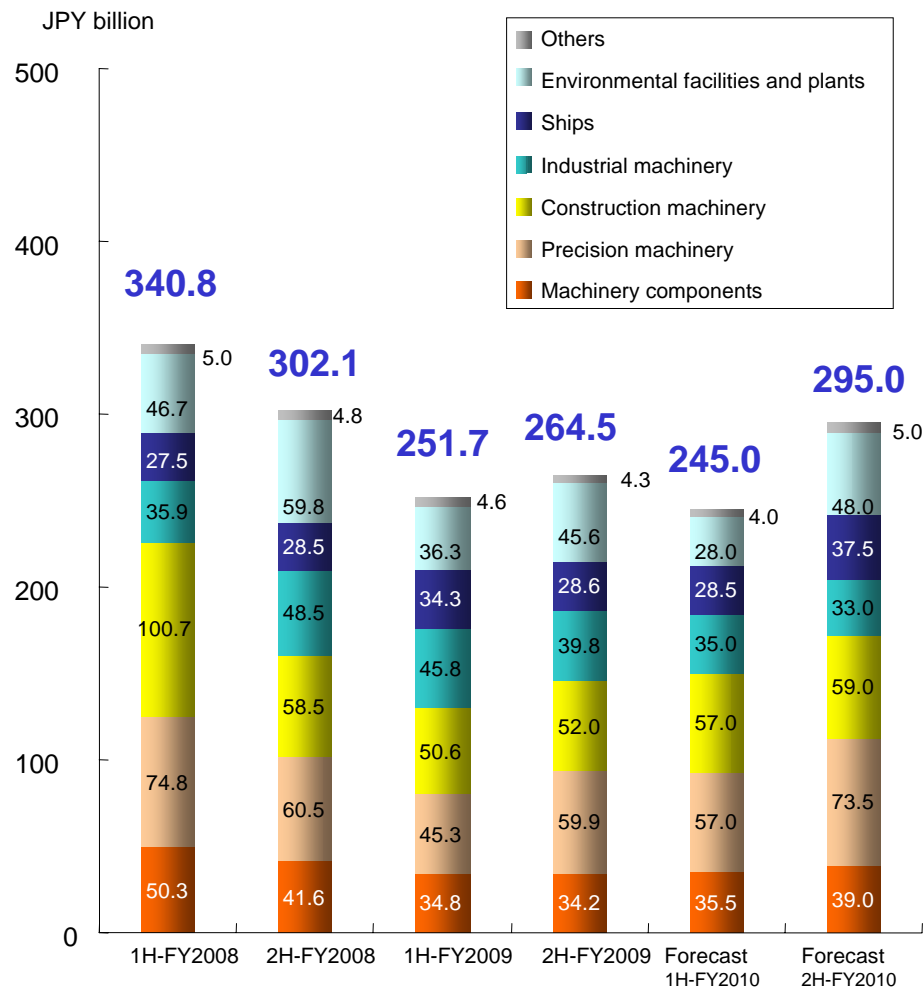
Orders

Machinery components, precision machinery and construction machinery hit bottom during second half of FY2008 and have since been in recovery trend. Ships and heavy machinery products have been transitioning at low levels as market conditions have not yet recovered.



Net Sales

Machinery components, precision machinery and construction machinery hit bottom during second half of FY2008 and have since been recovering. Net sales for ships and heavy machinery have been stable due to processing backlog of orders.



FY2010 Ordering Environment by New Segments

- Mass-produced machinery is recovering, but overall level still remains low.
- Ordering environment remains quite severe for heavy machinery, due in part to delayed orders for major projects.

Unit: JPY billion

New segment	Ordering environment	F2010 amount of orders		
		Forecast 1H	Forecast 2H	Forecast Annual
Machinery components	<ul style="list-style-type: none"> • Strong feeling of excessive facilities exists in Japan, resulting in leveling off of demand for machine components. • In overseas markets, recovery in Europe and United States is slow but major recovery is anticipated for Asia, led by high growth rate in China. Some movements are seen in resource and energy fields, on top of environment and infrastructure related areas. 	37.0	40.0	77.0
Precision machinery	<ul style="list-style-type: none"> • Domestic demand for plastic injection molding machines has been leveling off, but recovery of demand is seen in Northern Asia, primarily in China. Increase in number of business inquiries in areas of mobile phones, personal computers, games and consumer electronics. Although slow, signs of recovery are seen in Europe and United States. • Demand for medical and liquid crystal related areas have been steady overseas, primarily in Asia. • Demand for semiconductors are anticipated to recover. 	66.0	74.0	140.0
Construction machinery	<ul style="list-style-type: none"> • Demand for hydraulic excavators are increasing in China and Asia. • Severe market condition is anticipated to continue for mobile cranes in United States. 	60.0	60.0	120.0
Industrial machinery	<ul style="list-style-type: none"> • Demand for turbines is increasing for infrastructure and biomass power generation related areas with regards to turbines. Projects intended for EPC are active with regards to pumps. • Severe ordering environment is anticipated to continue for cranes and presses. 	35.0	30.0	65.0
Ships	<ul style="list-style-type: none"> • Demand for ship repairs continue to be steady, but situation for new ship building still remains on standby. Market recovery may take place in summer or thereafter. 	1.0	13.0	14.0
Environmental facilities and plants	<ul style="list-style-type: none"> • Although the ordering environment continues to remain severe for CFB boilers in the domestic market, facility investments are anticipated in Southeast Asia. • With regards to water treatment facilities, demand for private water treatment facilities are anticipated to continue to be severe. • Ordering environment for coke drums continue to be severe. 	27.0	38.0	65.0
Others		4.0	5.0	9.0
	Total	230.0	260.0	490.0

Machinery Components

Power transmission & control:

FY2009: Orders and net sales dropped for practically all models, due to continuing downturn of markets for machines across the board.

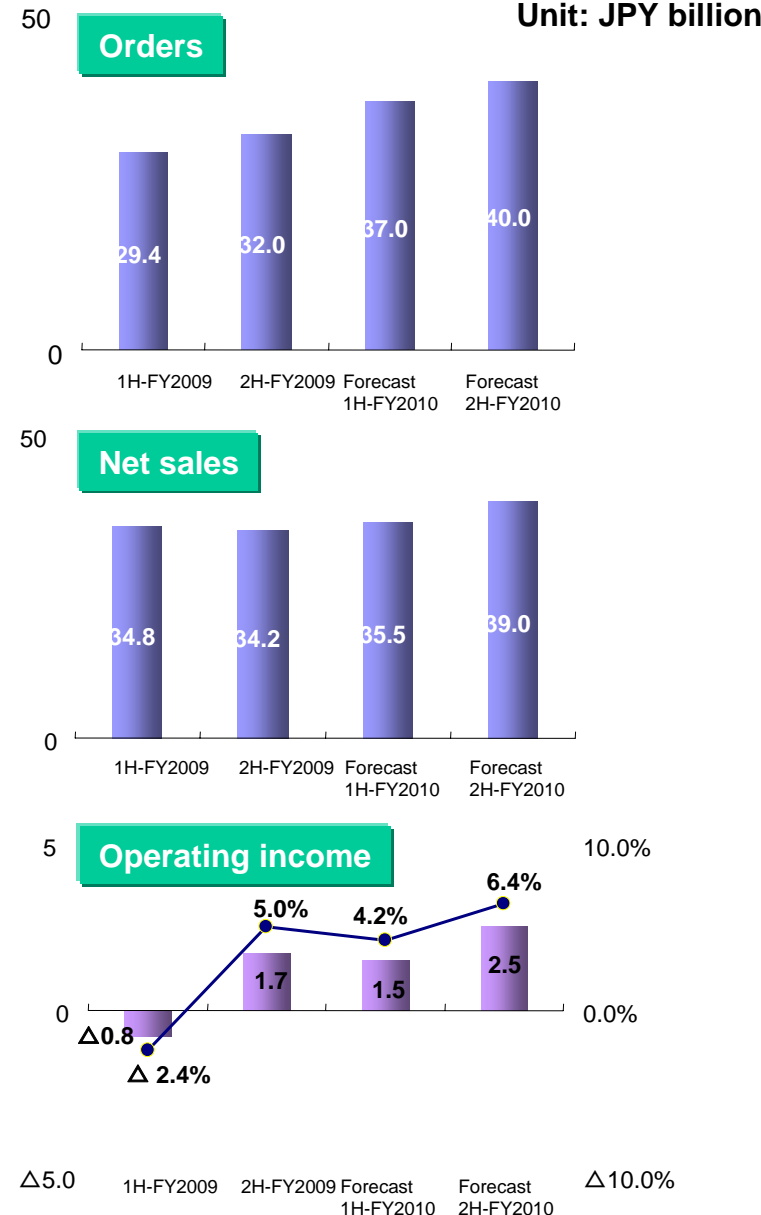
FY2010: Growing markets in China and other emerging nations in Southeast Asia will be targeted. Further enhancement of overseas production locations will be sought.



Tangshan Factory



Scene of large scale gear speed reducer assembly



Precision Machinery

Plastic machinery:

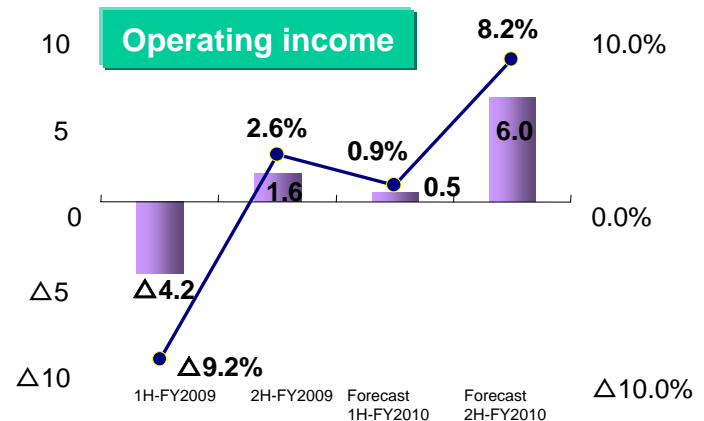
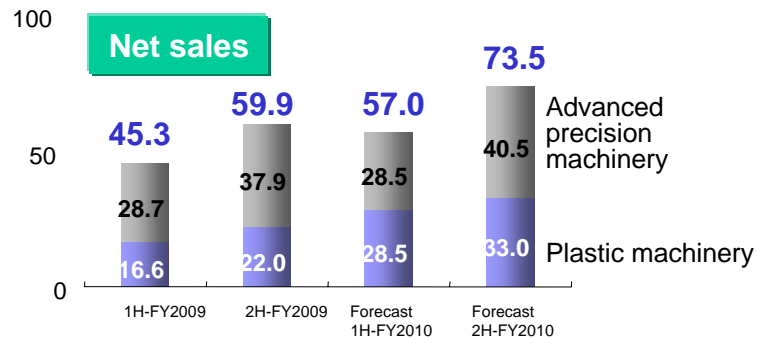
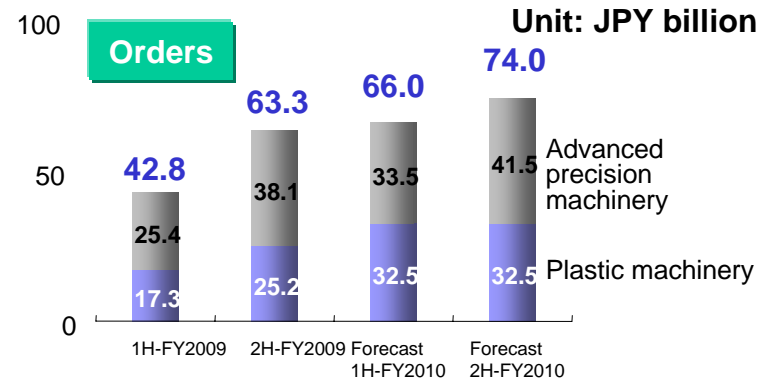
FY2009: Although there has been a recovering trend primarily for products intended for emerging nations, overall orders and net sales dropped in comparison with the previous year, due in part to delays in recovery of European businesses. Recovery, however, did start from first quarter of FY2009.

FY2010: Efforts will be made in markets of China and emerging nations of Asia.

Advanced precision machinery:

FY2009: Both orders and net income decreased, due in part to impact of deteriorating demand in semiconductor related areas.

FY2010: Efforts will be made to increase orders for medical related products in overseas markets. Overseas expansion of semiconductor manufacturing equipment will be promoted.



Construction Machinery

Hydraulic excavators:

FY2009: Significant reduction in demand in comparison with same period of previous year, except for China. Tangshan Manufacturing Plant is operating in good working order.

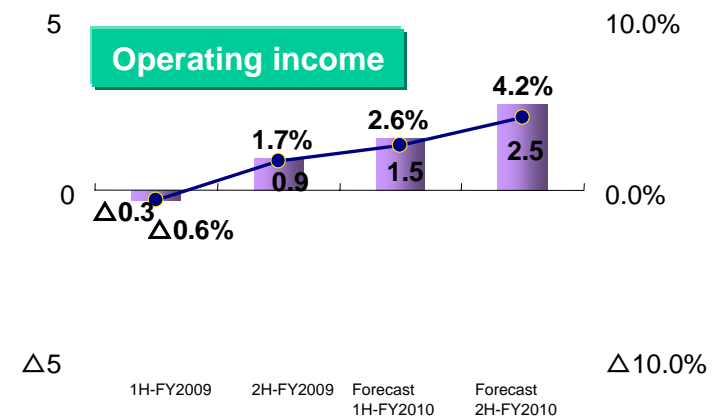
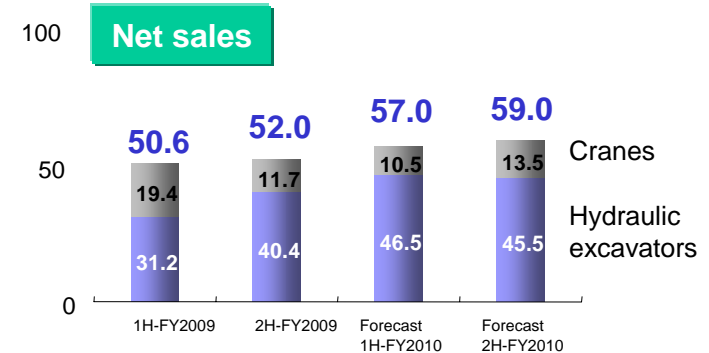
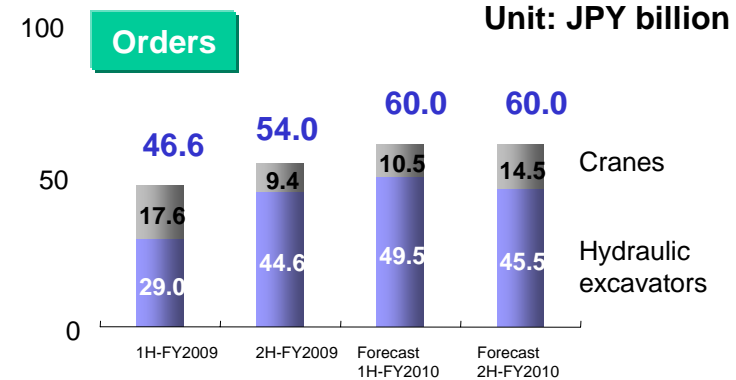
FY2010: Domestic market conditions continue to be severe. Efforts will be made to respond to insatiable demand from China and emerging nations.

Efforts will be made to capture demand in Southeast Asia, by establishing manufacturing plant in country of ASEAN community.

Cranes:

FY2009: Demand for infrastructural maintenance dropped rapidly in the North American market, resulting in reduction of orders by half in comparison with same period of the previous year. Net sales also decreased accordingly.

FY2010: Although some recovery of orders is anticipated for second half, it is expected to continue at low levels.



Construction of Manufacturing Plant in Indonesia

■ Key points

- (1) Manufacturing plant is constructed as location for supplying hydraulic excavator to ASEAN region.
 - (2) Indonesia comprises about half of all hydraulic excavator market for entire ASEAN region and further expansion of market can also be expected in future.
 - (3) Cost competitiveness can be improved through production in ASEAN region, which makes it possible to increase sales.
- Annual sales on scale of 1,000 units is targeted for ASEAN region.

■ Company outline

Company name: PT. SUMITOMO S.H.I. CONSTRUCTION MACHINERY INDONESIA

Capital: US\$3.3 million, wholly subscribed by SHI Group

Establishment date: Scheduled for July 2010

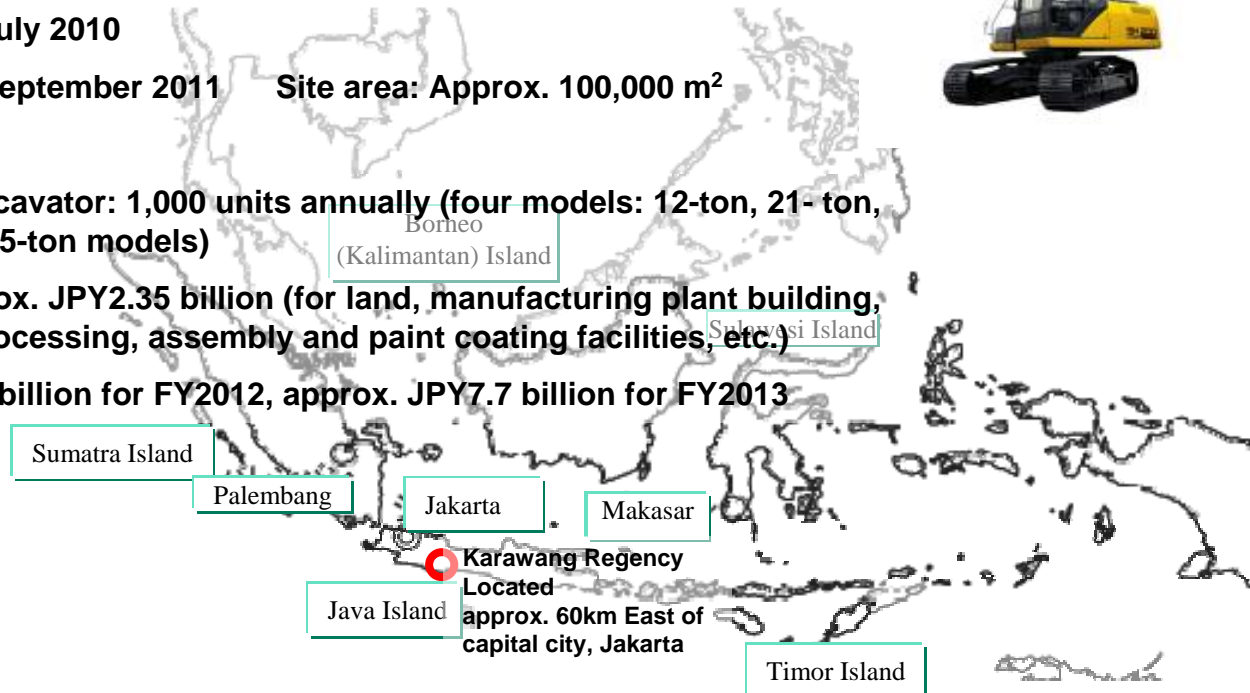
Start of operation: Scheduled for September 2011 Site area: Approx. 100,000 m²

Number of employees: Approx. 200

Production capacity: Hydraulic excavator: 1,000 units annually (four models: 12-ton, 21-ton, 24-ton and 35-ton models)

Amount of facility investment: Approx. JPY2.35 billion (for land, manufacturing plant building, as well as processing, assembly and paint coating facilities, etc.)

Net sales: Approx. JPY4.5 billion for FY2012, approx. JPY7.7 billion for FY2013



Forging press & steel manufacturing machinery:

FY2009: Amount of orders dropped significantly due to reduction of investments made in automotive industry. Net sales, however, transitioned in steady manner, due to backlog of orders.

FY2010: Endeavors will be made to generate more orders. After-market businesses will be enhanced.

Material handling systems:

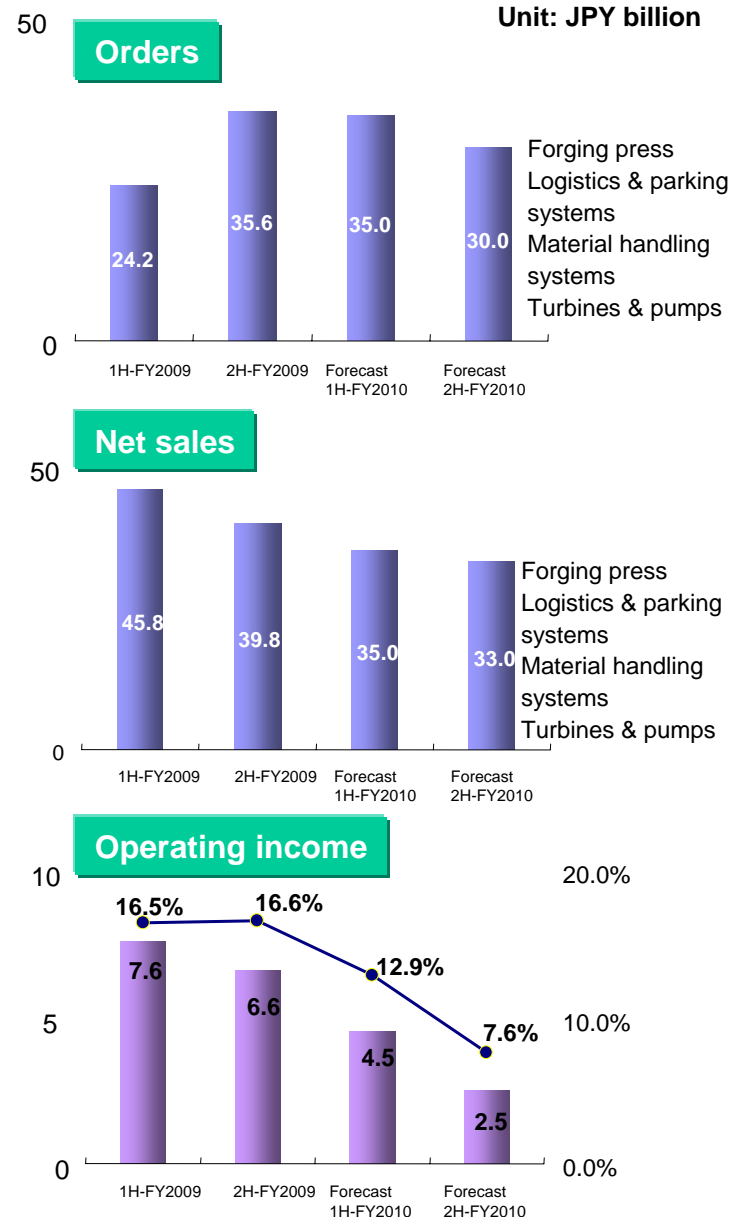
FY2009: Although number of orders declined primarily for ship building and steel manufacturing companies, net sales increased due to large backlog of orders.

FY2010: Sales capabilities will be enhanced in order to receive more orders, as business negotiations are increasing with domestic electric power companies and steel manufacturing industries overseas. Net sales are transitioning in steady manner due to backlog of orders.

Turbines & Pumps:

FY2009: Although demand for turbines of biomass power generators, primarily intended for emerging nations, are in recovering, both orders and net sales have dropped due to sluggish facility investments with customers in resources and energy related areas.

FY2010: Orders will be secured for turbines through enhancement of sales capabilities in Southeast Asia. Securing of orders for pumps will be aimed through enhancement of service activities as well as by receiving orders from EPC.



Ships

Ships:

FY2009: Number of orders was nil, with no signs of market recovery in sight. Sales increased over previous period by one vessel, with nine vessels sold. Profit ratio deteriorated due to impact of rising cost of raw materials and currency exchange rate fluctuations. Orders for ship repairs remained steady, however.

FY2010: Market condition remains severe, but there is movement, which leads to anticipation of orders towards end of fiscal year. In terms of sales, nine vessels are anticipated. Profit ratio is expected to make turn for better, due to softening of blow from rising cost of raw materials.

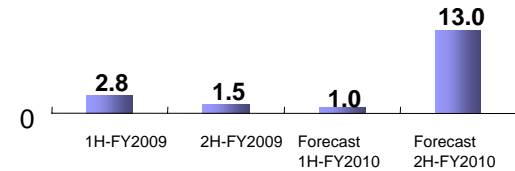


Aframax tanker

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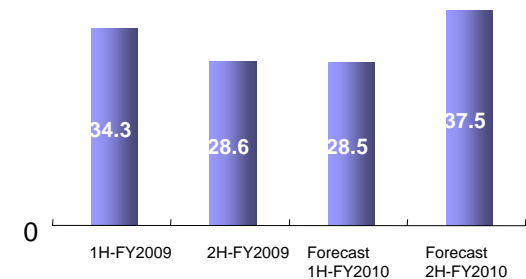
Orders

Unit: JPY billion



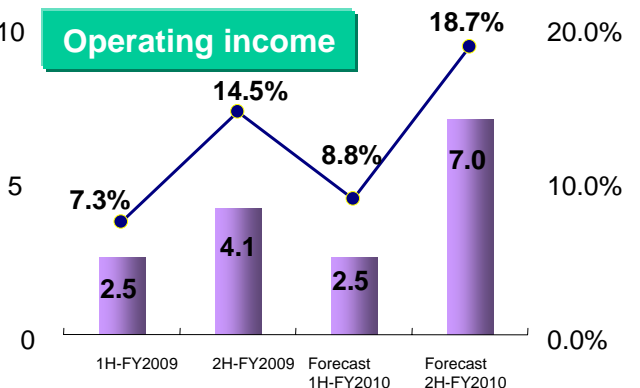
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Net sales



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Operating income



Environmental Facilities and Plants

CFB boilers for IPP:

FY2009: Both orders and net sales dropped due to sluggish performance of industrial boilers for electric power generation both in domestic and overseas markets.

FY2010: Market conditions are anticipated to remain severe, sales efforts will be enhanced in Southeast Asia, aiming to increase sales. Increase of orders will be sought through further cultivation of domestic projects, as well as through ground breaking efforts for compact boilers.

Water treatment facilities:

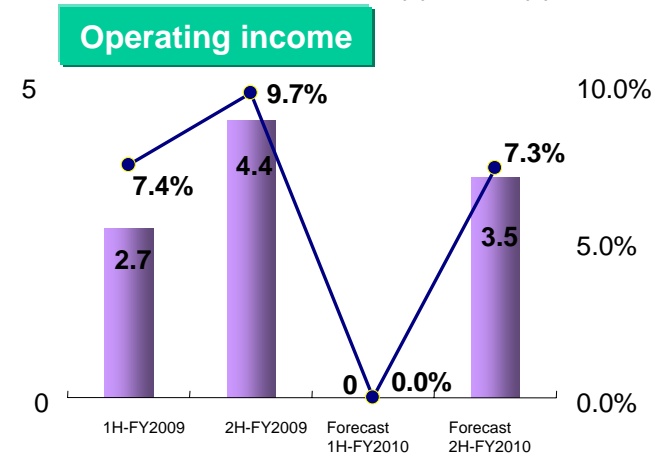
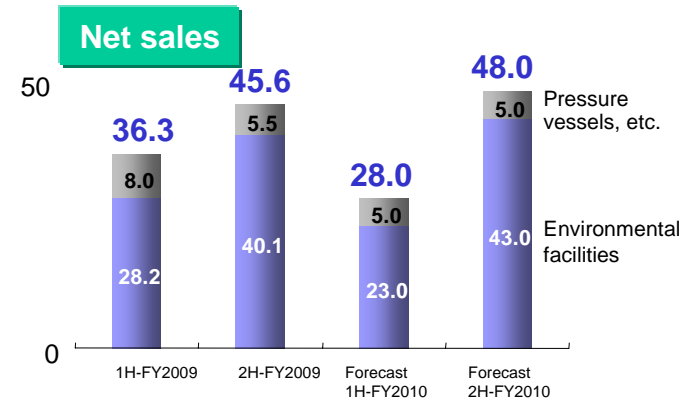
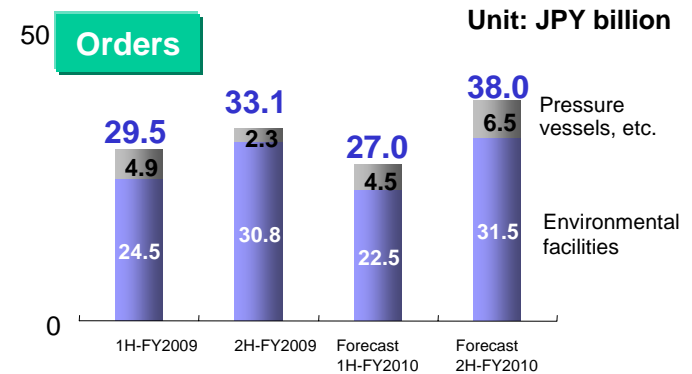
FY2009: Although water treatment facilities for public sector performed well, orders for private sector dropped due to sluggish demand. Net sales, however, increased due to large backlog of orders.

FY2010: Efforts will be made to receive orders for private sector projects. Furthermore, development and increased sales will be promoted for unit equipment.

Pressure vessels and mixing reactors, etc:

FY2009: Although some oil refinery projects resumed, both orders and net sales transitioned in sluggish manner. This was due in part to impact of rising cost of raw materials and currency exchange rate fluctuations.

FY2010: Although severe conditions continue, due to cautious facility investments by customers, efforts will be made to secure more orders.

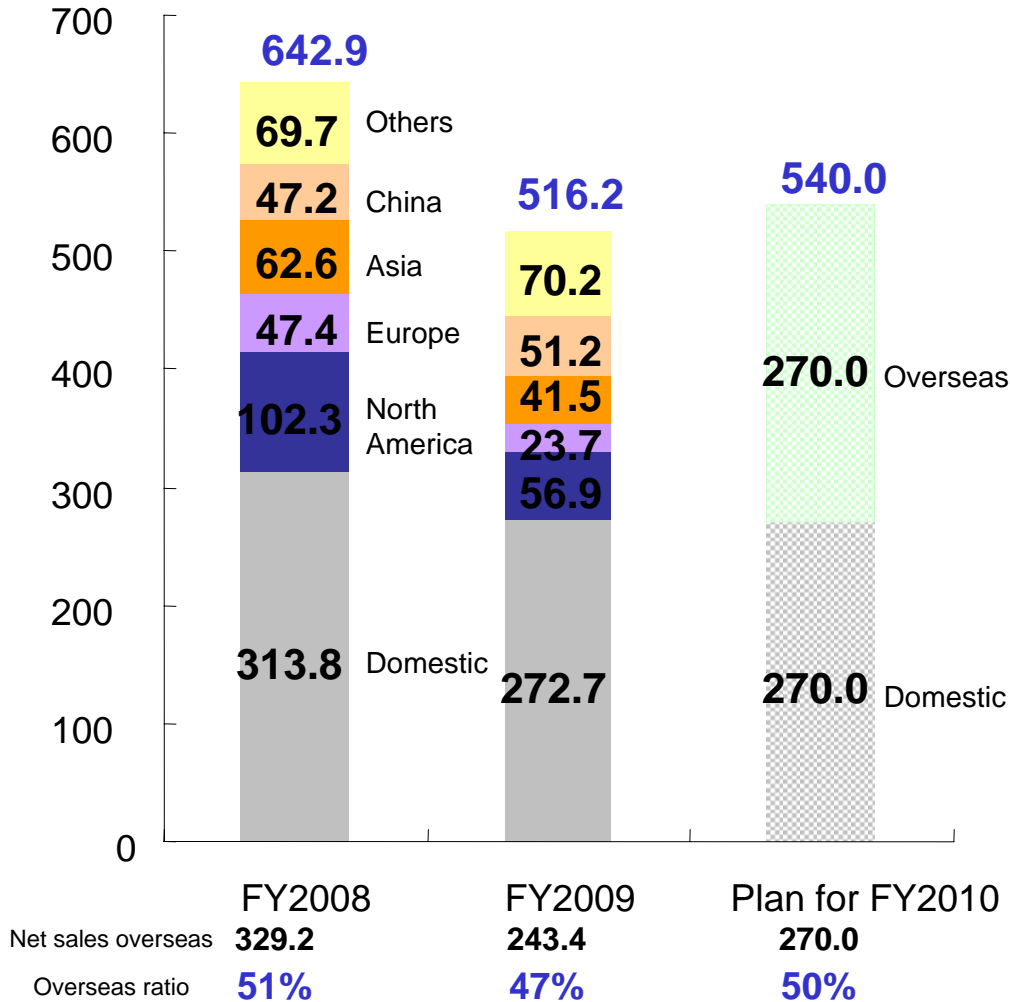


Net Sales Overseas

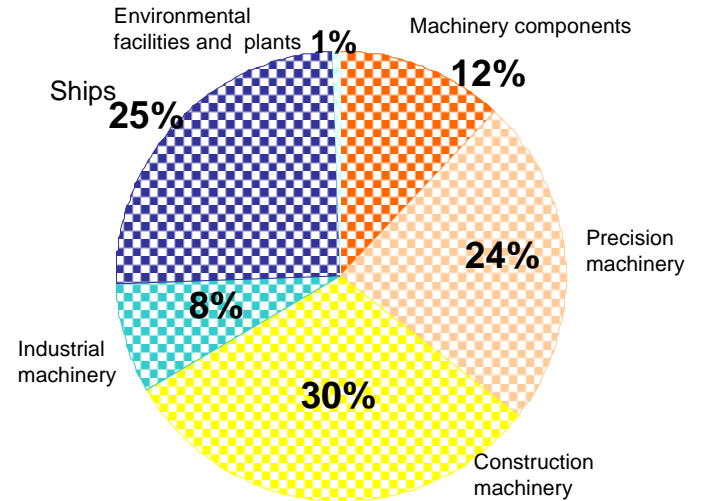
Unit: JPY billion

Transition of net sales overseas

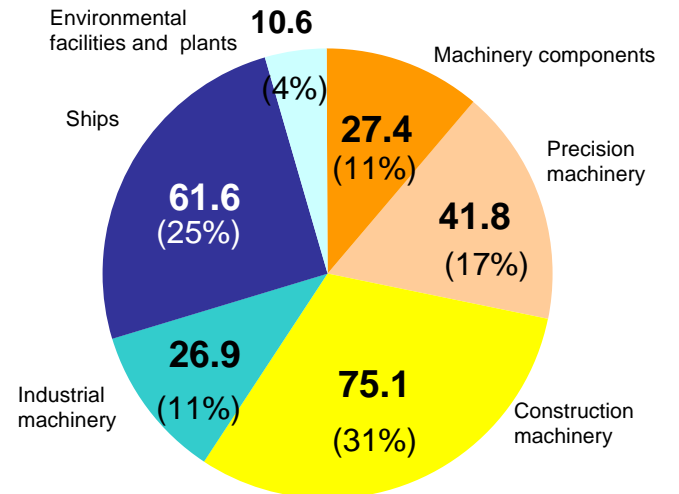
Unit: JPY billion



FY2010 Net Sales Overseas by Segments (Plan)



FY2009 Net Sales Overseas by Segments



Management Policies

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

FY2010:

Rise of markets is captured in an accurate manner to guide our business into growth mode.

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.