

# **Part 1: Financial Summary for FY2011 and Projections for FY2012**

# Financial Summary for FY2011

## ➤ Key points

### (1) Orders

- Increased for machinery components, construction machinery, as well as environmental facilities and plants in comparison with the previous term.
- Increased for overseas primarily.

### (2) Net sales

- Increased in all segments in comparison with the previous term, except for ships.
- Significantly increased for mass-produced machinery for overseas in particular.

### (3) Operating income

- Increased for precision machinery and construction machinery in comparison with the previous term, due to increased sales.
- Decreased for machinery components and industrial machinery in comparison with the previous term, due to the impact of foreign exchange.
- Significantly impacted from a drop in environmental facilities and plants.

### (4) Net income

- Decreased in comparison with the previous term due to the impact of extraordinary losses.

Unit: JPY billion

	2011	2010	Change
Orders	571.3	534.9	36.4
Net sales	624.1	548.0	76.1
Operating income	47.1	45.8	1.3
Operating income ratio	7.6%	8.4%	(0.8%)
Ordinary income	44.6	44.3	0.4
Ordinary income ratio	7.1%	8.1%	(0.9%)
Extraordinary income or loss	(6.4)	0.8	(7.3)
Current net income before tax adjustments	38.2	45.1	(6.9)
Current net income	19.5	27.9	(8.4)
Current net income ratio	3.1%	5.1%	(2.0%)

# Orders and Net Sales

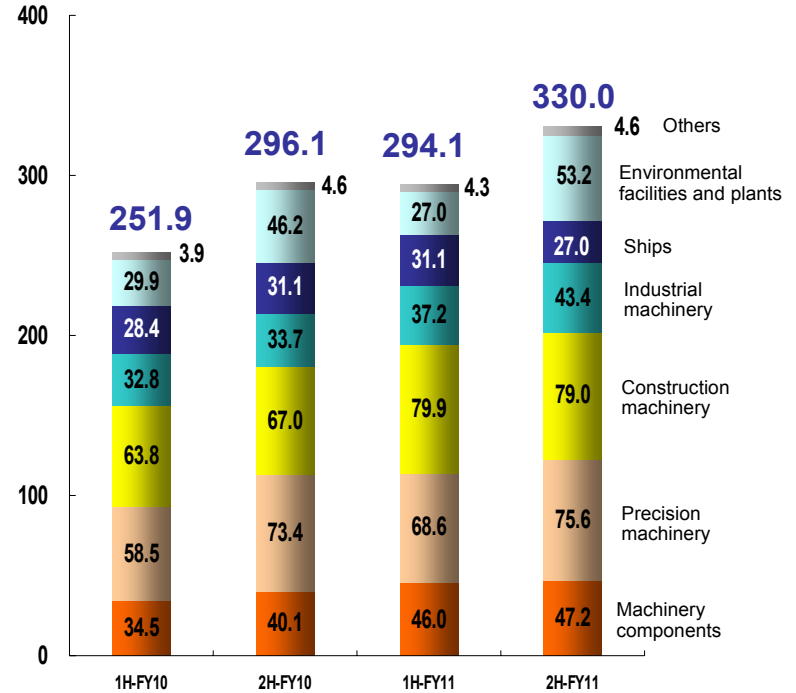
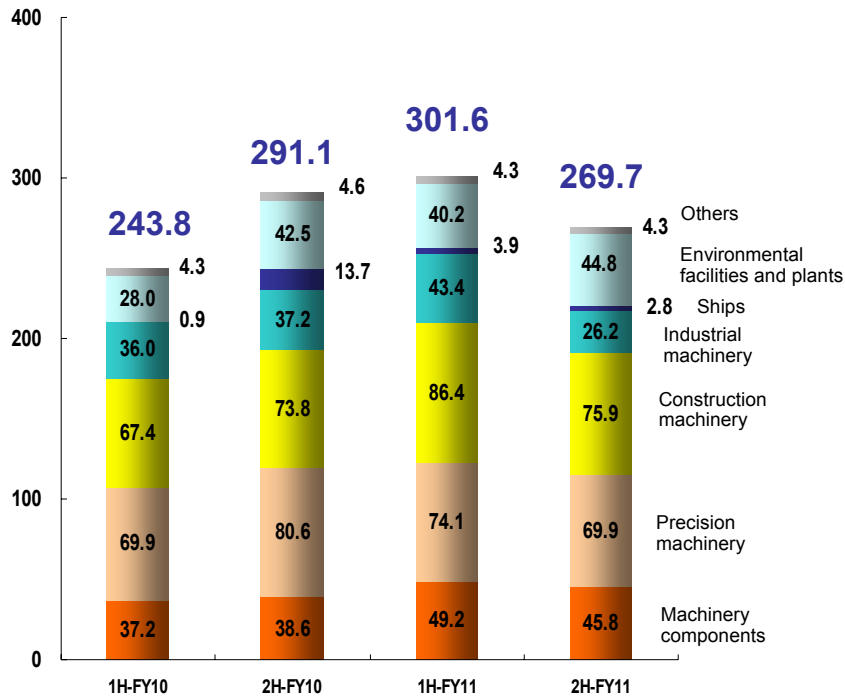
## Orders

Mass-produced machinery decelerated beginning in the second half of FY2011, due to the appreciation of the yen. No orders were received for new ship building in FY2011.

## Net sales

Performing steadily in all segments.

Unit: JPY billion



# Operating Income by Segment

Unit: JPY billion

## ➤ Comparisons with previous fiscal year

### <Machinery components>

Profits declined due to the impact of currency exchange fluctuations, deteriorating profitability for large scale products.

### <Precision machinery>

Profitability increased significantly, due to increased sales, etc.

### <Construction machinery>

Profitability increased due to increased sales for mobile cranes in North America and overall increased sales for hydraulic excavators.

### <Industrial machinery>

Profitability decreased overseas due to the impact of currency exchange fluctuations, although net sales increased.

### <Ships>

Although seven ships were delivered, one fewer than the previous year, profitability increased due to cost reductions and other factors.

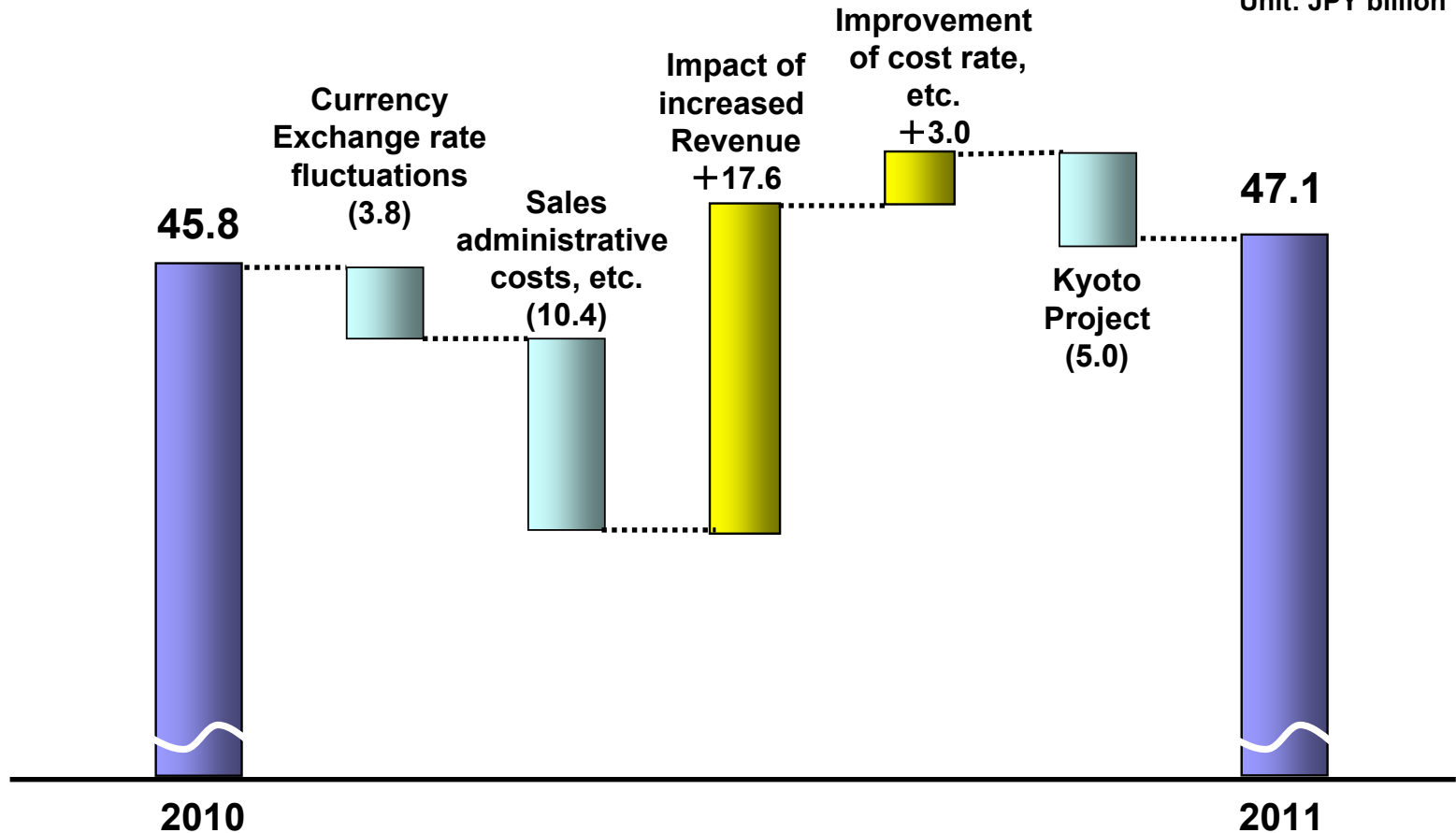
### <Environmental facilities & plants>

Deteriorated significantly, due to the provision for reworking expenses on an incinerated ash melting facility for the City of Kyoto.

	2011	2010	Change
Machinery components	4.2	4.9	(0.6)
Precision machinery	12.5	8.3	4.2
Construction machinery	8.3	5.3	3.0
Industrial machinery	9.5	10.3	(0.8)
Ships	10.9	9.9	1.0
Environmental facilities & plants	0	5.6	(5.6)
Others	1.7	1.6	0.1
<b>Total</b>	<b>47.1</b>	<b>45.8</b>	<b>1.3</b>

# Change in Operating Income (FY2010 to FY2011)<sup>1-4</sup>

Unit: JPY billion



# Consolidated Balance Sheet

Unit: JPY billion

➤ Accounts receivable and inventory assets increased as orders and net sales increased.

	End March 2012	End March 2011	Change		End March 2012	End March 2011	Change
<b>Current assets</b>	<b>429.0</b>	<b>365.3</b>	<b>63.7</b>	<b>Liabilities</b>	<b>409.7</b>	<b>357.4</b>	<b>52.2</b>
Cash and deposits	73.4	52.5	20.9	Notes and accounts payable	153.8	132.0	21.9
Notes and accounts receivable	181.3	155.3	26.0	Advance payments	27.8	33.3	(5.5)
Inventories	143.9	131.0	12.9	Interest-bearing debts	96.5	67.8	28.7
Others	30.4	26.6	3.9	Others	131.6	124.3	7.3
<b>Fixed assets</b>	<b>262.8</b>	<b>261.5</b>	<b>1.3</b>	<b>Net assets</b>	<b>282.1</b>	<b>269.4</b>	<b>12.8</b>
Tangible assets	219.8	214.2	5.7	Common equity	255.6	242.6	13.0
Intangible assets	6.4	6.9	(0.6)	Valuation variations and currency exchange fluctuations	23.2	24.7	(1.4)
Investments and other assets	36.6	40.4	(3.8)	Minority interests	3.3	2.1	1.2
<b>Total</b>	<b>691.8</b>	<b>626.8</b>	<b>65.0</b>	<b>Total</b>	<b>691.8</b>	<b>626.8</b>	<b>65.0</b>
				Net ratio of interest-bearing debts	3.3%	2.4%	0.9%
				Stockholders' equity ratio	40.3%	42.6%	(2.3%)

# Consolidated Cash Flow Statement

Unit: JPY billion

Category	FY2011	FY2010	Change
<b>Operating activities</b>	<b>23.3</b>	<b>36.5</b>	<b>(13.2)</b>
Income before income taxes and minority interests	38.2	45.1	(6.9)
Depreciation	17.8	17.9	(0.1)
Working capital	(23.6)	(10.1)	(13.5)
Others (income taxes etc.)	(9.1)	(16.4)	7.4
<b>Investing activities</b>	<b>(22.7)</b>	<b>(23.5)</b>	<b>0.8</b>
<b>Free cash flow</b>	<b>0.6</b>	<b>13.0</b>	<b>(12.4)</b>
<b>Financing activities</b>	<b>19.9</b>	<b>(22.0)</b>	<b>41.9</b>
<b>Change in cash and cash equivalents</b>	<b>19.9</b>	<b>(10.0)</b>	<b>29.9</b>
Cash and cash equivalents at end of fiscal term	72.4	51.7	20.7

# Performance Forecast for FY2012 by Segment

## Key Points

Unit: JPY billion

- (1) Orders increase for all operations except environmental facilities and plants. Growth in construction machinery continues, primarily overseas.
- (2) Net sales decrease for industrial machinery and ships.
- (3) Although operating income increase for machinery components, construction machinery and environmental facilities and plants, it decrease for industrial machinery and ships, resulting in an overall decrease in profits.

		Record 2H FY2011	Forecast 1H FY2012	Forecast 2H FY2012	Forecast FY2012	Record FY2011
<b>Machinery components</b>	Orders	45.8	46.0	51.0	97.0	95.1
	Net sales	47.2	47.0	50.0	97.0	93.2
	Operating income	2.0	2.5	3.0	5.5	4.2
<b>Precision machinery</b>	Orders	69.9	70.0	79.0	149.0	143.9
	Net sales	75.6	72.0	76.0	148.0	144.1
	Operating income	6.5	5.0	7.5	12.5	12.5
<b>Construction machinery</b>	Orders	75.9	86.0	89.0	175.0	162.4
	Net sales	79.0	88.0	90.0	178.0	158.9
	Operating income	4.4	5.5	7.0	12.5	8.3
<b>Industrial machinery</b>	Orders	26.2	34.0	36.0	70.0	69.6
	Net sales	43.4	37.0	35.0	72.0	80.7
	Operating income	4.6	3.0	2.5	5.5	9.5
<b>Ships</b>	Orders	2.8	10.0	8.0	18.0	6.7
	Net sales	27.0	17.0	29.0	46.0	58.1
	Operating income	5.3	(1.0)	2.0	1.0	10.9
<b>Environmental facilities &amp; plants</b>	Orders	44.8	40.0	42.0	82.0	85.0
	Net sales	53.2	35.0	46.0	81.0	80.1
	Operating income	2.0	1.0	5.5	6.5	0
<b>Others</b>	Orders	4.3	4.0	5.0	9.0	8.6
	Net sales	4.6	4.0	4.0	8.0	8.9
	Operating income	0.8	1.0	0.5	1.5	1.7
<b>Total</b>	Orders	269.7	290.0	310.0	600.0	571.3
	Net sales	330.0	300.0	330.0	630.0	624.1
	Operating income	25.6	17.0	28.0	45.0	47.1



# Performance Forecast for FY2012

## ➤ Key Points

- Dividends increased from JPY8 in FY2010 to JPY10 in FY2011.
- Dividends will remain at JPY10 for FY2012.

Unit: JPY billion

	Forecast 1H FY2012	Forecast 2H FY2012	Forecast FY2012	Record FY2011
Orders	290.0	310.0	600.0	571.3
Net Sales	300.0	330.0	630.0	624.1
Operating income	17.0	28.0	45.0	47.1
Operating income ratio	5.7%	8.5%	7.1%	7.6%
Ordinary income	15.0	26.0	41.0	44.6
Ordinary income ratio	5.0%	7.9%	6.5%	7.1%
Extraordinary income or loss	(0.5)	(1.5)	(2.0)	(6.4)
Current net income	8.0	15.5	23.5	19.5
Current net income ratio	2.7%	4.7%	3.7%	3.1%
Dividends	JPY4	JPY6	JPY10	JPY10
Dividend payout ratio			26.1%	31.5%
ROIC (after tax)			6.1%	7.4%
Projected currency exchange rate (US dollars)			JPY80	JPY85 (actual)

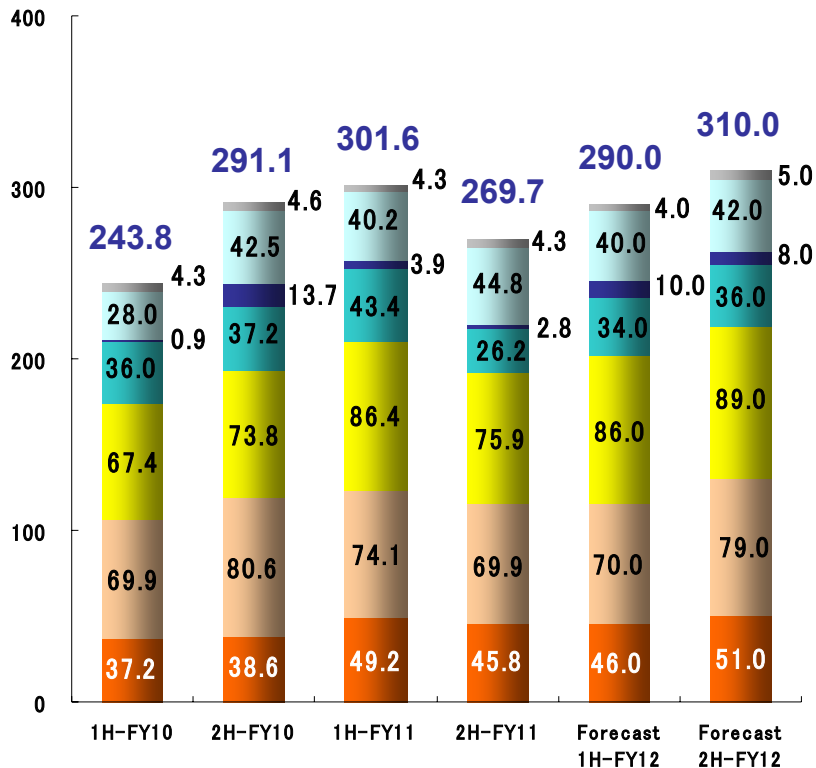
# Part 2: Management Strategy

# Transition of Orders and Net Sales

## Orders

Gradually increase for machinery components, precision machinery and construction machinery.  
 Markets for ships and heavy machinery have not recovered, and continue to struggle.

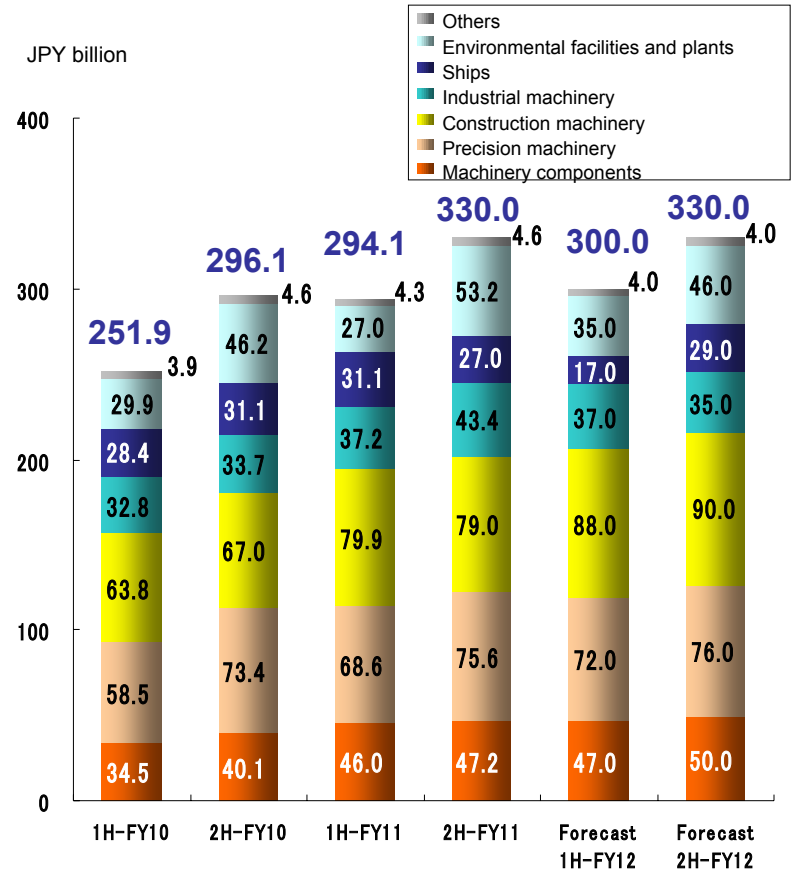
JPY billion



## Net Sales

Increasing trend for machinery components, precision machinery and construction machinery.  
 Net sales decreased for ships and heavy machinery, due to decreased amount of orders received.

JPY billion



# Order-receiving Environment for FY2012 by Segment <sup>2-2</sup>

- Recovering trend for mass-produced machinery.
- Ordering environment remains quite severe for heavy machinery.

Unit: JPY billion

Segment	Order-receiving environment	FY2012 amount of orders		
		Forecast 1H	Forecast 2H	Forecast Annual
Machinery components	<ul style="list-style-type: none"> <li>▪ Sluggish growth for facility investments, due to the downward profitability trend for domestic customers, caused by the deceleration of overseas economies and the appreciation of the yen, as well as the growing migration of production to overseas locations.</li> <li>▪ Although the outlook is not wholly clear for Europe and China, markets are strong in North and South America, as well as in Southeast Asia. Hope exists for products intended for natural resource and energy related applications.</li> </ul>	46.0	51.0	97.0
Precision machinery	<ul style="list-style-type: none"> <li>▪ Although markets in flat panel related fields continue to deteriorate, there are signs of improvement in some electronic and automotive fields. Geographically, there are concerns that market conditions may deteriorate in Europe, as well as risks relating to the deterioration of market conditions in China.</li> <li>▪ Although domestic demand for plastic injection molding machines remains the same level as the previous year, conditions are favorable overseas.</li> <li>▪ The medical related fields remain strong, primarily in Asia. Although there are projects for proton cancer therapy systems, it is unclear when such projects will become a reality.</li> <li>▪ The situation is difficult for semiconductor related fields, due to delays in recovery.</li> </ul>	70.0	79.0	149.0
Construction machinery	<ul style="list-style-type: none"> <li>▪ The Chinese market for excavators remains poor. Expansion is anticipated for Southeast Asian locations such as Indonesia. In North America, the recovery trend continues.</li> <li>▪ A recovery trend also continues in North America for mobile cranes.</li> </ul>	86.0	89.0	175.0
Industrial machinery	<ul style="list-style-type: none"> <li>▪ Demand for turbines is expected to increase in biomass power generation. The outlook is unclear for pumps used at oil refinery plants. A sluggish trend is emerging for cranes used in domestic ship building and steel manufacture. Forging presses are experiencing a partial revitalization thanks to transplantation of production to locations in Asia.</li> </ul>	34.0	36.0	70.0
Ships	<ul style="list-style-type: none"> <li>▪ The market remains difficult for ship building.</li> </ul>	10.0	8.0	18.0
Environmental facilities and plants	<ul style="list-style-type: none"> <li>▪ Boilers may see increased use for low quality coal in Southeast Asia, as well as in the domestic utilization of forest-derived biomass. Water treatment systems are seeing less demand from the disaster recovery effort.</li> </ul>	40.0	42.0	82.0
Others		4.0	5.0	9.0
<b>Total</b>		<b>290.0</b>	<b>310.0</b>	<b>600.0</b>

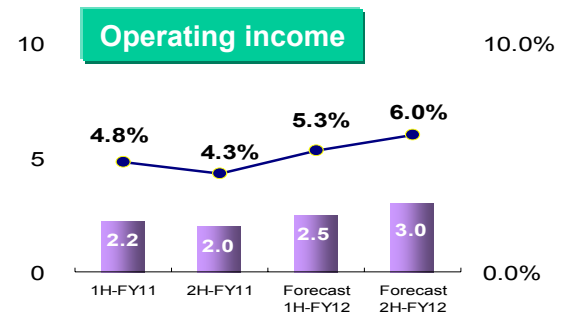
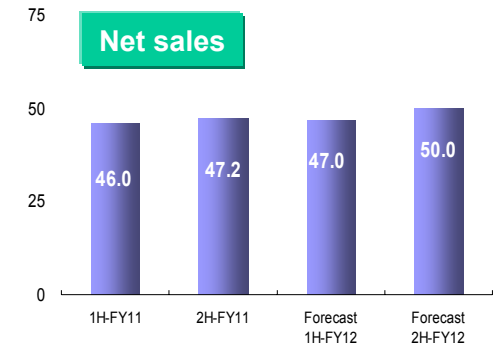
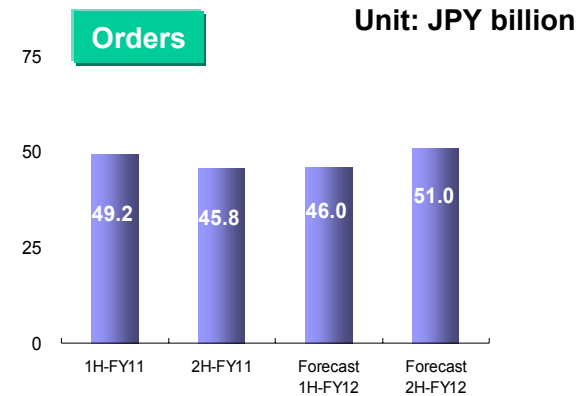
# Machinery Components

## Power transmission & control:

**FY2011:** All models underwent a favorable turn with an increase in received orders and net sales over the previous term, thanks to market expansion in emerging countries.

**FY2012:** Increase orders through collaboration with Hansen Industrial Transmissions (HIT).

Action are taken for growing markets through such means as completing the second phase of construction at the manufacturing plant in Tangshan, starting full scale operations at the manufacturing plant in Brazil and increasing production at the manufacturing plant in Vietnam. These overseas locations are fully utilized to increase business.



# Precision Machinery

## Plastic machinery:

**FY2011:** Orders received and net sales both increased, due to recovery of market conditions in Europe. Additional orders were received in the second half of the year due to floods in Thailand.

**FY2012:** In addition to IT related fields, effort is also put for automotive and medical fields. Sales increase for the SE-EV series, which had its market launch. Demag products remain steady overseas.

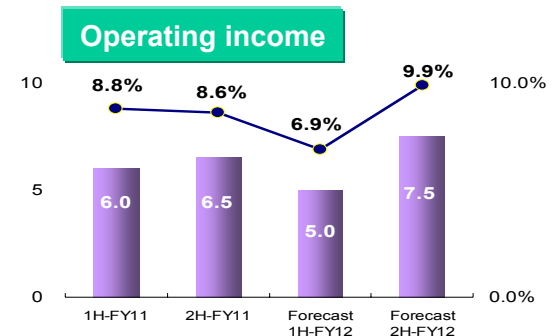
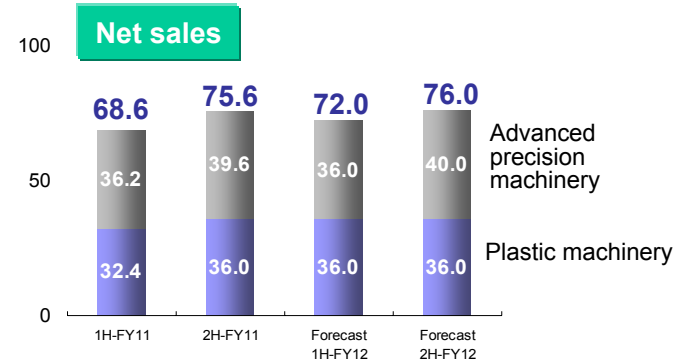
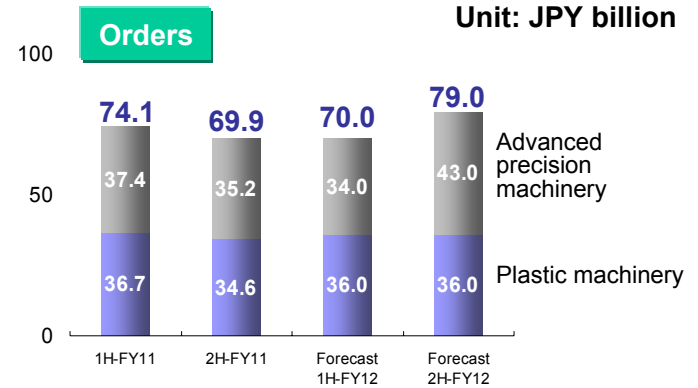
## Advanced precision machinery:

**FY2011:** Medical equipment and electronics-related products remained sluggish, and orders decreased for the division as a whole. Net sales saw positive growth due to the orders received during the previous year.

**FY2012:** Efforts are made with the medical-related business.



New series SE-EV



# Construction Machinery

## Hydraulic excavators:

**FY2011:** Both orders received and net sales increased despite disruptions to the supply chain caused by the earthquake. There was a slowdown in China.

**FY2012:** Expanded locally-produced lines of products in China. Production increase ahead of schedule at the expanded manufacturing plant in Indonesia to aggressively boost sales in the Southeast Asian market. Sales also increase in North America through effective utilization of sales locations.

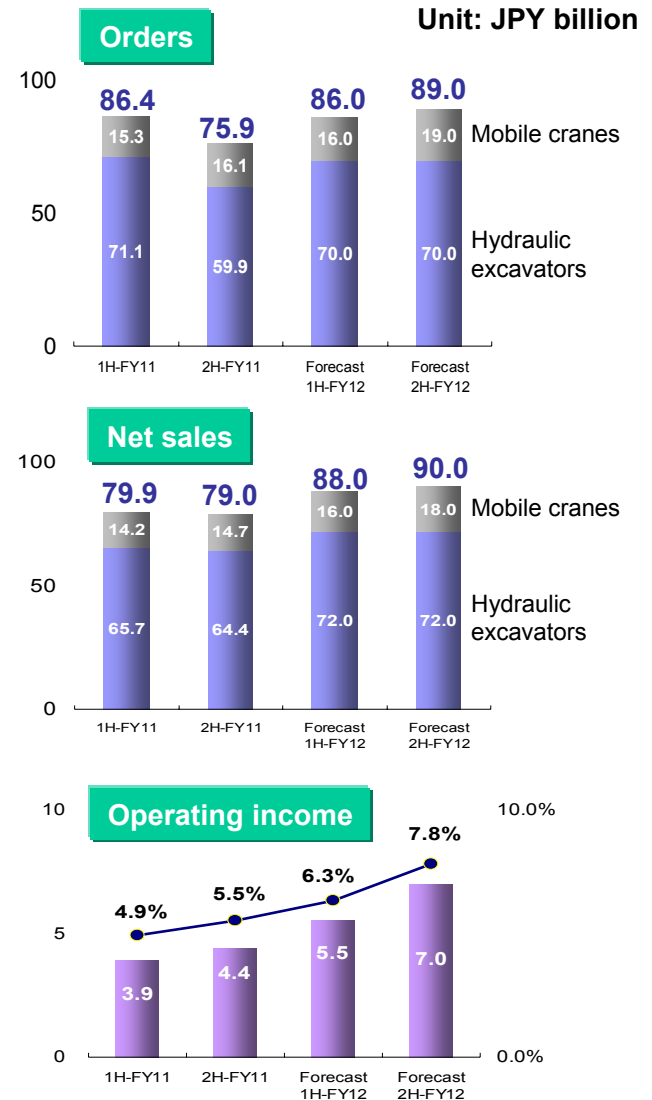
## Mobile cranes:

**FY2011:** Both orders received and net sales increased, due to the North American market recovery.

**FY2012:** Increase in net sales, due to increased sales of new models.



May 9, 2012



# Industrial Machinery

## Forging press:

**FY2011:** Brisk business with products for domestic automobile manufacturers thanks to transplantation of production to overseas locations.

**FY2012:** Accelerate overseas implementation of large scale presses.

## Material handling systems:

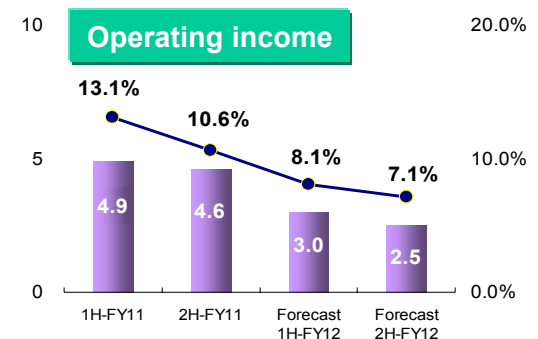
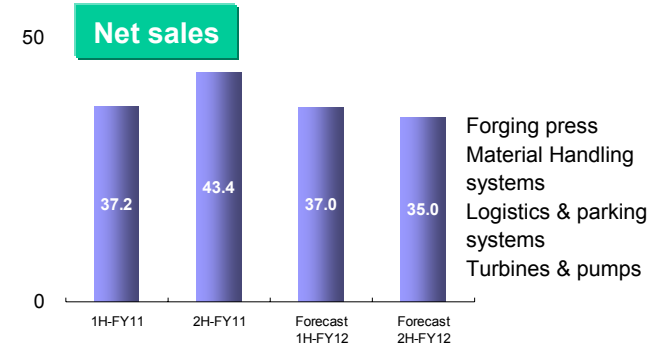
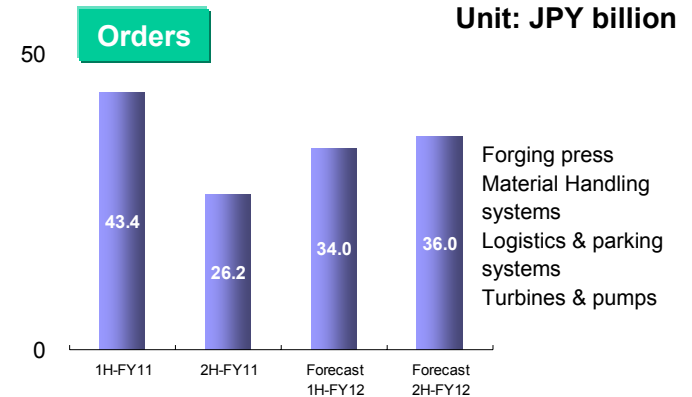
**FY2011:** Both orders received and net sales increased and remained steady, with priority placed on disaster response.

**FY2012:** The market for steel manufacturing and ship building deteriorate, although endeavors are made in overseas markets.

## Turbines & Pumps:

**FY2011:** Decrease in orders received, due to the appreciation of the yen and other factors. Net sales increased, however, due to order backlogs.

**FY2012:** Endeavors are made with biomass electric power generation in the Asian region.





# Ships

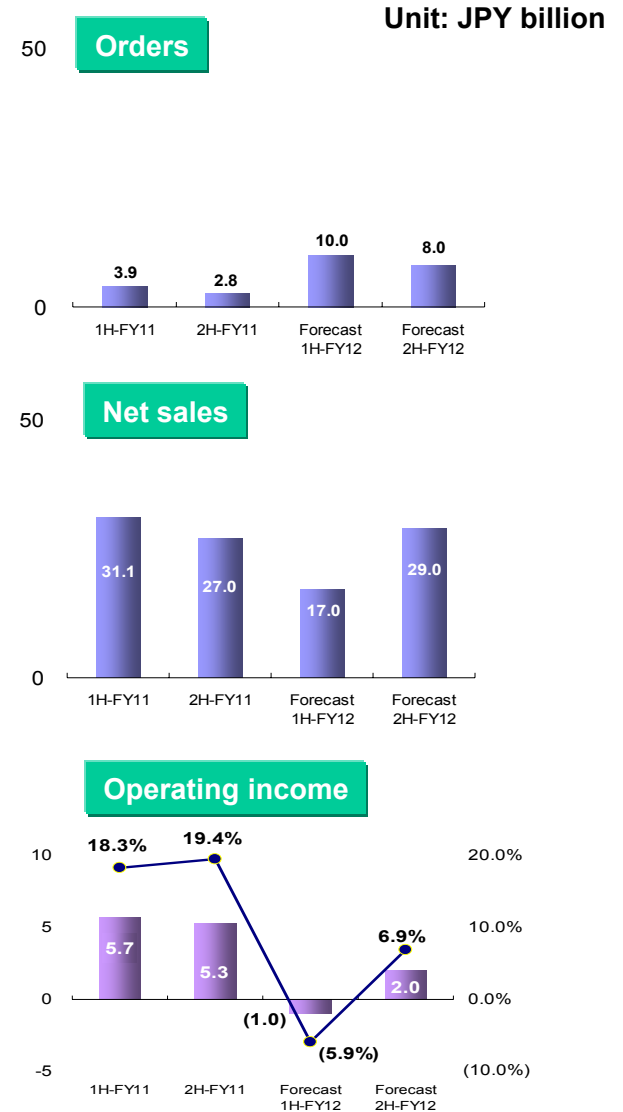
## Ships:

**FY2011:** Orders received were zero with no sign of market recovery in sight. The net sales were from seven ships, one vessel less than the previous year.

**FY2012:** Scaling down begin for the ship building organization, with an understanding that the climate will remain difficult for new orders.



Aframax tanker



# Environmental Facilities and Plants

## CFB boilers for IPP:

**FY2011:** Although some boilers for industrial electric power generation were active, orders remained at the same level as the previous year, whereas net sales decreased as the performance was sluggish for the division overall.

**FY2012:** Overseas, efforts are primarily focused in the Asian region. Domestically, endeavors are being made with compact boilers.

## Water treatment facilities:

**FY2011:** Both orders received and net sales increased as the market conditions remained steady, due in part to the earthquake response.

**FY2012:** Business implementations continue, primarily with unit equipment. Looking to cultivate the Chinese market.

## Pressure vessels, etc:

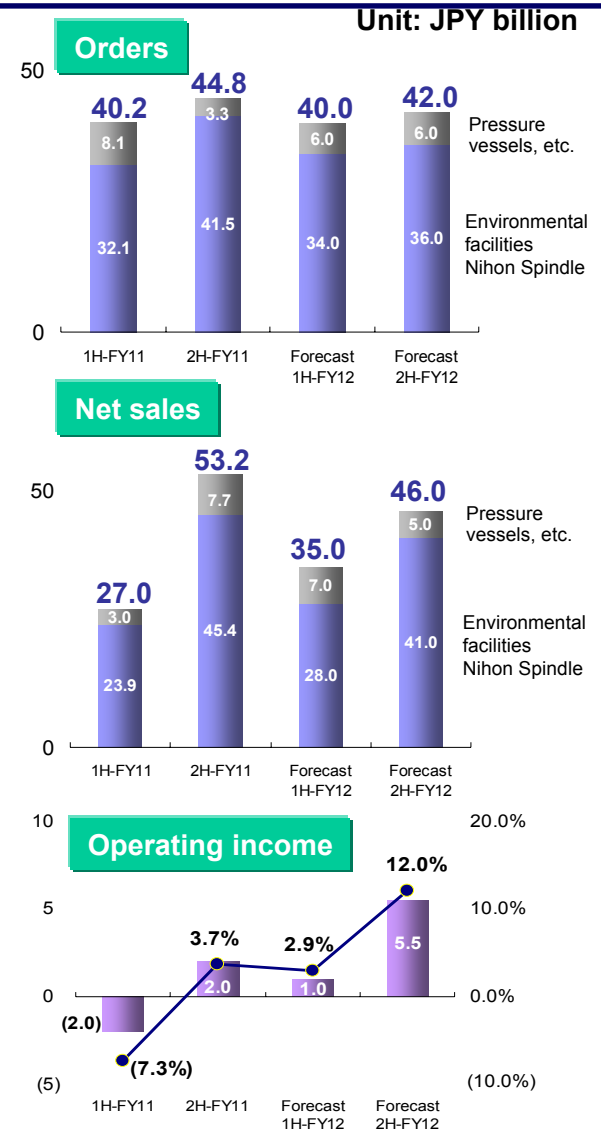
**FY2011:** Market conditions recovered in part for coke drums and mixing vessels.

**FY2012:** Endeavors are made with mixing vessels intended for synthetic chemical plants in the Asian market.

## Nihon Spindle:

**FY2011:** Brisk business with tire manufacturing equipment intended for the automobile market.

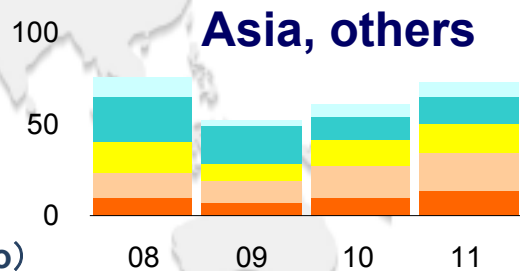
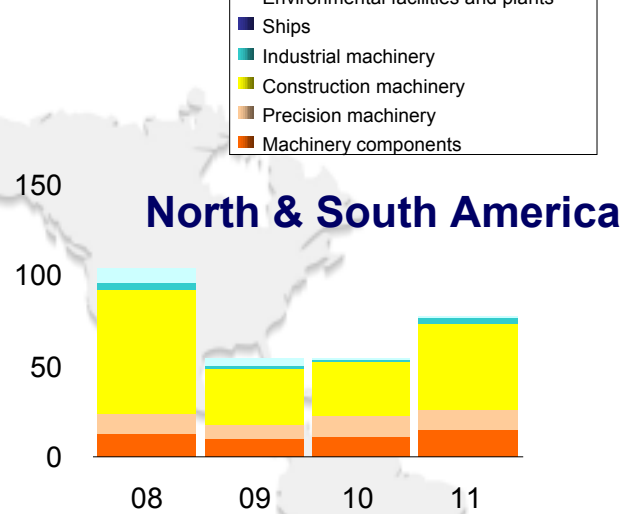
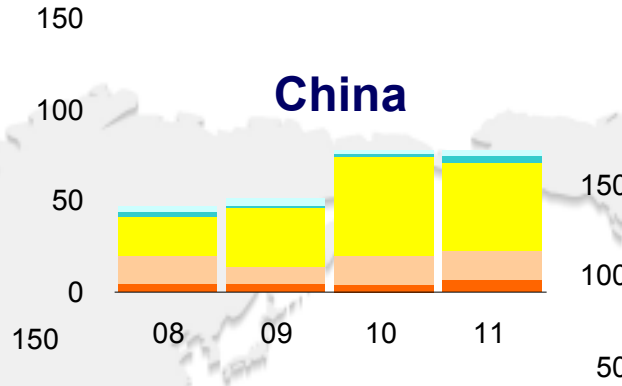
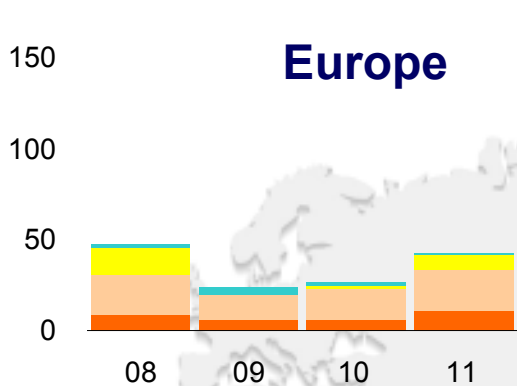
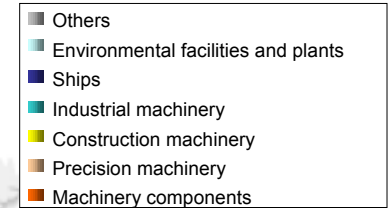
**FY2012:** Continue endeavors with tire manufacturing equipment for the automobile markets overseas.



# Regional Net Sales (by Segment)

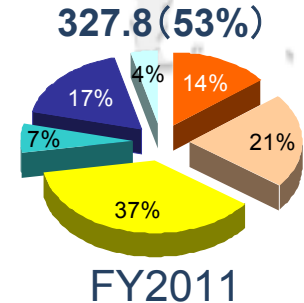
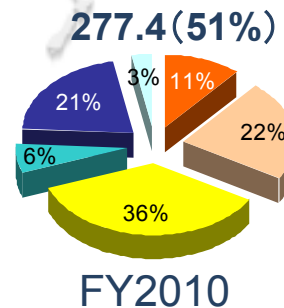
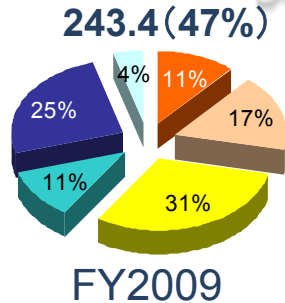
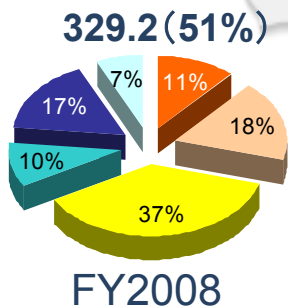
➤ Endeavors are being made to increase the sales of machinery components, precision machinery and construction machinery in all regions.

Unit: JPY billion



\* Ships are not included in the bar graphs.

## Overseas Net Sales (Sales ratio)



## ■ **Market environment**

The market conditions for marine transport and ship building continues to remain sluggish, due to the stagnant global economy and excessive supply of newly built ships.

## ■ **Responsive action taken by us thus far:**

Pace of building has slowed down to match the market environment.

## ■ **Future policies for ship building business**

In the current condition, with demand in the market fluctuating significantly, it is difficult to expect profitable orders and therefore we consider it advisable to concentrate on avoiding losses in the business, as much as possible, for the time being.

We therefore set the following as our business operation policies:

- **Slow down the pace of ship building further.**
- **Build an organization with a minimized number of personnel by around the end of FY2012.**  
The number of personnel shall be the bare minimum necessary to continue the ship building business.
- **Take action aimed at receiving orders for building new ships, as early as possible.**

# Notes on the incinerated ash melting facility for the City of Kyoto

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2-11

## ■ Current status

- From May 2011 to November 2011, trial operations were implemented on the incinerated ash melting facility.
- In November 2011, the trial operations stopped.
- From November 2011 to April 2012,
  - Inspections were carried out on all equipment and systems at the facility.
  - All problems that could be anticipated and their causes have been considered.
  - Countermeasures have been formulated.
  
- Once the countermeasures have been finalized, the delivery time will be clarified.

## ■ Impact on business performance

- The provisions for rationally projected construction losses and the like that have already been booked in the result figure of FY2011.

# Management Policies

## **FY2012:**

**The aim is for a “Strong and Powerful SHI”  
that can pursue the global markets  
and come out on top of the competition,  
based on basic policies of  
“globalization” and “innovation”.**

- ✓ **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.