

# **Part 1: Financial Summary for FY2010 and Projections for FY2011**

# Financial Summary for FY2010

Unit: JPY billion

## ➤ Key points

### (1) Amount of orders

- Increased in all segments in comparison with the previous term.
- Amount of orders are recovering, mainly in China and emerging nations.

### (2) Net sales

- Mass-produced machinery increased in comparison with the previous term.
- Heavy machinery decreased in comparison with the previous term, due to a reduction in backlogs.

### (3) Operating income

- Recorded profits in all segments.
- Profits of mass-produced machinery increased in comparison with the previous term due to increases in the sale.
- Profits of heavy machinery were secured through cost reductions, etc.

### (4) Net income

- Increased in comparison with the previous term, due to the effects of negative goodwill.

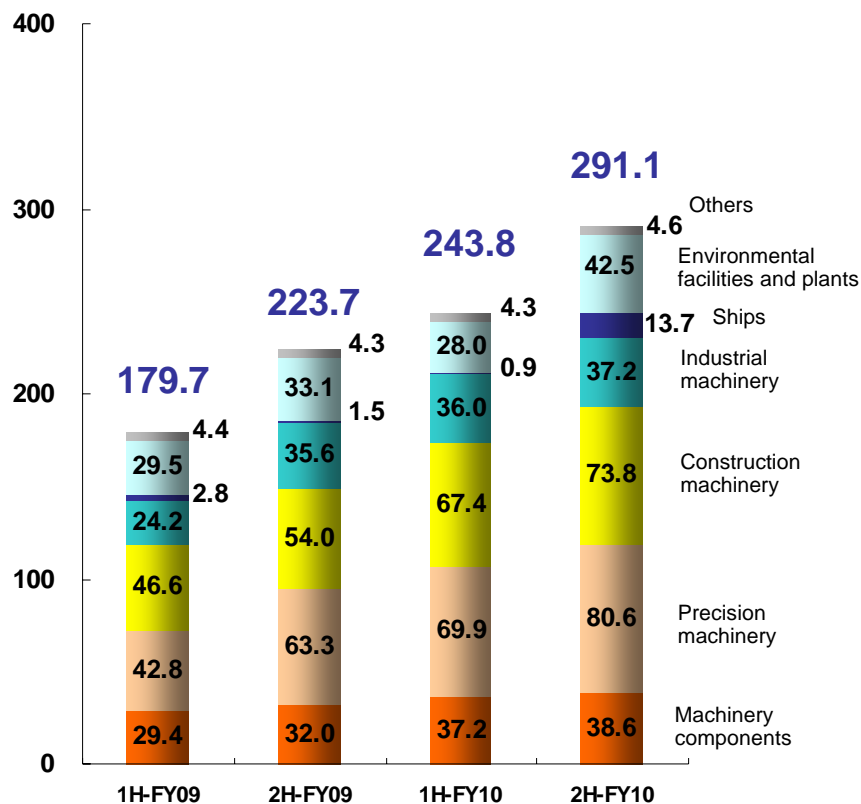
	2010	2009	Change
Orders	534.9	403.4	131.5
Net sales	548.0	516.2	31.9
Operating income	45.8	28.3	17.5
Operating income ratio	8.4%	5.5%	2.9%
Ordinary income	44.3	26.3	17.9
Ordinary income ratio	8.1%	5.1%	3.0%
Extraordinary income or loss	0.8	(0.1)	0.9
Current net income before tax adjustments	45.1	26.3	18.8
Current net income	27.9	13.3	14.6
Current net income ratio	5.1%	2.6%	2.5%

# Orders and Net Sales

Unit: JPY billion

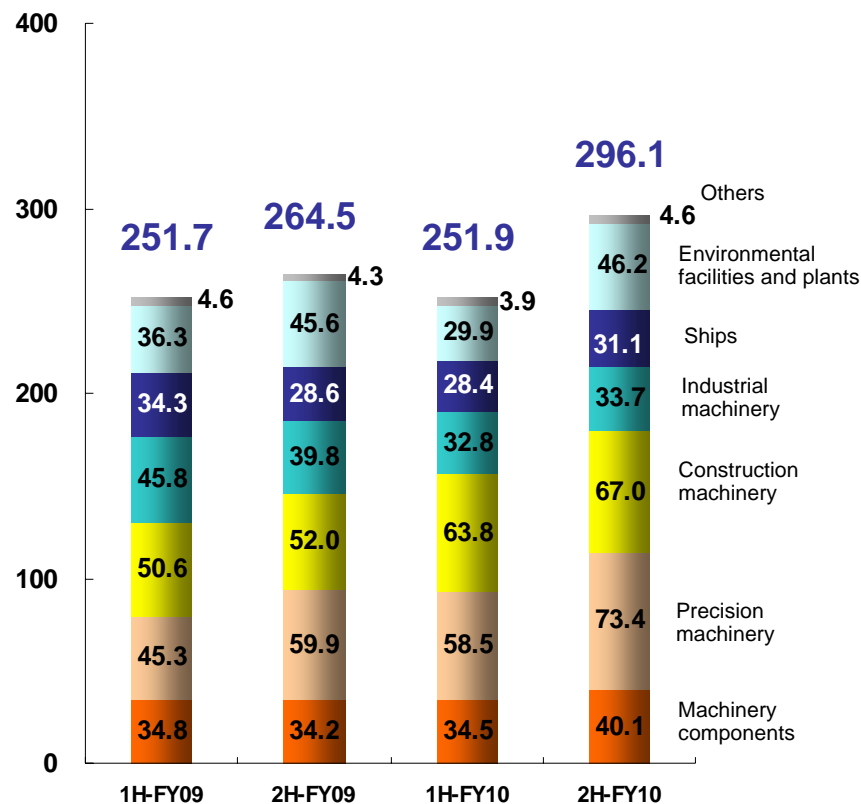
## Orders

- Increased mainly with mass-produced machinery. After two and half years ships has received new order.



## Net sales

- Shifted to an upward trend, reflecting increased orders.



# Operating Income by Segments

Unit: JPY billion

## ➤ Comparisons with previous fiscal year

### <Machinery components>

Profits increased through cost reductions in addition to increased sales.

### <Precision machinery>

Increased sales and significantly improved profits for plastic machinery.

### <Construction machinery>

Profits increased for hydraulic excavators, due to increased sales, but profits deteriorated for mobile cranes in the United States, in comparison with the previous year.

### <Industrial machinery>

Profits were sustained at a high level, although there was deterioration in comparison with the previous year, due to a reduction in sales.

### <Ships>

Decreased sales, due to a reduction in the number of deliveries for eight newly built ships, which reduced by one in comparison with the previous year, however, profits improved through cost reductions, etc.

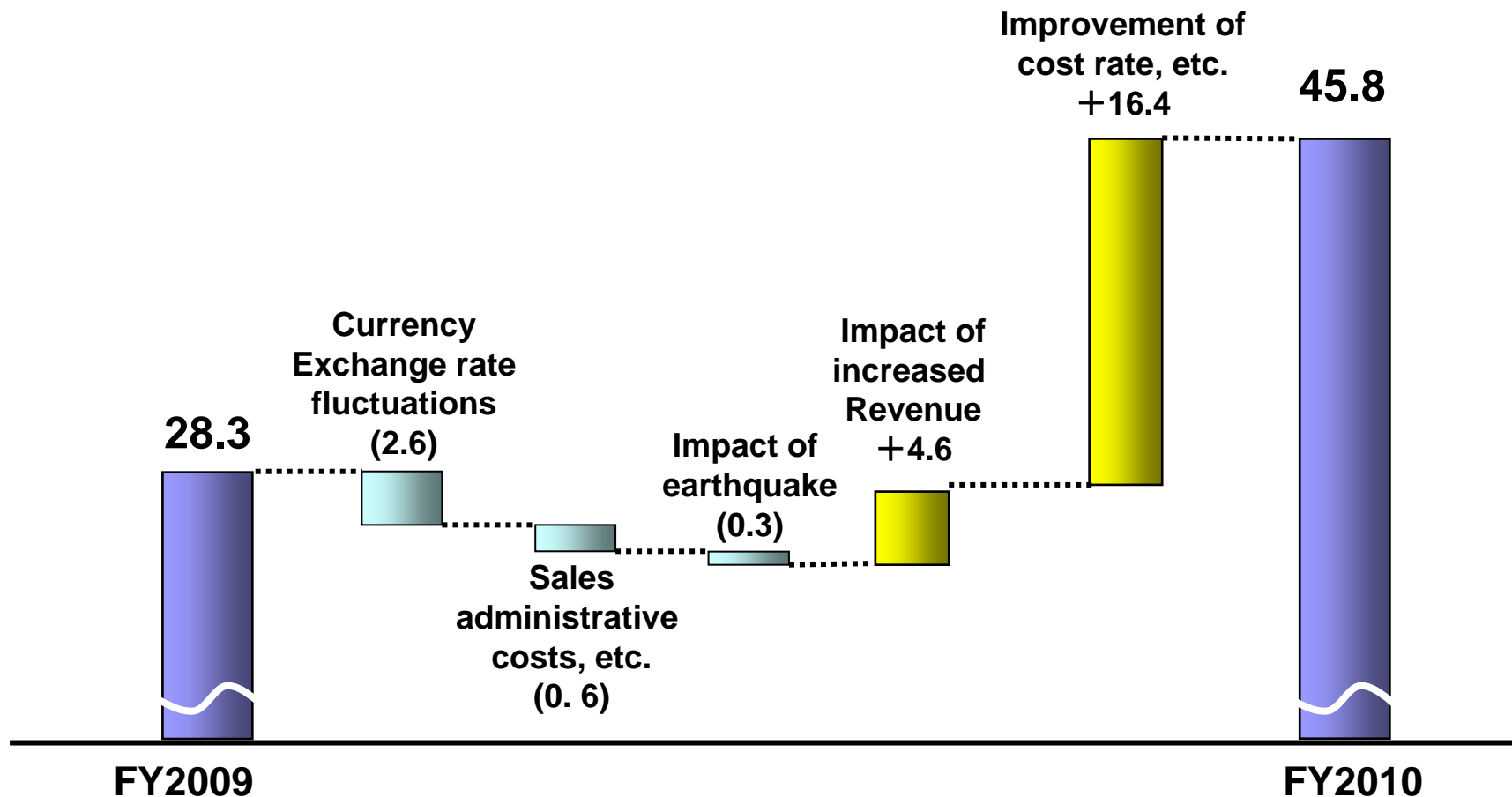
### <Environmental facilities & plants>

Profits deteriorated in comparison with the previous year, due to decreased sales.

	2010	2009	Change
Machinery components	4.9	0.9	4.0
Precision machinery	8.3	(2.6)	10.9
Construction machinery	5.3	0.6	4.7
Industrial machinery	10.3	14.2	(3.9)
Ships	9.9	6.7	3.2
Environmental facilities & plants	5.6	7.1	(1.5)
Others	1.5	1.4	0.1
<b>Total</b>	<b>45.8</b>	<b>28.3</b>	<b>17.5</b>

# Change in Operating Income (FY2009 to FY2010)<sup>1-4</sup>

Unit: JPY billion



# Consolidated Balance Sheet

Unit: JPY billion

	End March 2011	End March 2010	Change		End March 2011	End March 2010	Change
<b>Current assets</b>	<b>365.3</b>	<b>339.8</b>	<b>25.6</b>	<b>Liabilities</b>	<b>357.4</b>	<b>355.9</b>	<b>1.5</b>
Cash and deposits	52.5	62.5	(10.0)	Notes and accounts payable	132.0	108.0	23.9
Notes and accounts receivable	155.3	131.9	23.4	Advance payments	33.3	41.0	(7.7)
Inventories	131.0	123.4	7.6	Interest-bearing debts	67.8	87.7	(19.8)
Others	26.6	22.0	4.6	Others	124.3	119.3	5.0
<b>Fixed assets</b>	<b>261.5</b>	<b>270.3</b>	<b>(8.8)</b>	<b>Net assets</b>	<b>269.4</b>	<b>254.2</b>	<b>15.2</b>
Tangible assets	214.2	216.5	(2.3)	Common equity	242.6	211.8	30.8
Intangible assets	6.9	7.3	(0.4)	Valuation variations and currency exchange fluctuations	24.7	32.4	(7.7)
Investments and other assets	40.4	46.5	(6.1)	Minority interests	2.1	9.9	(7.9)
<b>Total</b>	<b>626.8</b>	<b>610.1</b>	<b>16.7</b>	<b>Total</b>	<b>626.8</b>	<b>610.1</b>	<b>16.7</b>
				Net ratio of interest-bearing debts	2.4%	4.1%	(1.7%)
				Stockholders' equity ratio	42.6%	40.0%	2.6%

# Consolidated Cash Flow Statement

Unit: JPY billion

Category	FY2010	FY2009	Change
<b>Operating activities</b>	<b>36.5</b>	<b>57.5</b>	<b>(21.0)</b>
Income before income taxes and minority interests	45.1	26.3	18.8
Depreciation	17.9	19.7	(1.8)
Working capital	(10.1)	14.3	(24.4)
Others (income taxes etc.)	(16.4)	(2.8)	(13.6)
<b>Investing activities</b>	<b>(23.5)</b>	<b>(14.0)</b>	<b>(9.6)</b>
<b>Free cash flow</b>	<b>13.0</b>	<b>43.6</b>	<b>(30.6)</b>
<b>Financing activities</b>	<b>(22.0)</b>	<b>(26.7)</b>	<b>4.7</b>
<b>Change in cash and cash equivalents</b>	<b>(10.0)</b>	<b>17.1</b>	<b>(27.1)</b>
Cash and cash equivalents at end of fiscal term	51.7	61.5	(9.8)

# Performance Forecast for FY2011 by Segment

## ➤ Key Points

- (1) Orders will increase in comparison with the previous term in all segments. Growth rates of Machinery components and Construction machinery will be significant.
- (2) Net sales will increase as the amount of orders increase.
- (3) Operating income will increase as the amount of orders increase. Heavy machinery will secure through cost reductions, etc.

		Record 2H FY2010	Forecast 1H FY2011	Forecast 2H FY2011	Forecast FY2011	Record FY2010
Unit: JPY billion						
<b>Machinery components</b>	Orders	38.6	45.0	49.0	94.0	75.8
	Net sales	40.1	44.0	48.0	92.0	74.6
	Operating income	3.2	2.5	4.5	7.0	4.9
<b>Precision machinery</b>	Orders	80.6	75.0	82.0	157.0	150.5
	Net sales	73.4	71.0	82.0	153.0	131.9
	Operating income	6.7	4.0	8.5	12.5	8.3
<b>Construction machinery</b>	Orders	73.8	83.0	88.0	171.0	141.2
	Net sales	67.0	74.0	86.0	160.0	130.8
	Operating income	2.2	2.5	6.5	9.0	5.3
<b>Industrial machinery</b>	Orders	37.2	45.0	35.0	80.0	73.2
	Net sales	33.7	38.0	42.0	80.0	66.5
	Operating income	4.9	4.0	5.0	9.0	10.3
<b>Ships</b>	Orders	13.7	2.0	20.0	22.0	14.6
	Net sales	31.1	31.0	25.0	56.0	59.5
	Operating income	6.7	5.0	4.5	9.5	9.9
<b>Environmental facilities &amp; plants</b>	Orders	42.5	37.0	50.0	87.0	70.6
	Net sales	46.2	32.0	49.0	81.0	76.1
	Operating income	5.0	0	6.0	6.0	5.6
<b>Others</b>	Orders	4.6	3.0	6.0	9.0	8.9
	Net sales	4.6	4.0	4.0	8.0	8.6
	Operating income	0.8	0.5	0.5	1.0	1.6
<b>Total</b>	Orders	291.1	290.0	330.0	620.0	534.9
	Net sales	296.1	294.0	336.0	630.0	548.0
	Operating income	29.5	18.5	35.5	54.0	45.8



# Performance Forecast for FY2011

- **Key Points**      Dividends increased from JPY4 in FY 2009 to JPY8 in FY 2010.  
 Dividends will increase to JPY10 for FY 2011, including interim dividends.

Unit: JPY billion

	Forecast 1H FY2011	Forecast 2H FY2011	Forecast FY2011	Record FY2010
Orders	<b>290.0</b>	<b>330.0</b>	<b>620.0</b>	<b>534.9</b>
Net Sales	<b>294.0</b>	<b>336.0</b>	<b>630.0</b>	<b>548.0</b>
Operating income	<b>18.5</b>	<b>35.5</b>	<b>54.0</b>	<b>45.8</b>
Operating income ratio	<b>6.3%</b>	<b>10.6%</b>	<b>8.6%</b>	<b>8.4%</b>
Ordinary income	<b>16.5</b>	<b>34.0</b>	<b>50.5</b>	<b>44.3</b>
Ordinary income ratio	<b>5.6%</b>	<b>10.1%</b>	<b>8.0%</b>	<b>8.1%</b>
Extraordinary income or loss	—	—	—	<b>0.8</b>
Current net income	<b>9.0</b>	<b>21.0</b>	<b>30.0</b>	<b>27.9</b>
Current net income ratio	<b>3.1%</b>	<b>6.3%</b>	<b>4.8%</b>	<b>5.1%</b>
Dividends	<b>JPY4</b>	<b>JPY6</b>	<b>JPY10</b>	<b>JPY8</b>
Dividend payout ratio			<b>20.5%</b>	<b>17.3%</b>
ROIC (after tax)			<b>8.7%</b>	<b>7.8%</b>
Projected currency exchange rate (US dollars)			<b>JPY85</b>	<b>JPY92</b>

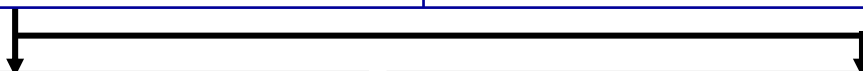
# Part 2: Management Strategy

# Previous Medium-Term Management Plan “Global 21”

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During “Global 21” period, we managed to ride out the crisis by structural reform and shifted to recovery track. Also, we carried out the investment as planned.

	Global 21	Results
<b>FY2010 Targets</b>	<ul style="list-style-type: none"> <li>➤ Sales JPY850 billion</li> <li>➤ Operating income JPY100 billion</li> <li>➤ ROIC 10% or more</li> </ul>	Despite the impact of the global recession, shifted to recovery track by structural reform.
<b>Keywords</b>	<ul style="list-style-type: none"> <li>➤ Globalization</li> <li>➤ Innovation</li> </ul>	Globalization progressed remarkably. Will concentrate on Innovation from now on.
<b>Investment Policy (for 3 years)</b>	<ul style="list-style-type: none"> <li>➤ Facility investment JPY100 billion</li> <li>➤ R&amp;D JPY50 billion</li> </ul>	Carried out investment for growth maintaining financial discipline.



## Results for FY2010 (Last year of Global 21)

**Could not achieve the target, however, shifted to recovery track.**

unit: JPY billion

	(Target)	⇒	(Results)
Orders	—	⇒	534.9
Sales	850	⇒	548.0
Operating Income	100	⇒	45.8
ROIC	10% or more	⇒	7.8%

## Accumulated investment amount for 3 years (FY2008-2010)

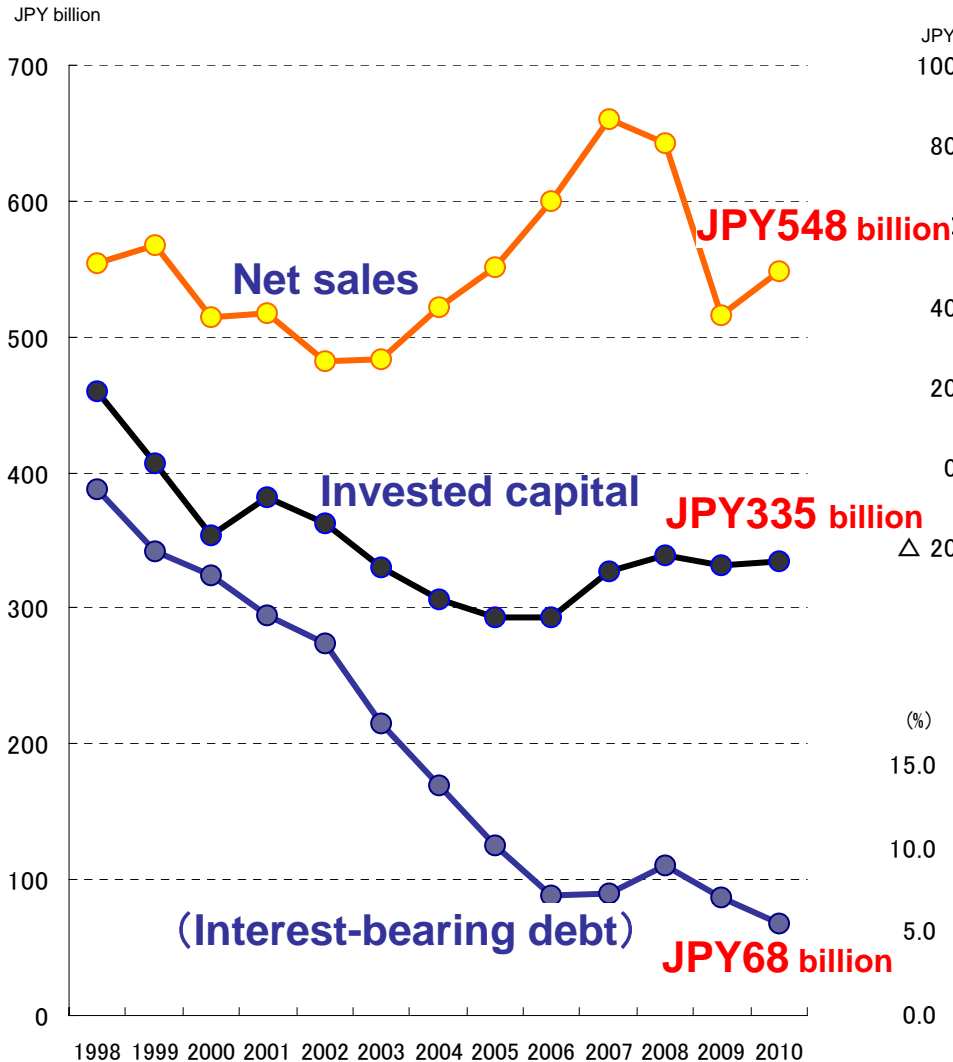
**Achieved expansion of global bases, acquisition for enhancement of machinery components and precision machinery and R&D for creating first-class products. Invested JPY130 billion.**

unit: JPY billion

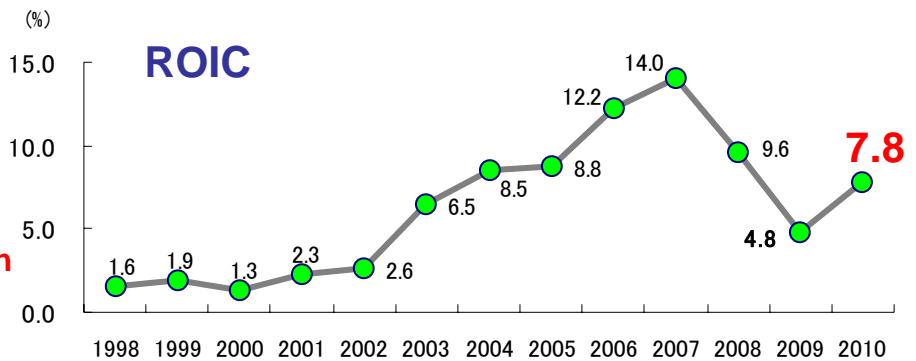
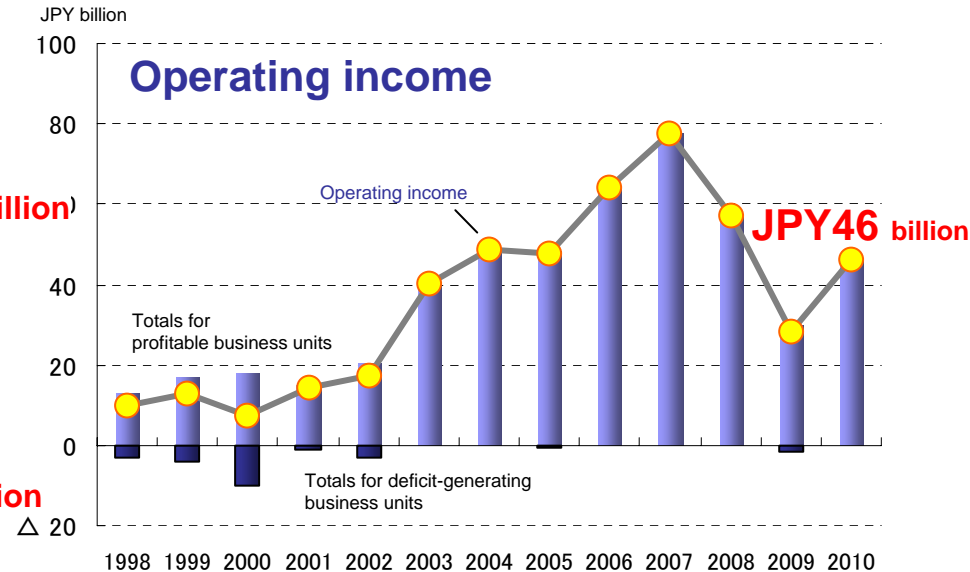
	(Plan)	⇒	(Results)
Facility Investm't	100	⇒	70.6
R&D	50	⇒	31.1
M&A		⇒	26.8
<b>Total</b>	<b>150</b>	<b>⇒</b>	<b>128.5</b>

# Summary of "Global 21" Business Performance

## Net sales and invested capital



## Operating income and ROIC

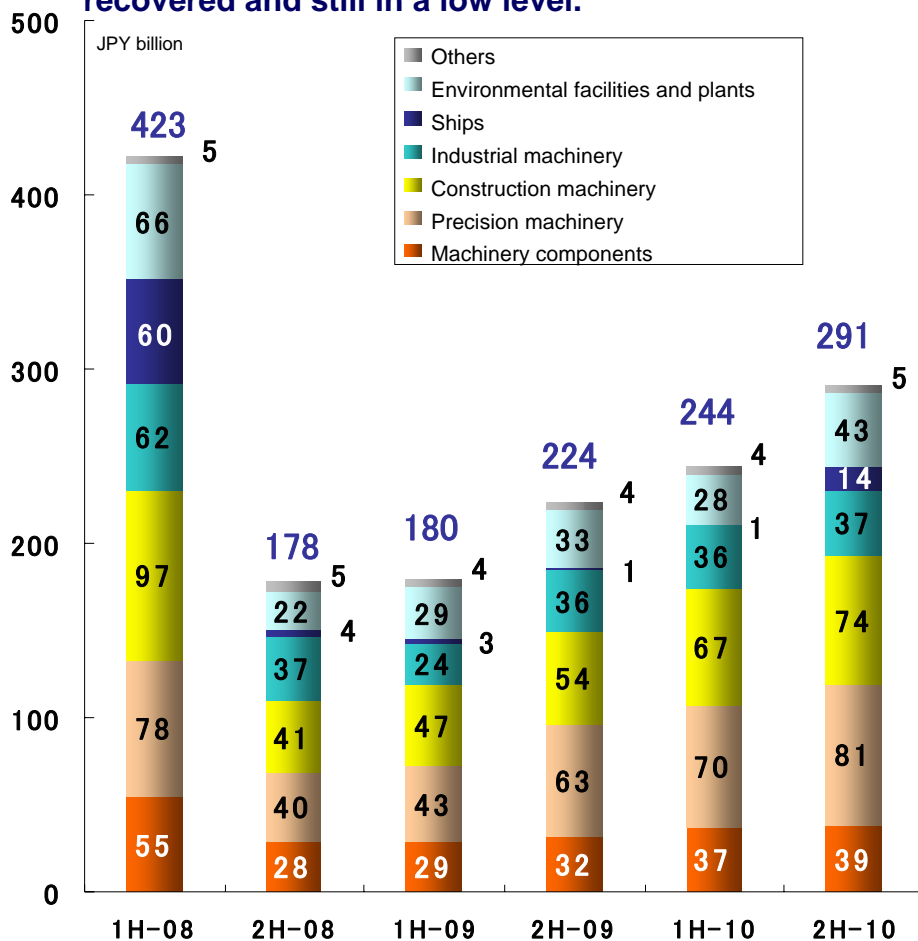


# Orders and Net Sales (FY2008 to FY2010)

## Orders

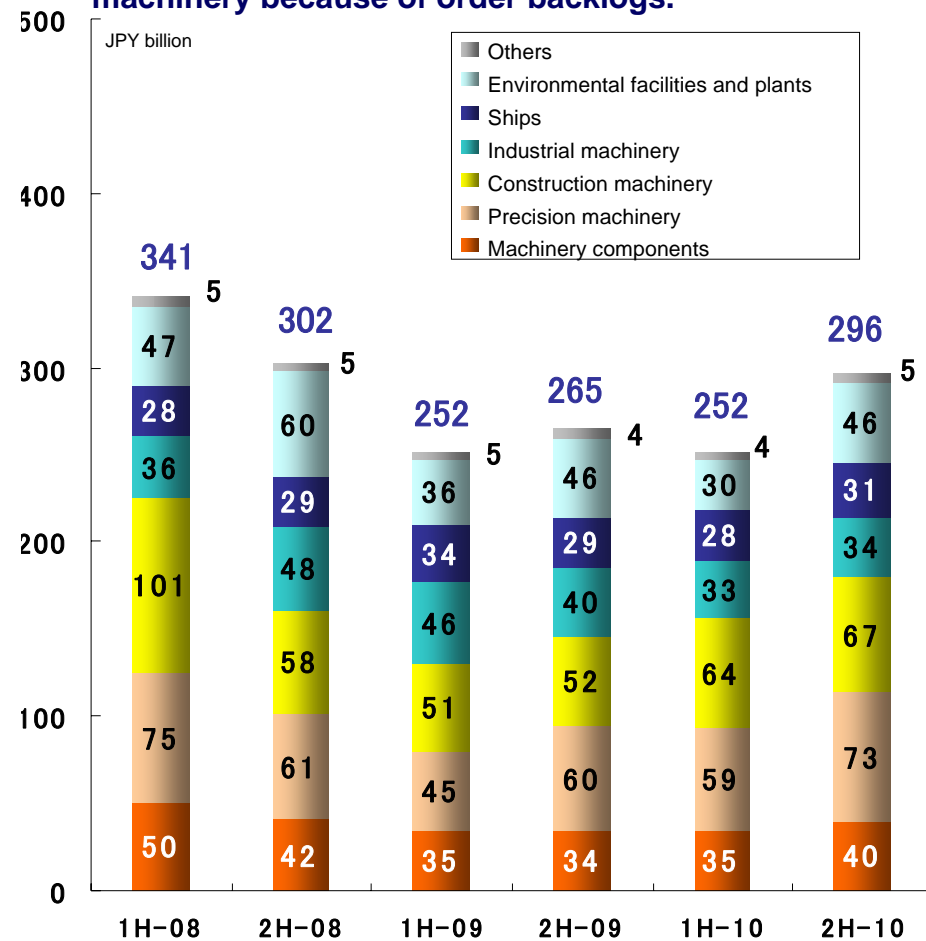
➤ Machinery components, precision machinery and construction machinery hit bottom during the second half of FY 2008.

Markets for ships and heavy machinery have not recovered and still in a low level.



## Net Sales

➤ Machinery components, precision machinery and construction machinery have been in a recovering trend since hitting bottom during the first half of FY2009. Stable sales were secured for ships and heavy machinery because of order backlogs.

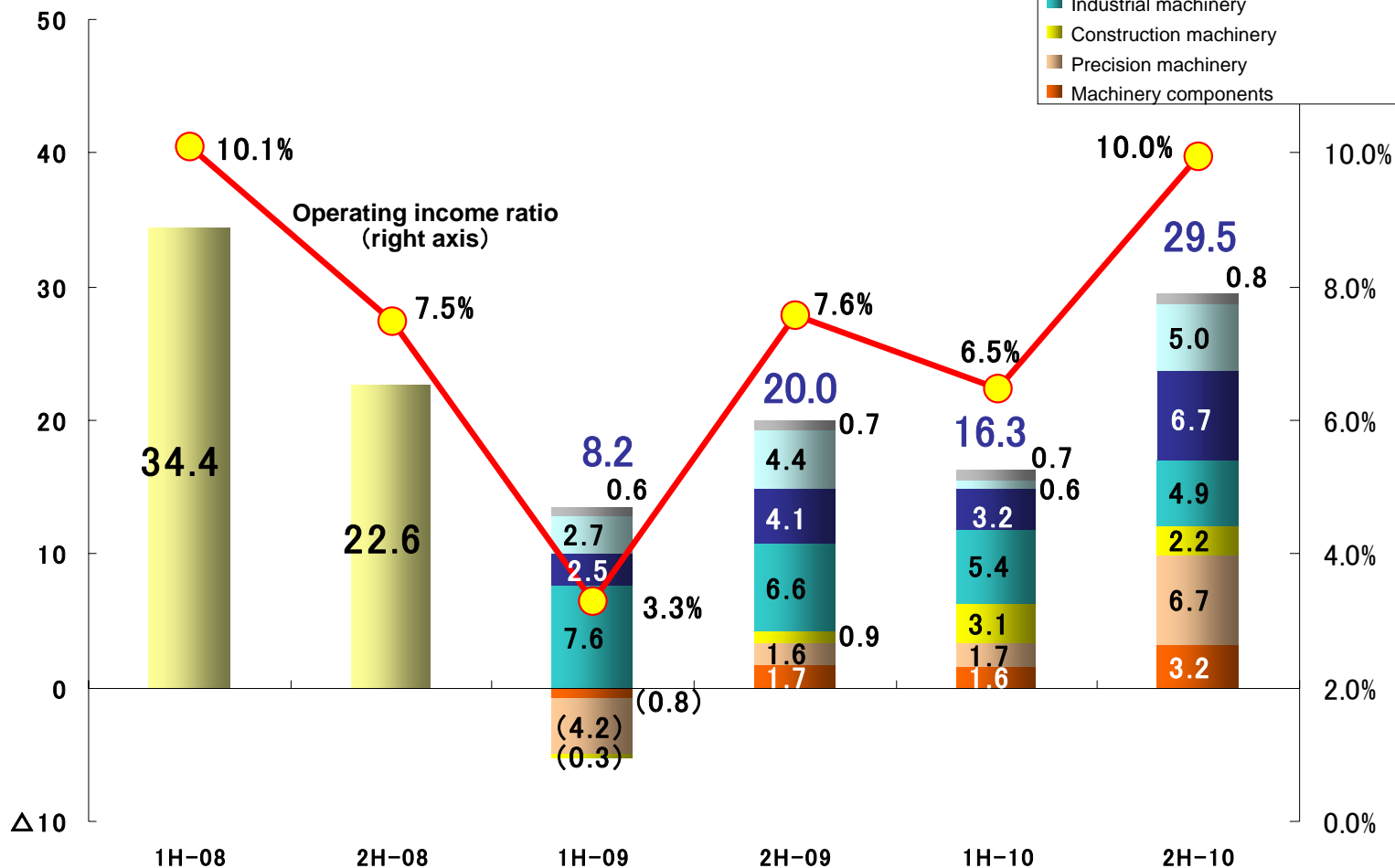


# Operating Income (FY2008 – FY2010)

➤ Machinery components and precision machinery have been in a recovering trend since hitting bottom during the first half of FY 2009.

Profit ratio decreased for construction machinery in the second half of FY 2010, due to the component procurement issues. Sustained high profit margins continued for ships and heavy machinery.

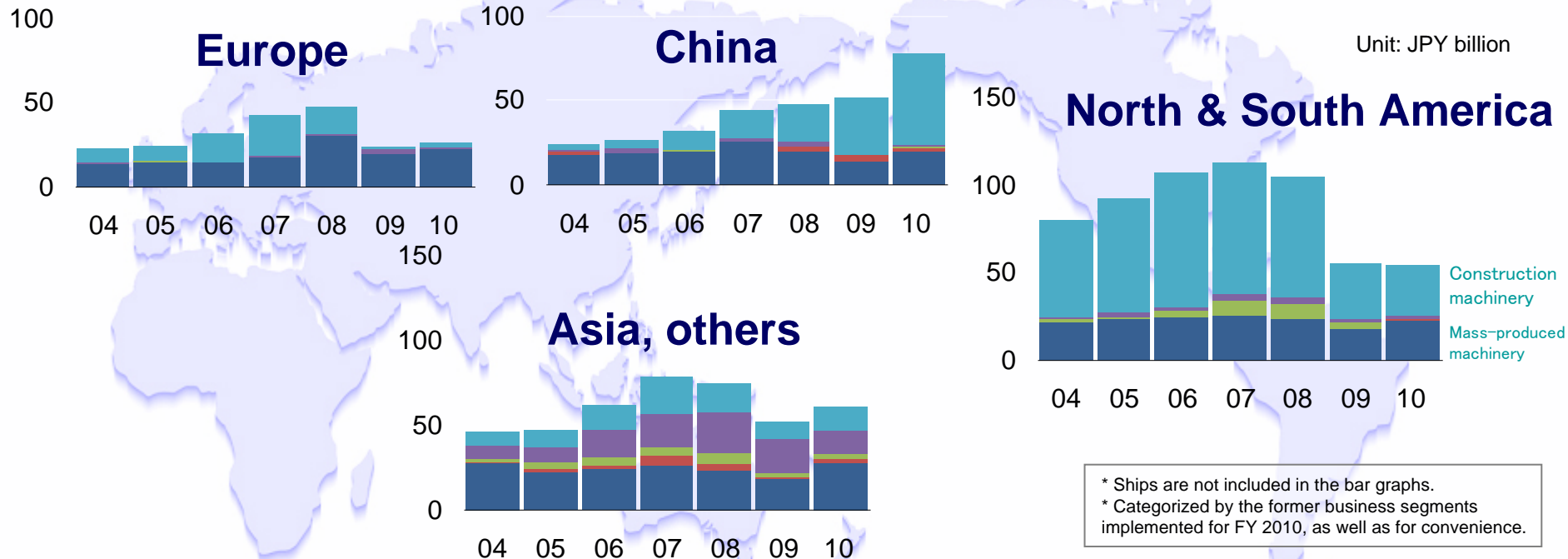
Unit: JPY billion



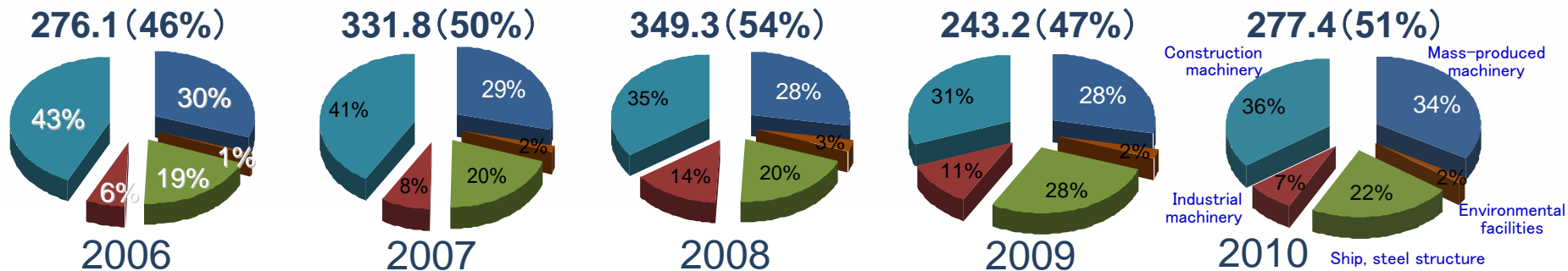
•Only the total figures are shown for FY 2008, since disclosures have been made based only on the former business segments.

# Overseas Net Sales (by Former Business Segments)

➤ Net sales decreased significantly in Europe, as well as Asia excluding China, during the “Global 21” medium-term management plan period. Although the sale of construction machinery increased in China, where economical growth was remarkable, the overall sales could not make up for the decrease in Europe and the United States.

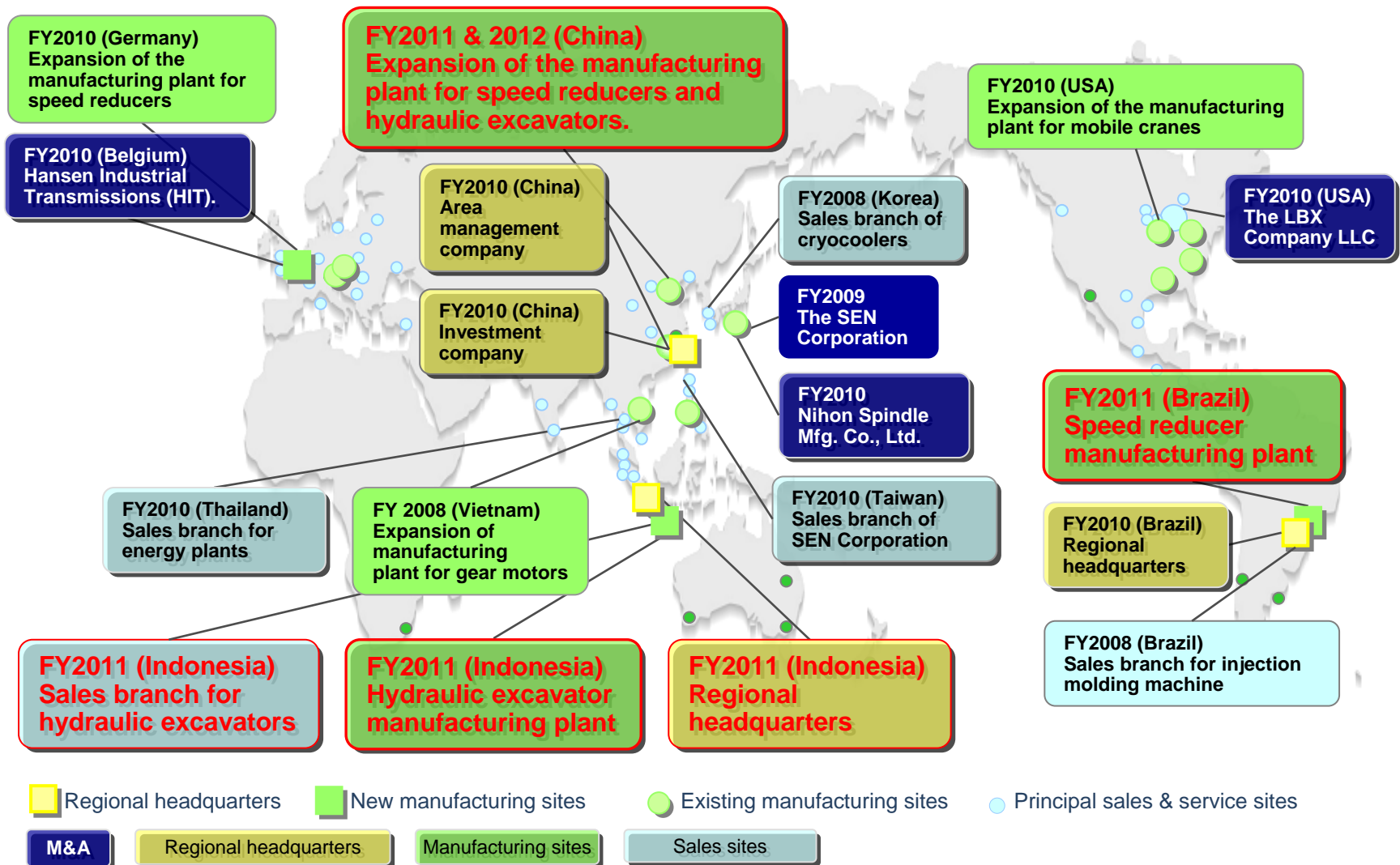


## Overseas Net Sales (Sales ratio)



# Expansion of Global Bases

- Expansion of manufacturing and sales bases was pursued aggressively under the “Global 21” medium-term management plan.





## Proton Therapy System (Advanced precision machinery)



**Contributing towards maintaining quality of life (QOL) by offering advanced cutting edge medical equipment of proprietary technologies.**

One order within Japan and four orders from overseas were received during the term of the “Global 21” medium-term management plan, based on the operational track record over the ten years, since receiving the first medical treatment equipment license issued in Japan.

## Hydraulic Excavator “LEGEST” (Construction machinery)



**Outstanding energy conservation features**

Awarded FY 2007 “Energy Conservation Grand Prize” by the Ministry of Economy, Trade and Industry.

Combined with a superior operating performance, the excavator contributed to increasing market shares as it acquired wide acceptance in the global market.

## Midsize Tankers (Ships)



**Creating value though differentiation strategies**

Thoroughly implemented marketing and penetration of the Toyota Production System resulted in No.1 position in a global niche market. The highest margin level in the world was attained.

# Moving on from “Global 21” to “Innovation 21”

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- Activities to enhance the corporate structure and investments for global growth were performed under the “Global 21” medium-term management plan, during drastic changes in the management environment.
- On the other hand, issues that needed to be worked on, also became evident during the three year period, which led to the formulation of the new medium-term plan, “Innovation 21”.

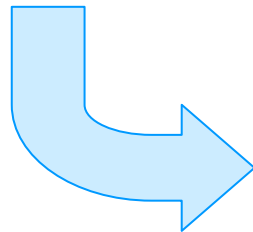
## Major policies of “Global 21”

### “Global SHI”

- Globalization
  - ⇒ Securely capturing every growth opportunity.
- Innovation
  - ⇒ Developing first-class products.
- Arrival of the global financial crisis
  - ⇒ Seize the crunch as an opportunity.

Basic policies: “Globalization” & “Innovation”

- <Issues>
- Weak growth potential and profitability.
  - Stagnant domestic businesses.



## Major policies of “Innovation 21”

### “Strong and Powerful SHI”

- Expansion and utilization of the global network.
- Development and market launch of innovative products:
  - ⇒ Product Innovation
- Innovation for production and sales performance, as well as business operational performance:
  - ⇒ Process Innovation

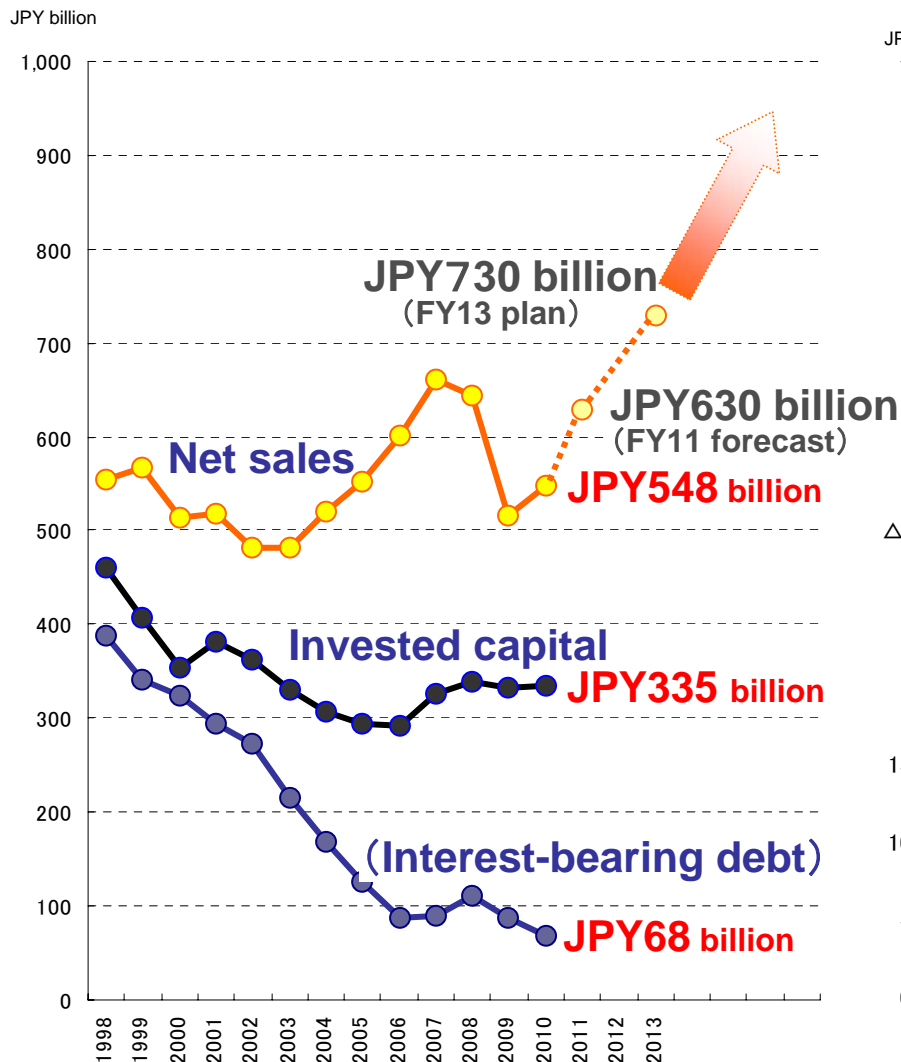
# New Medium-Term Management Plan “Innovation 21”

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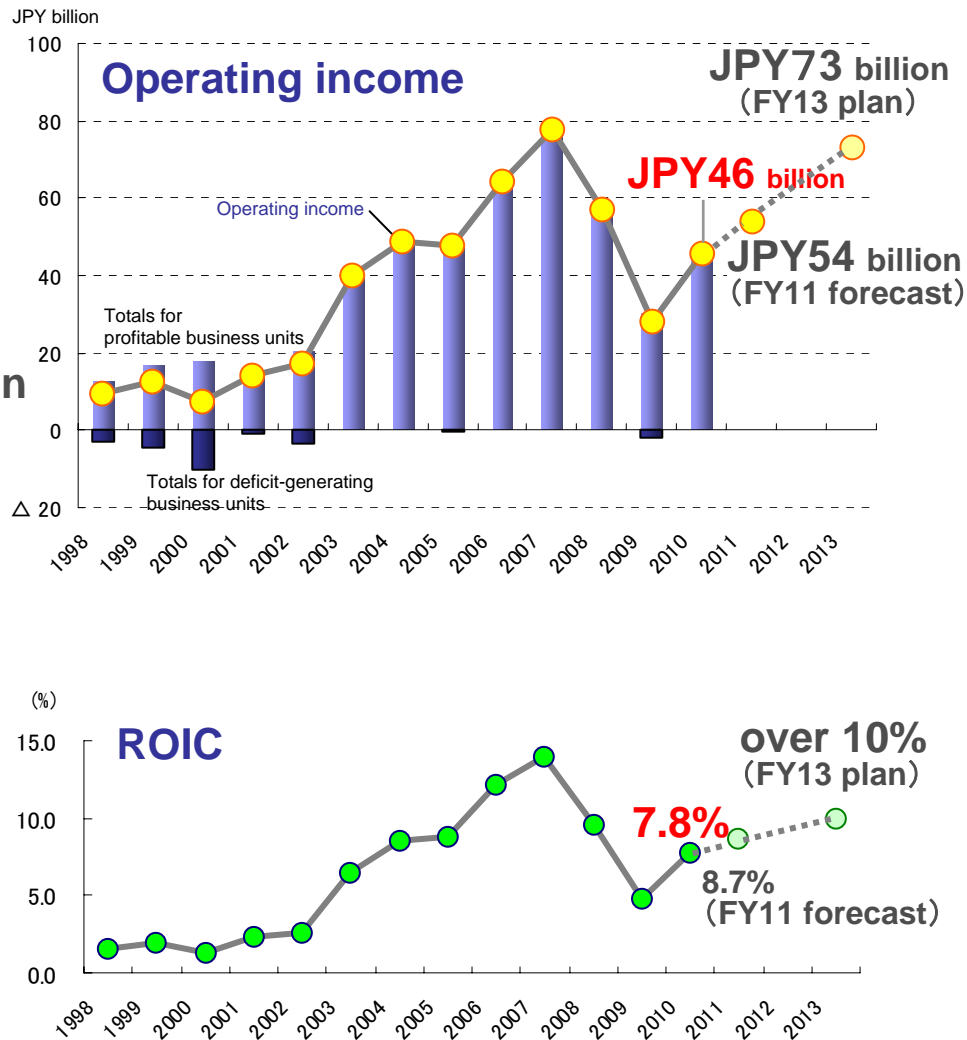
<b>Targets for FY2013</b>	<b>Net sales</b> JPY730 billion <b>Operating income</b> JPY73 billion <b>ROIC</b> 10% or above
<b>Corporate Concept</b>	<b>“Strong and Powerful SHI”</b> Restructure the competitive structure and establish superiority to work towards sustained growth and an improved earning capacity.
<b>Keywords for Growth</b>	Globalization & Innovation
<b>Investment Policy</b>	JPY150 billion over three years
<b>Long-Term Target</b>	Become a company with JPY1 trillion net sales
<b>Specific Measures</b>	<b>Restructure of the competitive structure</b> <ul style="list-style-type: none"><li>▪ Enhance and expand the global network to compete globally.</li><li>▪ Create first-class products through product innovations utilizing the total strength of “ONE-SHI”.</li><li>▪ Build a strong corporate structure through process innovations.</li></ul>

# “Innovation 21” Business Performance

## Net sales and invested capital



## Operating income and ROIC



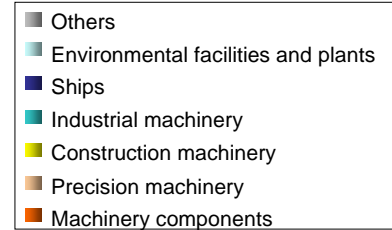
# FY 2013 Plan and Principal Measures by Segment

Unit: JPY billion

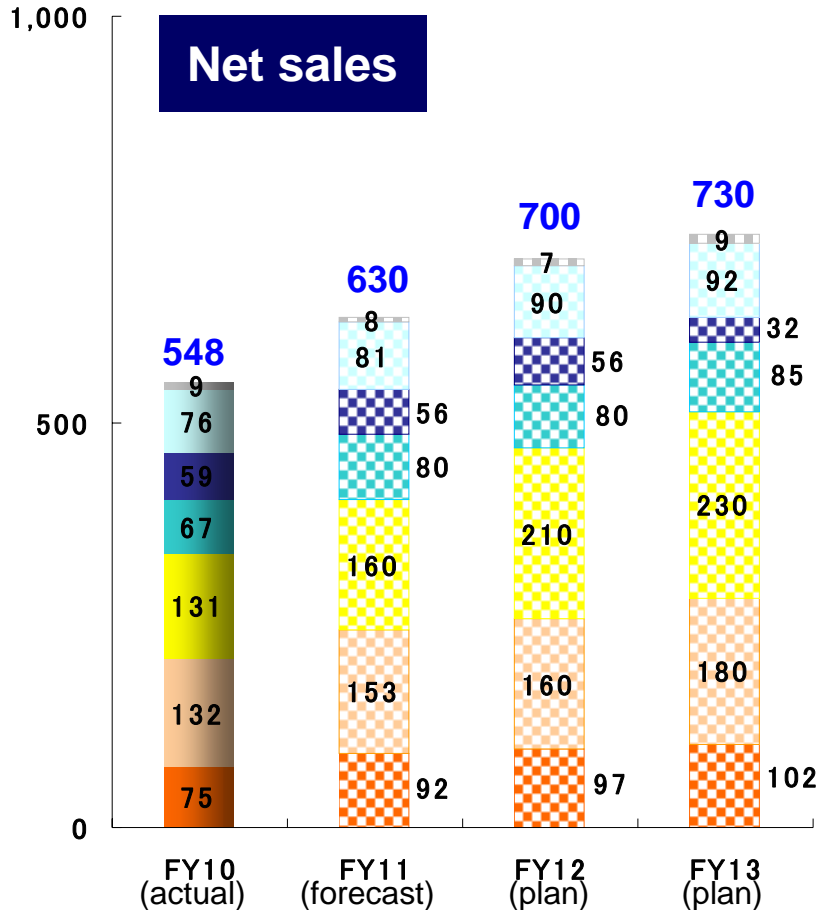
Business Segment	Record FY2010		Plan FY2013		Principal Measures
	Net sales	Operating income	Net sales	Operating income	
Machinery components	74.6	4.9	102.0	12.0	<ul style="list-style-type: none"> <li>• Pursue a synergy with Hansen Industrial Transmissions (HIT).</li> <li>• Increase sales in the markets of emerging nations, such as China or Brazil.</li> </ul>
Precision machinery	131.9	8.3	180.0	20.0	<ul style="list-style-type: none"> <li>• &lt;Plastic machinery&gt; Set up global coverage in collaboration with Demag.</li> <li>• &lt;Medical, semiconductor &amp; LCD&gt; Focus in each manufacturing field.</li> </ul>
Construction machinery	130.8	5.3	230.0	24.0	<p>&lt;Hydraulic Excavators&gt;</p> <ul style="list-style-type: none"> <li>• Enhance manufacturing and sales capabilities in China and Indonesia.</li> <li>• Focus on North and South American markets.</li> </ul> <p>&lt;Mobile cranes&gt; Develop new types of cranes and launch them in the US market.</p>
Industrial machinery	66.5	10.3	85.0	8.5	<ul style="list-style-type: none"> <li>• Increase the global sales of turbines and pumps.</li> <li>• Develop other business activities in overseas.</li> </ul>
Ships	59.5	9.9	32.0	0.5	<ul style="list-style-type: none"> <li>• Secure orders.</li> <li>• Develop first-class ships for the next term.</li> </ul>
Environmental facilities and plants	76.1	5.6	92.0	7.0	<ul style="list-style-type: none"> <li>• Take a significant leap forward with infrastructural demands in Asia.</li> </ul>
Others	8.6	1.5	9.0	1.0	
<b>Total</b>	<b>548.0</b>	<b>45.8</b>	<b>730.0</b>	<b>73.0</b>	

# FY 2011 to 2013 Net Sales and Operating Income

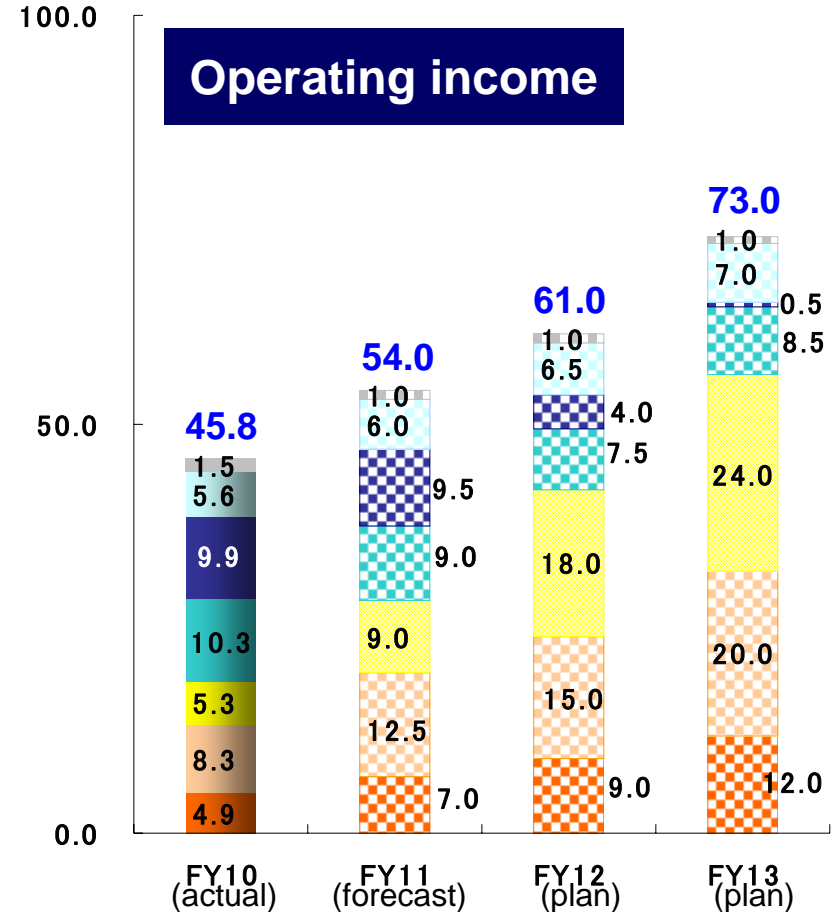
- **Mass-produced machinery (Machinery Components & Construction Machinery):**  
Increase sales to markets in emerging nations.
- **Precision machinery:** Expand the scale of business in cutting edge fields.
- **Heavy machinery & environmental facilities & plants:**  
Concentrate on specialty areas and expand global sales.



Unit: JPY billion



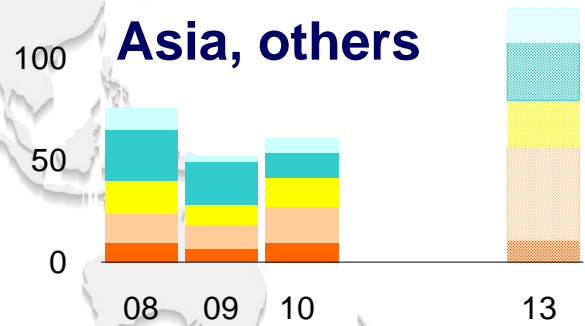
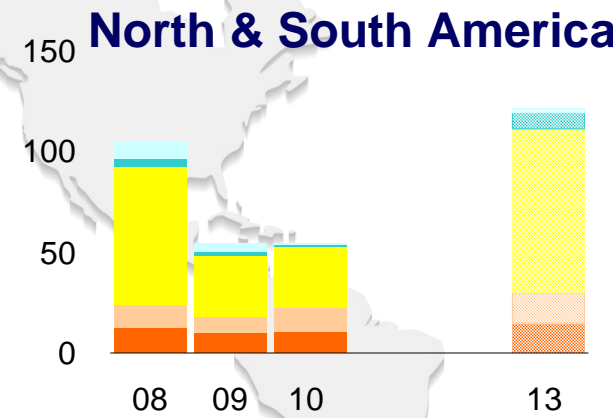
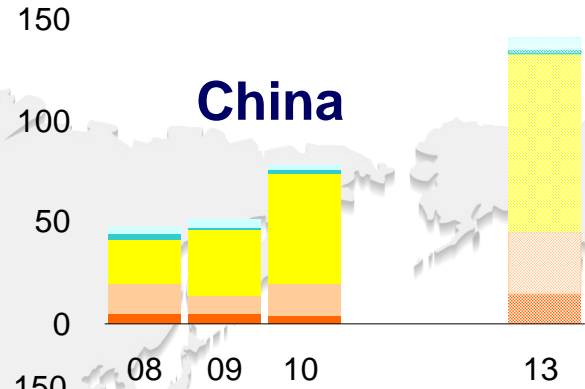
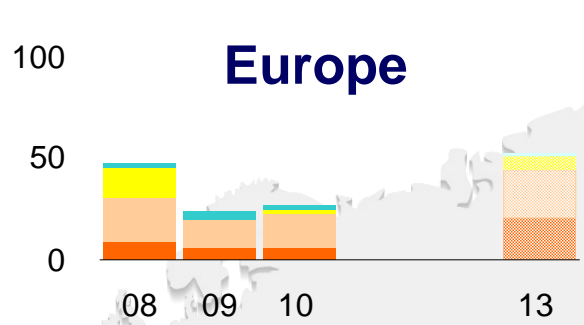
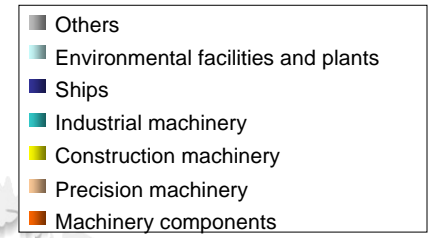
Unit: JPY billion



# Regional Net Sales (by New Business Segment)

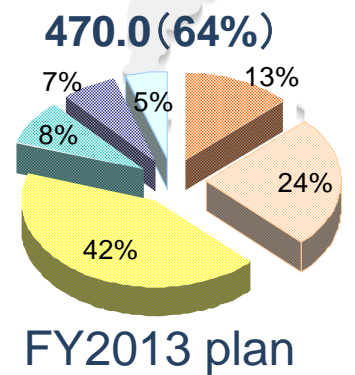
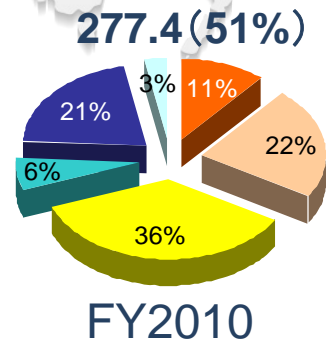
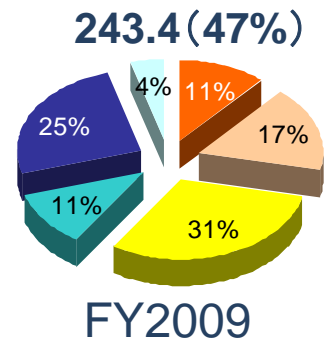
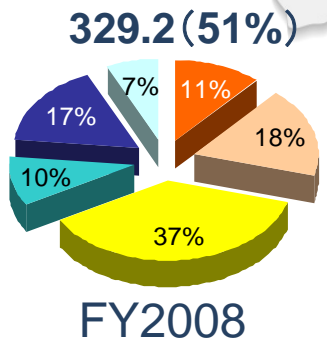
➤ Focus to sales increase of machinery components, precision machinery and construction machinery in all regions.

Unit: JPY billion



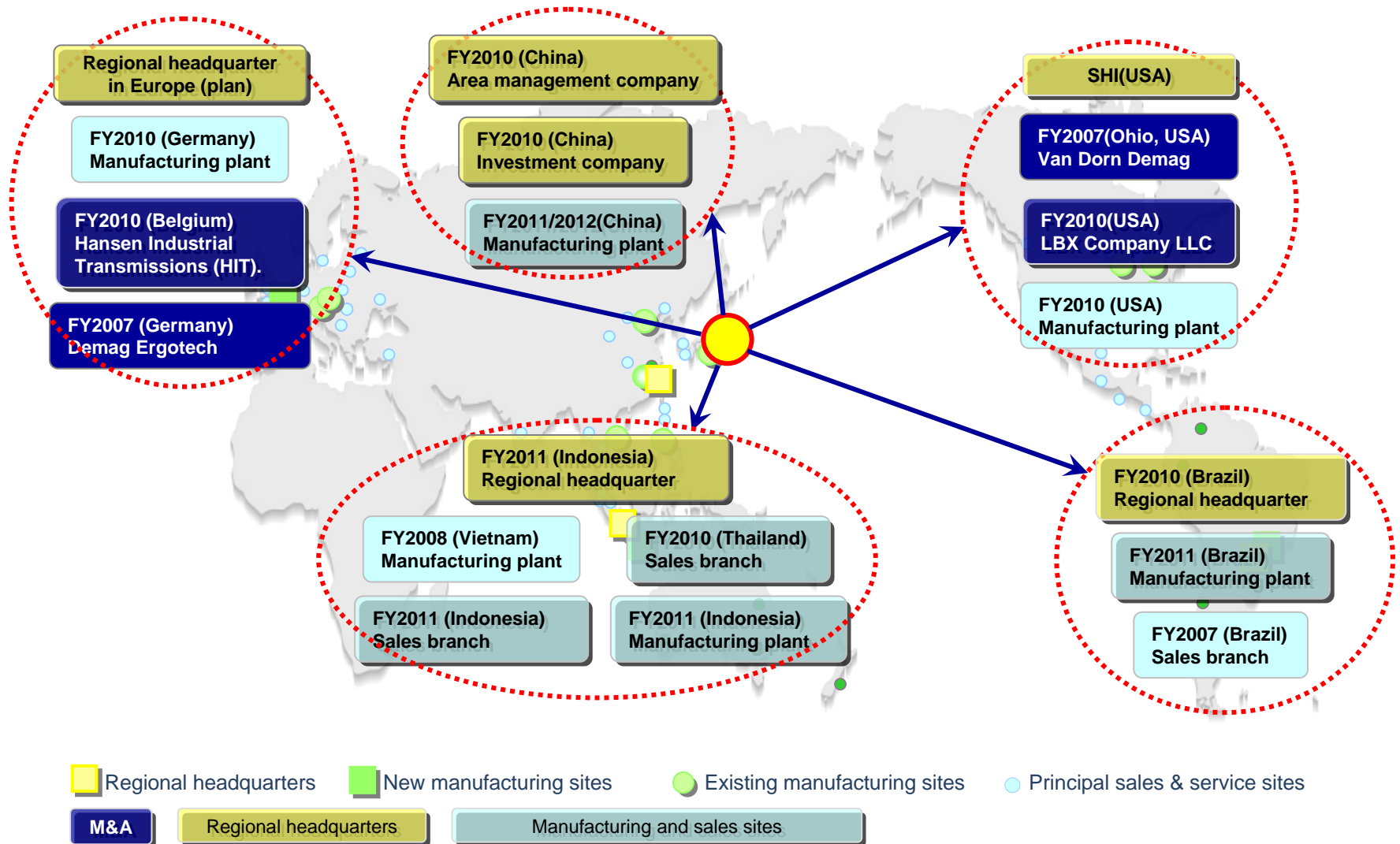
\* Ships are not included in the bar graphs.

## Overseas Net Sales (Sales ratio)



# Expansion and Utilization of Global Network 2-14-a

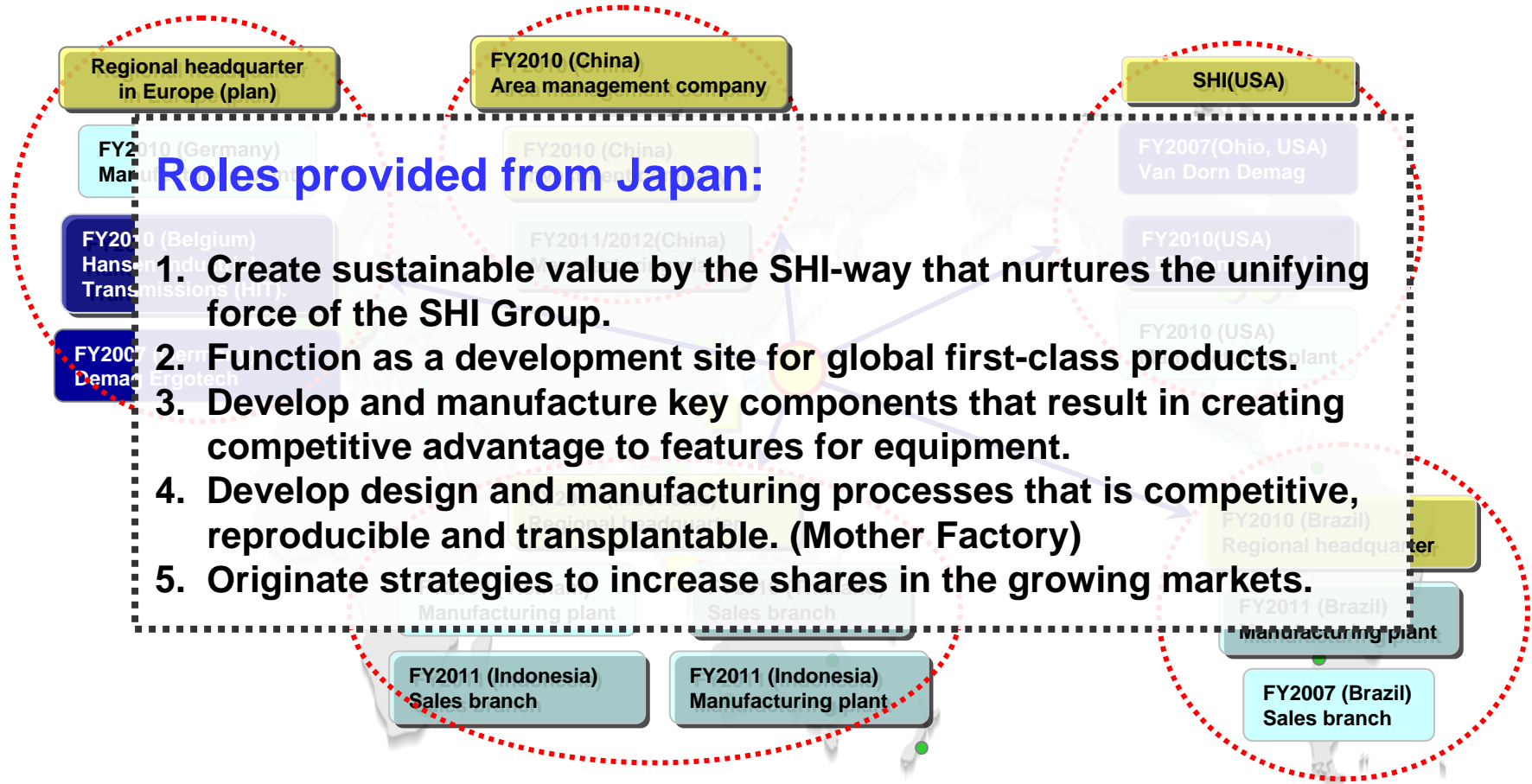
- Promote independence of sites as well as cooperation between sites, maintain and expand regional headquarter functions, and upgrade of functions provided from Japan to support these, so as to create competitively advantageous conditions on a global scale.





# Expansion and Utilization of Global Network

➤ Promote self-subsistence and cooperation between sites, maintain and expand regional headquarter functions, as well as the upgrading of functions provided from Japan to support these to create competitively advantageous conditions on a global scale.

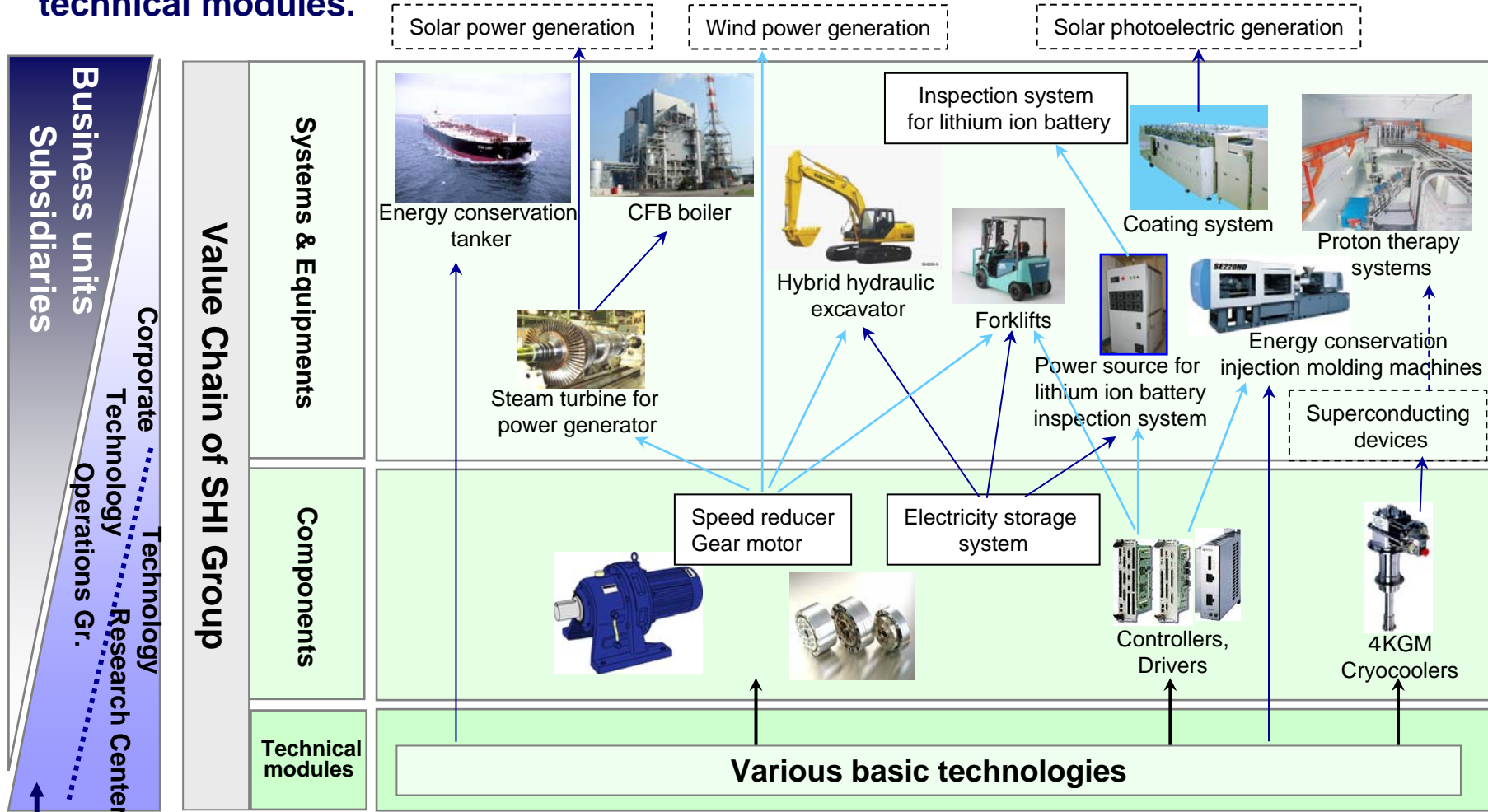


Regional headquarters
  New manufacturing sites
  Existing manufacturing sites
  Principal sales & service sites

M&A
Regional headquarters
Manufacturing and sales sites

# Product Innovation

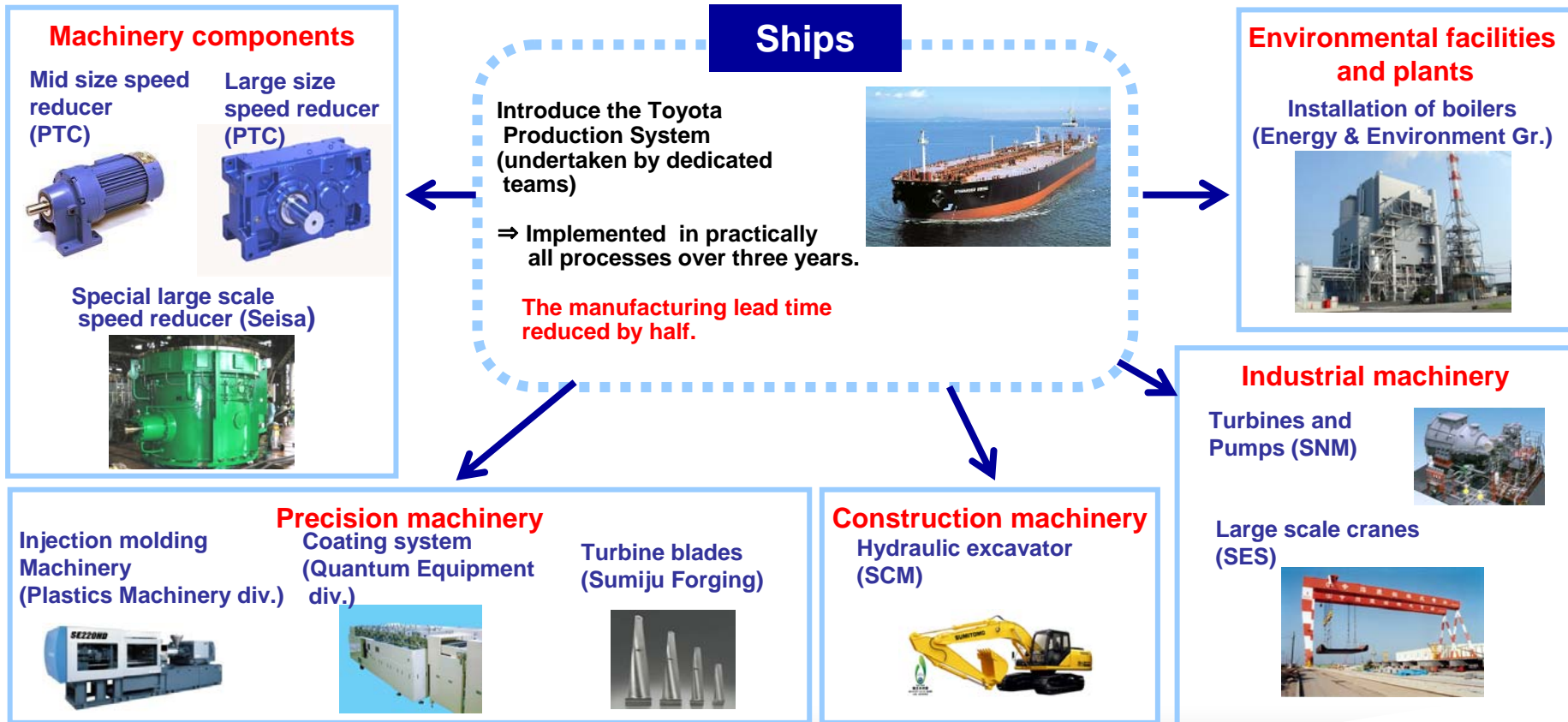
- Continuously supply “first-class products” to markets by developing products through the integrated efforts of the Corporate Technology Operations Group and business units.
- Increase the value of equipment and systems with innovative components and technical modules.



administration of product development and intellectual property

# Process Innovation

- Spread within the SHI group Toyota Production System (TPS) that was successfully employed at the shipbuilding business.



**Promote innovation activities through various processes, including sales, designing, manufacturing, services, and indirect operations, which will lead to the achievement of the goals of "Innovation 21"**

# Management Policies

## **FY2011 to 2013:**

**Succeed basic policies from the previous medium-term management plan “Global 21”.**

**Aim for a “Strong and Powerful SHI”,  
where sustained growth is possible.**

- ✓ **Abide by Management Discipline and Financial Discipline, establish sustainable competitive advantage and aim for healthy growth of business.**
- ✓ **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 in step with the times.**

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.