

# **Part 1: Second Quarter Financial Summary and Projections for FY2011**

**Sumitomo Heavy Industries, Ltd.**

# FY2011 Second Quarter Performance Summary 1-1

## ■ Key points

### (1) Orders

- Significant increase over same period last year.
- Increase in all segments.

### (2) Net Sales

- Although increased over the same period last year, Environmental Facilities and Plants decreased.
- Four ships delivered, same as last year.

### (3) Operating Income

- 32% increase, due to increase in net sales.

### (4) Net Income

- Increase remained at 17%, due to declaration of valuation loss for investment securities.

Unit: JPY billion

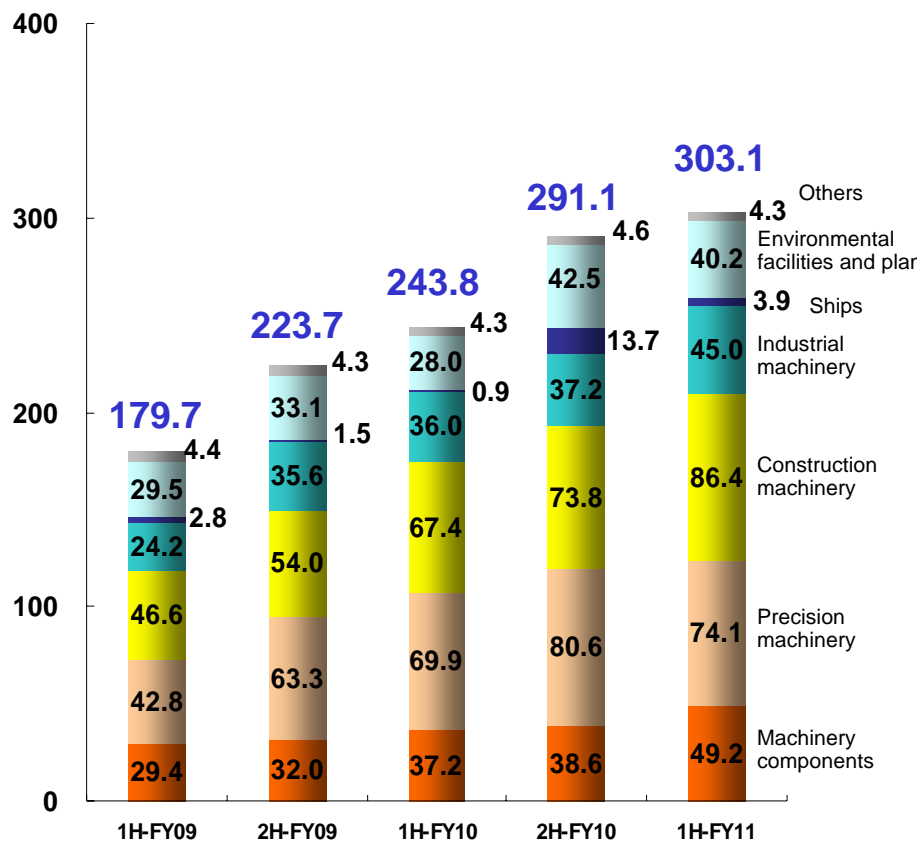
	FY2011 1H	FY2010 1H	Change
Orders	303.1	243.8	59.3
Net Sales	294.1	251.9	42.1
Operating income	21.6	16.3	5.3
Operating income ratio	7.3%	6.5%	0.9%
Ordinary income	20.2	14.8	5.4
Ordinary income ratio	6.9%	5.9%	1.0%
Extraordinary income or loss	(2.8)	(0.5)	(2.3)
Net income	9.2	7.9	1.3
Net income ratio	3.1%	3.1%	0.0%

# Orders and Net Sales

Unit: JPY billion

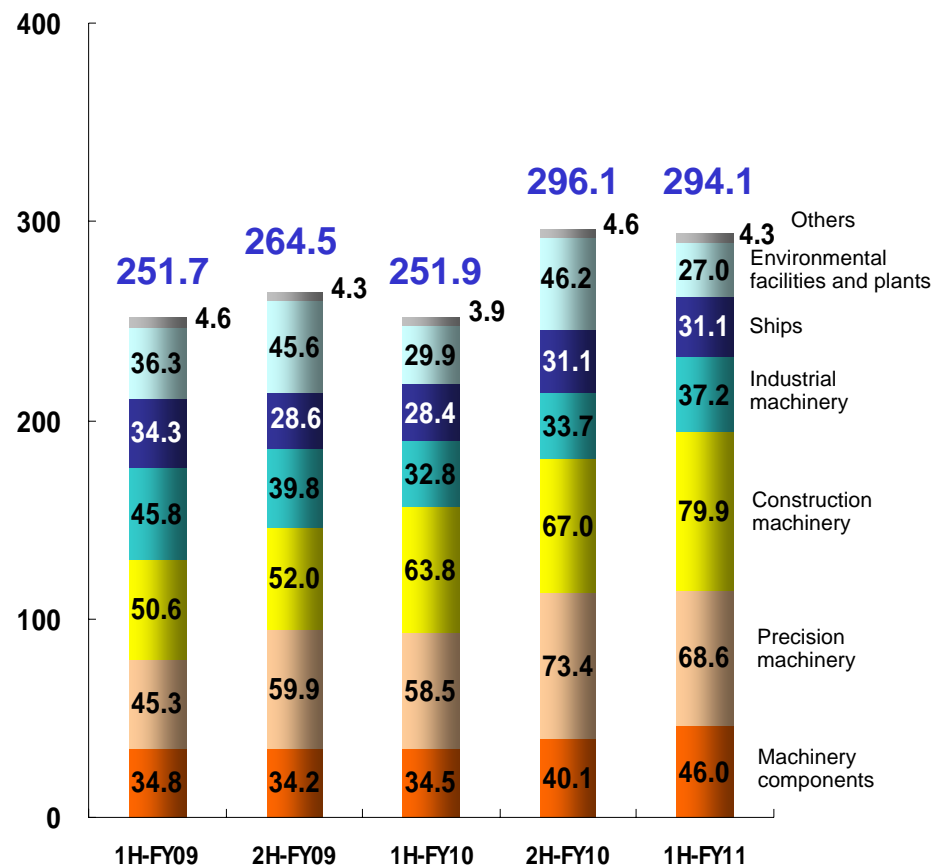
## Orders

Orders recovered to JPY300 billion for the first half. Machinery components, construction and industrial machinery showed an increase. No orders were received for new ships.



## Net Sales

Machinery components, construction machinery and industrial machinery showed an increase. Four new ships were delivered.



# Operating Income by Segment

## ■ Comparison with previous year

### <Machinery components>

Profits increased, due to an increase in sales overseas.

Unit: JPY billion

### <Precision machinery>

Injection molding machines experienced a significant increase in profits, due to increases in net sales and improvements made at Demag. SEN and precision machinery experienced improvement.

### <Construction machinery>

Even though sales for China have been slowing for hydraulic excavators, improvement has been experienced, due to increased demand in other areas.

### <Industrial machinery>

Sales of material handling systems declined, resulting in decreased profits.

### <Ships>

Although the number of ships delivered remained the same, at four vessels, two of these vessels were sold on a Yen basis, resulting in a profitable turn this fiscal term.

### <Environmental facilities & plants>

Profitability deteriorated, due to decreased net sales and delayed progress in constructions.

## ■ Comparison with forecast

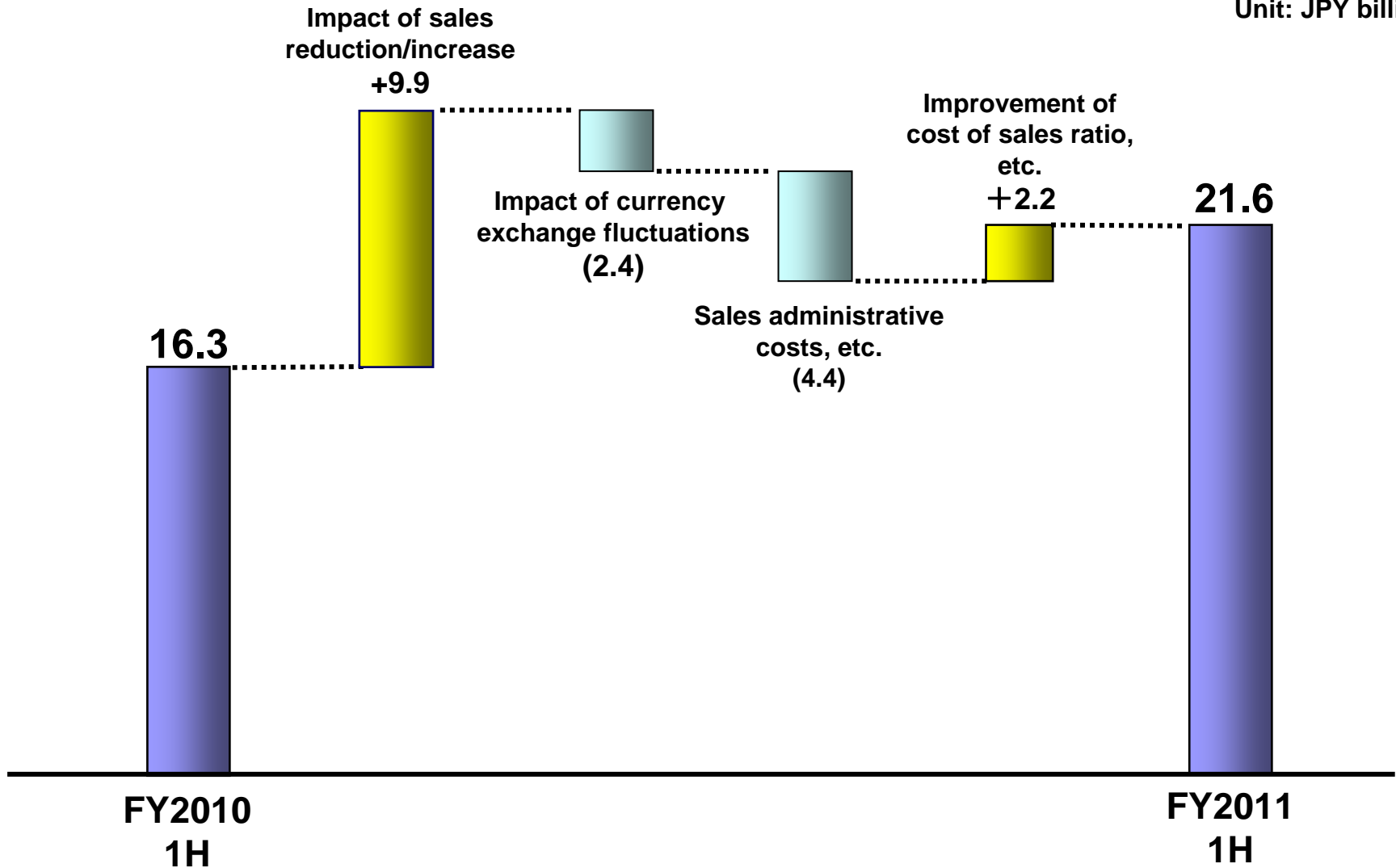
Precision machinery, construction machinery, industrial machinery and ships were more favorable than forecast.

	FY2011 1H	FY2010 1H	Change
Machinery components	2.2	1.6	0.6
Precision machinery	6.0	1.7	4.3
Construction machinery	3.9	3.1	0.8
Industrial machinery	4.9	5.4	(0.5)
Ships	5.7	3.2	2.5
Environmental facilities and plants	(2.0)	0.6	(2.6)
Others	0.8	0.7	0.1
<b>Total</b>	<b>21.6</b>	<b>16.3</b>	<b>5.3</b>

# Analysis of change in Operating Income (FY2010 / 1H to FY2011 / 1H)

1-4

Unit: JPY billion



# Consolidated Balance Sheet

Unit: JPY billion

	September 2011	March 2011	Change		September 2011	March 2011	Change
<b>Current assets</b>	<b>380.3</b>	<b>365.3</b>	<b>15.0</b>	<b>Liabilities</b>	<b>364.8</b>	<b>357.4</b>	<b>7.4</b>
Cash and deposits	57.5	52.5	5.0	Notes and accounts payable	135.6	132.0	3.7
Notes and accounts payable	158.4	155.3	3.1	Advance payments received	38.4	33.3	5.2
Inventories	138.4	131.0	7.3	Interest-bearing debts	73.6	67.8	5.8
Others	26.1	26.6	(0.4)	Others	117.1	124.4	(7.2)
<b>Fixed assets</b>	<b>259.2</b>	<b>261.5</b>	<b>(2.3)</b>	<b>Net assets</b>	<b>274.7</b>	<b>269.4</b>	<b>5.3</b>
Tangible assets	215.7	214.2	1.6	Common equity	247.9	242.6	5.2
Intangible assets	6.4	6.9	(0.6)	Valuation variations and currency exchange fluctuations	23.7	24.7	(1.0)
Investments and other assets	37.1	40.4	(3.3)	Minority interests	3.1	2.1	1.0
<b>Total</b>	<b>639.5</b>	<b>626.8</b>	<b>12.7</b>	<b>Total</b>	<b>639.5</b>	<b>626.8</b>	<b>12.7</b>
				Net ratio of interest-bearing debts	<b>2.5%</b>	2.4%	0.1%
				Stockholders' equity ratio	<b>42.5%</b>	42.6%	(0.1)%

# Consolidated Cash Flow Statement

Unit: JPY billion

Category	FY2011 1H	FY2010 1H	Change
<b>Operating activities</b>	<b>13.5</b>	<b>14.4</b>	<b>(0.8)</b>
Income before income taxes and minority interests	17.4	14.3	3.1
Depreciation	8.5	8.7	(0.2)
Working capital	(0.2)	1.4	(1.5)
Others (income taxes etc.)	(12.2)	(10.1)	(2.2)
<b>Investing activities</b>	<b>(8.7)</b>	<b>(9.6)</b>	<b>0.9</b>
<b>Free cash flow</b>	<b>4.9</b>	<b>4.8</b>	<b>0.1</b>
<b>Financing activities</b>	<b>(0.6)</b>	<b>(22.1)</b>	<b>21.5</b>
<b>Change in cash and cash equivalents</b>	<b>4.0</b>	<b>(17.7)</b>	<b>21.7</b>
Cash and cash equivalents at end of fiscal term	56.4	44.0	12.5

# Performance Forecast for FY2011 by Segment

1-7

## ■ Key Points:

- (1) Slight slowdown in orders for machinery components and construction machinery. Two new vessel orders for ships are expected in the second half.
- (2) In terms of sales, improvement occurs for machinery components, precision machinery, construction machinery and industrial machinery. Three vessels are planned for sales in the second half.
- (3) In terms of operating income, machinery components, precision machinery and construction machinery increase from the previous fiscal year.

Unit: JPY billion

		Record FY2010 2H	Record FY2011 1H	Forecast FY2011 2H	Forecast FY2011	Record FY2010
<b>Machinery components</b>	Orders	38.6	49.2	49.8	99.0	75.8
	Net Sales	40.1	46.0	48.0	94.0	74.6
	Operating income	3.2	2.2	3.8	6.0	4.9
<b>Precision machinery</b>	Orders	80.6	74.1	80.9	155.0	150.5
	Net Sales	73.4	68.6	81.4	150.0	131.9
	Operating income	6.7	6.0	7.0	13.0	8.3
<b>Construction machinery</b>	Orders	73.8	86.4	88.6	175.0	141.2
	Net Sales	67.0	79.9	90.1	170.0	130.8
	Operating income	2.2	3.9	3.6	7.5	5.3
<b>Industrial machinery</b>	Orders	37.2	45.0	37.0	82.0	73.2
	Net Sales	33.7	37.2	43.8	81.0	66.5
	Operating income	4.9	4.9	5.6	10.5	10.3
<b>Ships</b>	Orders	13.7	3.9	11.1	15.0	14.6
	Net Sales	31.1	31.1	25.9	57.0	59.5
	Operating income	6.7	5.7	4.3	10.0	9.9
<b>Environmental facilities and plants</b>	Orders	42.5	40.2	44.8	85.0	70.6
	Net Sales	46.2	27.0	53.0	80.0	76.1
	Operating income	5.0	(2.0)	7.0	5.0	5.6
<b>Others</b>	Orders	4.6	4.3	4.7	9.0	8.9
	Net Sales	4.6	4.3	3.7	8.0	8.6
	Operating income	0.8	0.8	1.2	2.0	1.6
<b>Total</b>	Orders	291.1	303.1	316.9	620.0	534.9
	Net Sales	296.1	294.1	345.9	640.0	548.0
	Operating income	29.5	21.6	32.4	54.0	45.8



# Performance Forecast for FY2011

## ■ Key Points:

- (1) The assumed currency exchange rate was modified from the previous JPY80 to JPY77, but the operating income still remained the same as previous forecast.
- (2) The interim dividend of JPY4 was revived. The dividend become JPY10 for the full fiscal year, as initially announced.

	Record FY2011 1H	Forecast FY2011 2H	Forecast FY2011	Unit: JPY billion Record FY2010
Orders	303.1	316.9	620.0	534.9
Net Sales	294.1	345.9	640.0	548.0
Operating income	21.6	32.4	54.0	45.8
Operating income ratio	7.3%	9.4%	8.4%	8.4%
Ordinary income	20.2	30.3	50.5	44.3
Ordinary income ratio	6.9%	8.8%	7.9%	8.1%
Extraordinary income or loss	(2.8)	(0.2)	(3.0)	0.8
Current net income	9.2	18.8	28.0	27.9
Current net income ratio	3.4%	5.4%	4.4%	5.1%
Dividends	JPY4	JPY6	JPY10	JPY8
Dividend payout ratio	-	-	21.9%	17.4%
ROIC (after tax)	-	-	8.3%	7.8%
Integrated exchange rate (US dollars)	JPY88 (actual)	JPY77	-	JPY92 (actual)

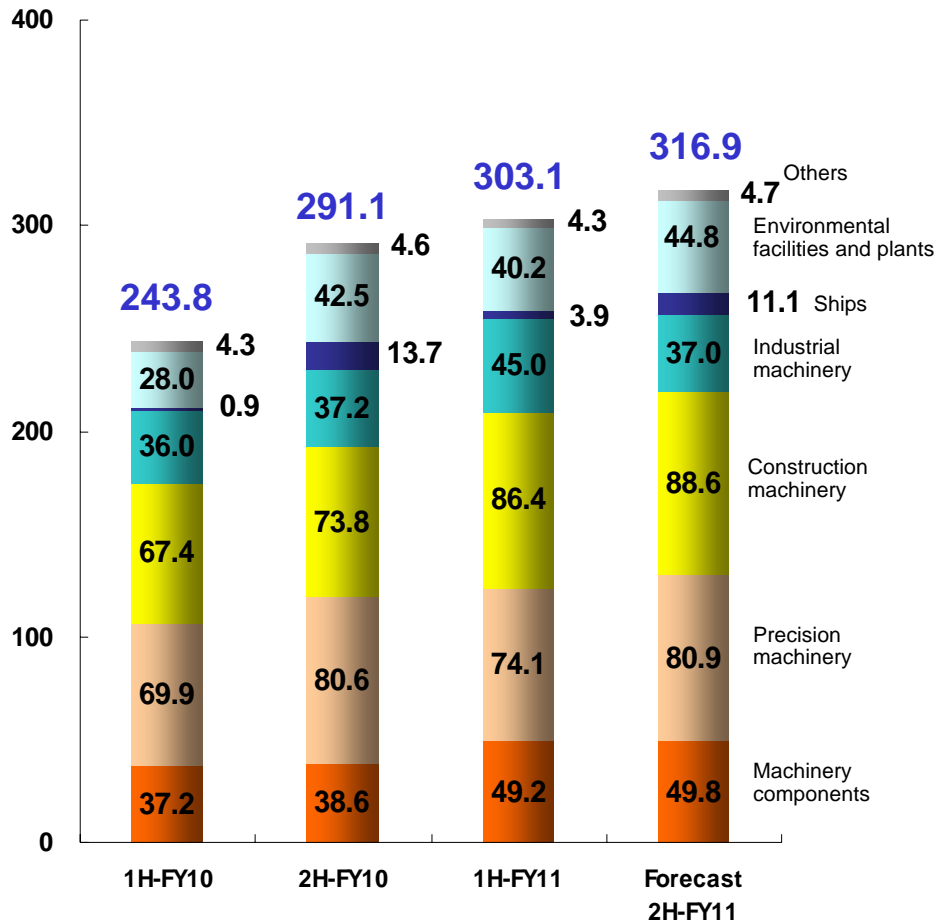
# **Part 2: Management Strategy**

# Transitions of Orders and Net Sales

Unit: JPY billion

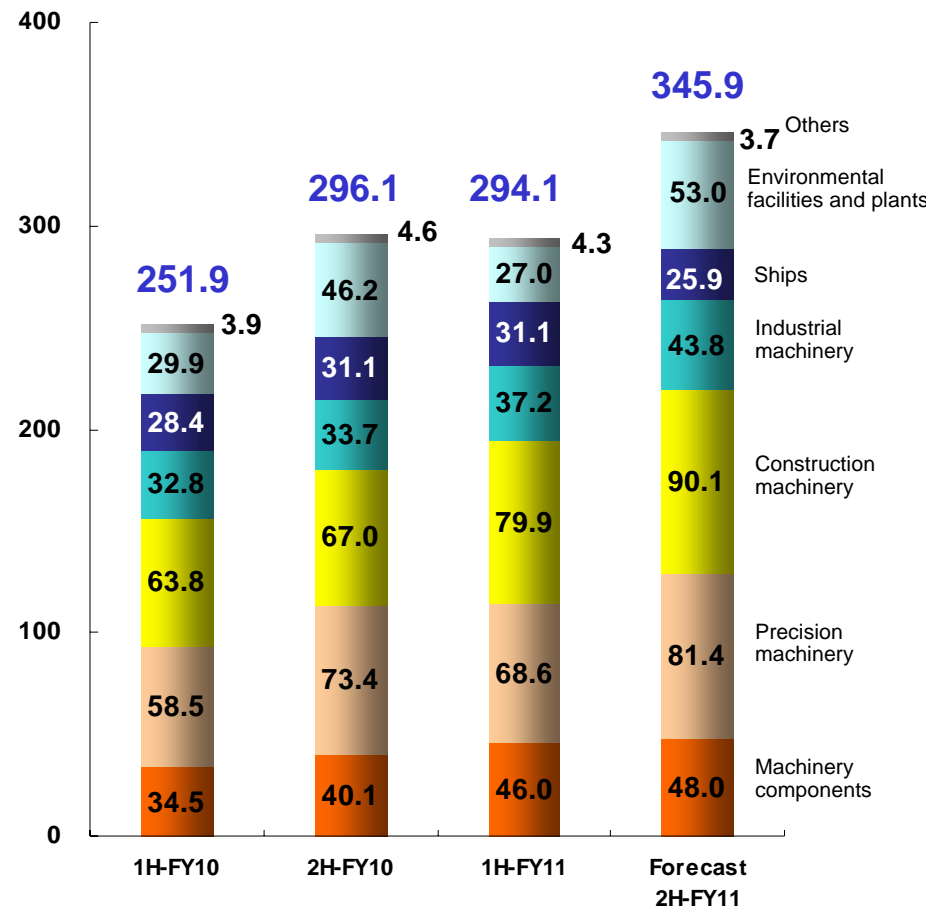
## Orders

The economic condition for the second half of FY2011 is uncertain, with the overall condition remaining at about the same level as the first half.



## Net Sales

The delivery of three ships is planned for the second half. All segments other than ships are expected to grow.



# Order-receiving Environment for FY2011 by Segment

- Although orders remain steady for mass-produced machinery in general, the outlook of the global economy remains uncertain.
- The environment for orders of heavy machinery continues to be severe, except for certain sections.

Unit: JPY billion

Segment	Order-receiving environment	FY2011 amount of orders		
		Actual 1H	Forecast 2H	Forecast Annual
Machinery components	<ul style="list-style-type: none"> <li>Although the trend is steady domestically, due in part to the disaster recovery demand in the first half, this tendency is decelerating for the second half. Effects from the increased value of yen, etc., make the future outlook unclear.</li> <li>Deceleration of the economic growth in the United States and Europe, as well as a slowdown of economic expansion in emerging countries, is expected overseas.</li> </ul>	49.2	49.8	99.0
Precision machinery	<ul style="list-style-type: none"> <li>The trend for demand in injection molding machines is declining, due to uncertainties for the future in China and Asia. Although there are business inquiries, primarily in the automobile industry of the United States and Europe, the future remains uncertain.</li> <li>Business inquiries for medical related areas have come primarily from overseas, but they are taking time to come to fruition.</li> <li>Some semiconductors are in demand for disaster recovery, whereas facility investments have decreased, due to market deterioration from an increase in the value of the yen, etc.</li> </ul>	74.1	80.9	155.0
Construction machinery	<ul style="list-style-type: none"> <li>Although the market for hydraulic excavators is recovering in North America, the market condition in China is losing ground.</li> <li>The market condition for mobile cranes recovered slightly in the United States, during the first half, but the market is losing ground in the second half.</li> </ul>	86.4	88.6	175.0
Industrial machinery	<ul style="list-style-type: none"> <li>Turbines intended for private generators are in strong demand in emerging countries. Projects in the middle east for pumps have been postponed and cancelled, and price competition has intensified.</li> <li>Responses for disaster recovery were prioritized for cranes during the first half. Products intended for the domestic ship building and steel market are in a weakening trend in the second half.</li> </ul>	45.0	37.0	82.0
Ships	<ul style="list-style-type: none"> <li>The situation for new ship building is severe, due to continuing sluggish conditions in the oil tanker market and the continuous appreciation of the yen.</li> </ul>	3.9	11.1	15.0
Environmental facilities and plants	<ul style="list-style-type: none"> <li>Market conditions for industrial boilers remain sluggish.</li> <li>Responsive action was taken with water treatment facilities for disaster recovery during the first half also. The markets are steady for projects of both private and public sector demand.</li> <li>Reactor vessels had a favorable trend during the first half.</li> </ul>	40.2	44.8	85.0
Others	—	4.3	4.7	9.0
Total		303.1	316.9	620.0

# Machinery Components

## Power transmission & control:

**FY2011 / 1H:** Practically all models made a favorable turn, and both the amount of orders received and the net sales increased due to the acquisition of Hansen, which contributed to the expansion of the European business, in addition to the expansion of markets in emerging countries.

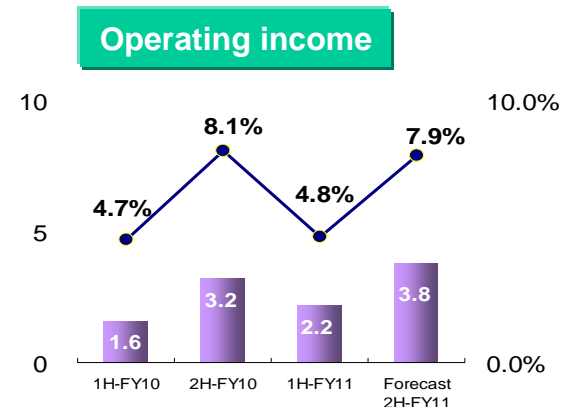
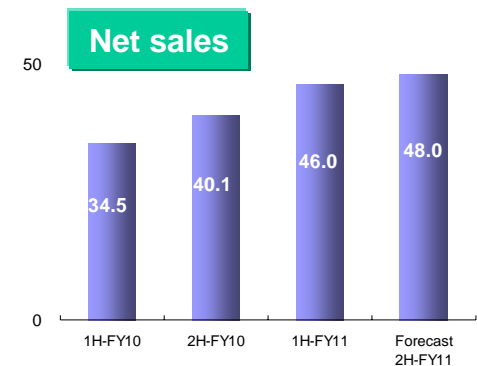
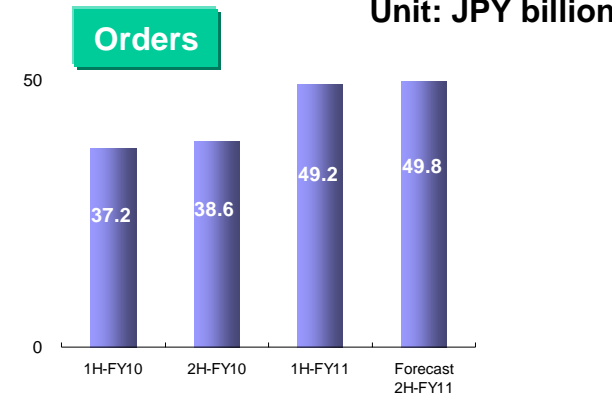
Orders received for precision reduction gears intended for robots have increased domestically in comparison with the same period of the previous year.

**FY2011 / 2H:** Although a positive outcome can be expected in a number of fields, such as those intended for water treatment facilities, the intensification of price competition is of concern domestically in general.

Overseas, the number of orders for medium and large size gearboxes intended for facilities relating to resources and infrastructures are expected to continue to increase in emerging countries.

The manufacturing plant in Tangshan will be organized as a factory for large size gearboxes intended for the Chinese domestic market, whereas small size gear motors are being shifted to Vietnam to reduce costs. Demand in Central and South America is taken care of through the operations at the manufacturing plant in Brazil.

Unit: JPY billion



# Precision Machinery

## Plastic machinery:

**FY2011 / 1H:** Demand decreased in the North Asian market, principally, in China, while the market is somewhat sluggish in Japan. The European market continues to be steady.

Orders and net sales both increased.

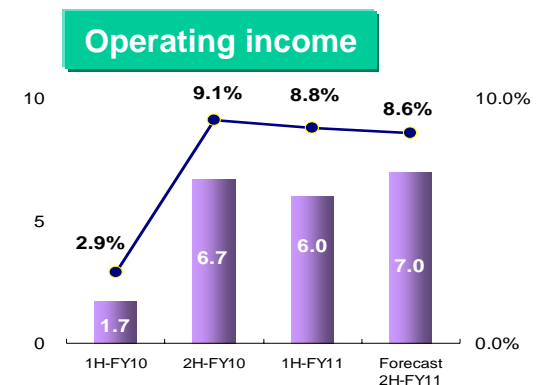
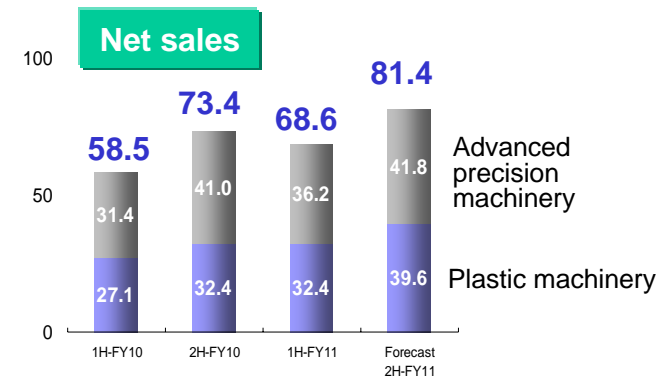
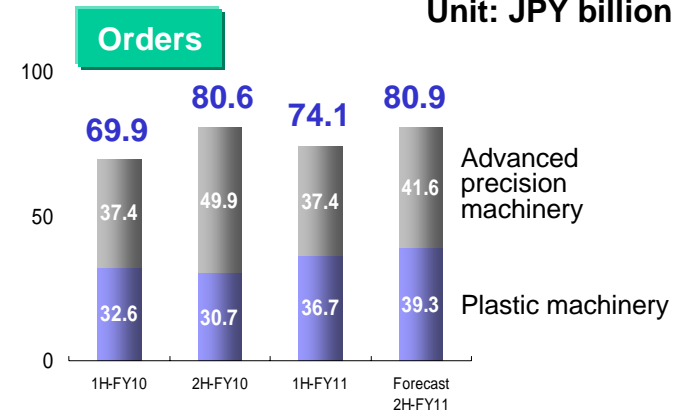
**FY2011 / 2H:** Domestic demand is expected to become sluggish. Competition is expected to intensify, due in part to the appreciation of the yen, with new models launched to recover from this setback.

## Advanced precision machinery:

**FY2011 / 1H:** Although no orders have been received for proton therapy systems, cryogenic coolers are performing steadily. Semiconductor manufacturing equipment is also showing resilience.

**FY2011 / 2H:** Cryogenic coolers continue to perform steadily. The conditions for semiconductor manufacturing equipment related products are severe, due to deteriorating market conditions.

Unit: JPY billion



# Construction Machinery

## Hydraulic excavators:

**FY2011 / 1H:** Although there was confusion in the supply chain for hydraulic excavators, due to the earthquake, recovery was made early on.

Orders and net sales both increased.

**FY2011 / 2H:** Although the Chinese market is decelerating, the market in North America is recovering steadily, with ordinary results expected for orders received in the first half, while net sales are expected to increase due to the processing of order backlogs. Sales expansion in Southeast Asia is sought through operations at the manufacturing plant in Indonesia.

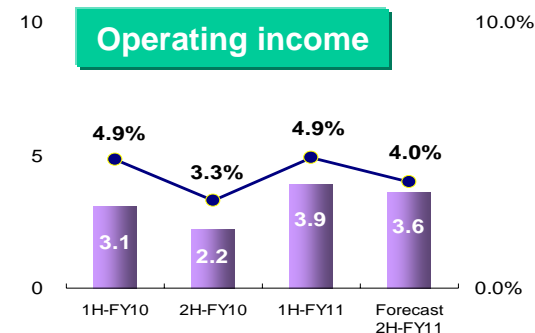
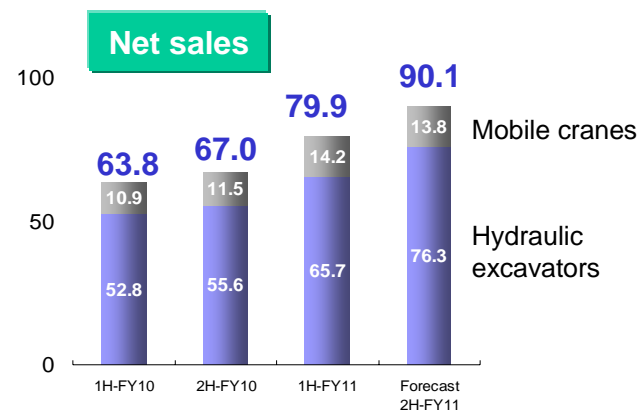
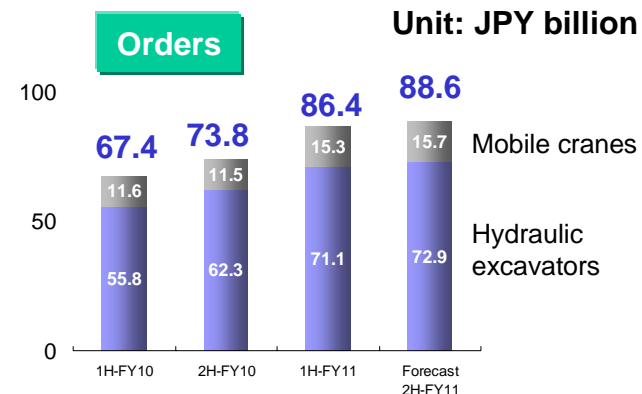
## Mobile cranes:

**FY2011 / 1H:** Recovery in demand for infrastructural improvements in the North American market resulted in an increase in the amount of orders and net sales.

**FY2011 / 2H:** Concerns exist for a downturn, due to the market conditions that are becoming sluggish.

## Operating Income:

The profit rate for the net sales of hydraulic excavators in the second half is expected to decrease, due to the impact from fluctuations in the currency exchange rate and the cost of steel materials etc.



## Forging press :

**FY2011 / 1H:** The amount of orders intended for overseas manufacturing plants, with products intended for Japanese capital manufacturers, recovered somewhat.

**FY2011 / 2H:** Orders will be secured by continuing to follow up overseas projects, as well as by enhancing after sales businesses.

## Material handling systems:

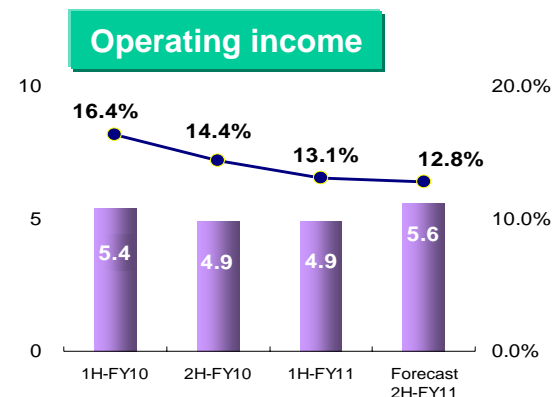
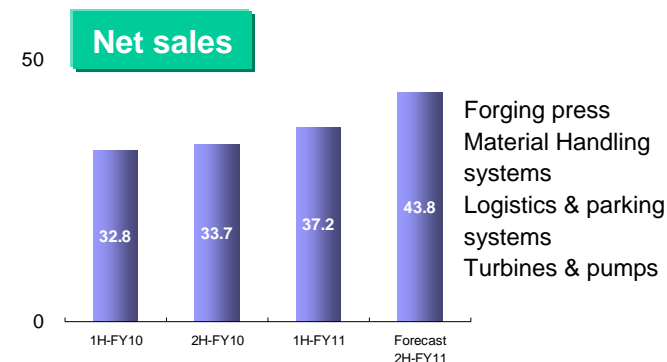
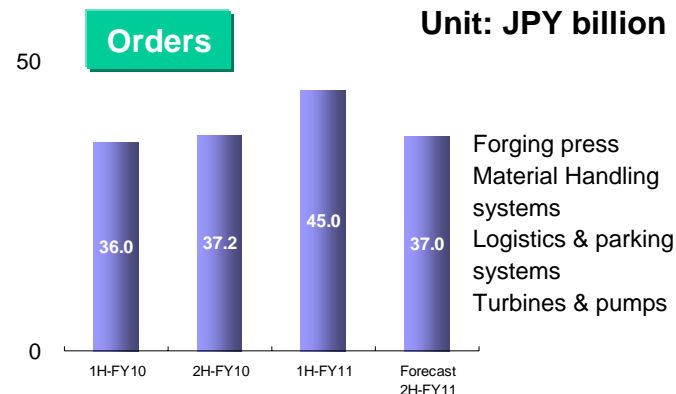
**FY2011 / 1H:** Responsive action for the earthquake recovery was prioritized. Net sales declined although the amount of orders received increased in comparison with the previous year.

**FY2011 / 2H:** Efforts are to be made to secure orders as the number of projects for ships and steel productions has declined and a feeling of uncertainty exists regarding an implementation of the projects.

## Turbines & Pumps:

**FY2011 / 1H:** Orders and net sales both increased with turbines relevant to resources and energy, such as biomass power generation, in North America and Southeast Asia. Pumps were sluggish, due in part to the impact of the situation in the Middle East.

**FY2011 / 2H:** The sales force has been enhanced in Southeast Asia for turbines. Efforts will be made with the aim of securing orders for pumps from EPC in Korea.



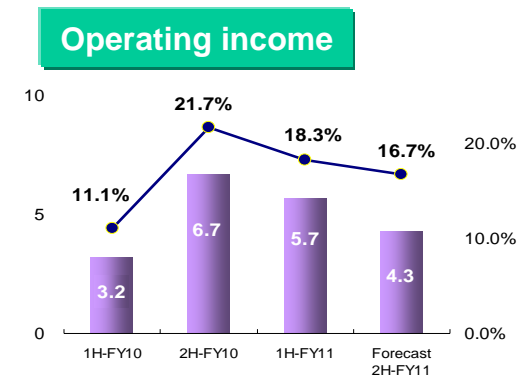
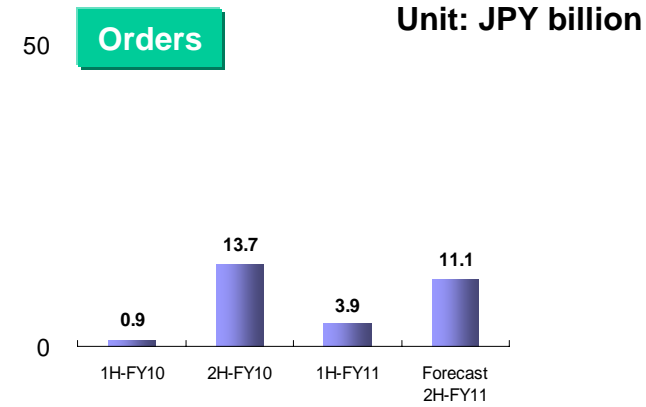


# Ships

## Ships:

**FY2011 / 1H:** Conditions in the oil tanker market have not recovered, with the ship owners continuing to observe the situation, which resulted in no orders to build new ships in the first half. Net sales consisted of four vessels, which was the same as the period last year. Orders for ship repairs continued steadily.

**FY2011 / 2H:** Due to the severe environment for orders, the initial plan for orders reduced by one to two vessels, but the outlook remains unclear. The planned net sales are for three vessels.



# Environmental Facilities and Plants

## CFB Boilers for IPP:

FY2011 / 1H: Boilers were sluggish, with only one order received.

FY2011 / 2H: The project for boilers received in Singapore during the second half of FY2009 will be used as a trigger to continue enhancing sales in Southeast Asia.

## Water treatment facilities:

FY2011 / 1H: Although the amount of orders received increased, due in part to the responsive action taken for the recovery from the earthquake disaster, net sales declined as the amount of orders received during the previous fiscal year was low.

FY2011 / 2H: Efforts will continue to be poured into receiving orders for private sector projects and sales activities will be enhanced.

## Pressure vessels, etc.:

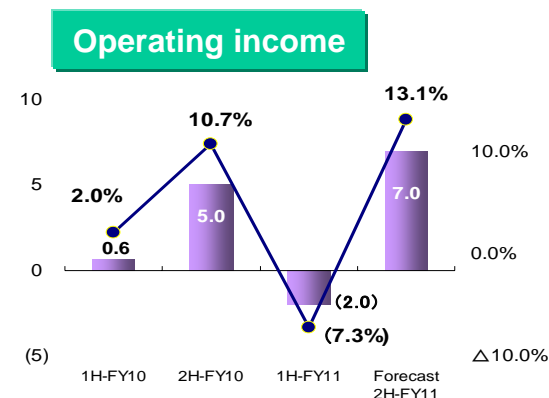
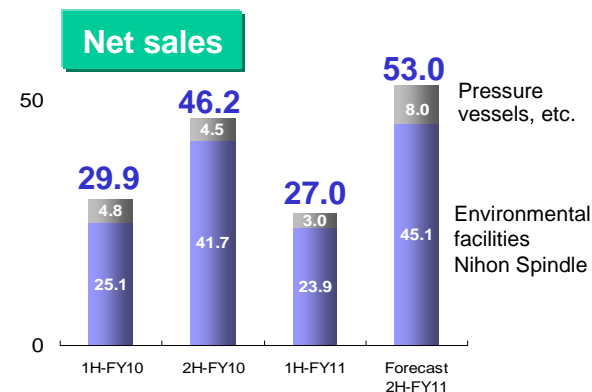
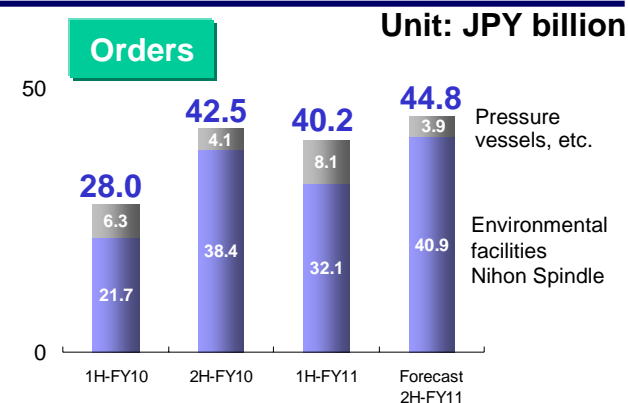
FY2011 / 1H: Orders received for the reactor vessels projects increased.

FY2011 / 2H: Competition is expected to intensify, due to the impact of the currency exchange rate, although projects are expected to become active in North America, Asia, Central and South America.

## Nihon Spindle:

FY2011 / 1H: Both industrial machinery, as well as environment and air conditioning businesses, performed favorably in the amount of orders received.

FY2011 / 2H: Sales activities for facility investment projects in developing countries, as well as dust collectors for blast furnaces and electric furnaces, will be enhanced. The emphasis will be placed on projects for additional installations intended for beverages, with regards to food processing machinery.



# Launch of operations at manufacturing plant in Indonesia <sup>2-9</sup>

## ■ Points

- (1) Operations has started in September in Indonesia, as the location for supplying hydraulic excavators to the Southeast Asian region.
- (2) Production capacity: 1,000 units (for FY2012) to increase to 2,000 units in the early stages.
- (3) Cost competitiveness will be improved to expand sales by taking in demand for the Southeast Asian region, where growth is significant.

## ■ Summary of company

Company name	Pt. Sumitomo S.H.I. Construction Machinery Indonesia	
Location	Karawang Regency, the Republic of Indonesia	
Capital	US\$33 million (approx. JPY3 billion)	
Establishment	September 2010	
Site area	Approx. 110,000m <sup>2</sup>	Building area Approx. 23,000m <sup>2</sup>
Number of employees	Approx. 200 persons	
Start of operations	September 2011	
Facility investment amount	Approx. JPY2.8 billion (Land, manufacturing plant building, as well as machining, assembling and painting facilities, etc.)	
Net sales	Approx. JPY4.5 billion (FY2012)	



Local employees lined up in front of the very first machinery produced in Indonesia.



The Minister of Industry of the Republic of Indonesia, Mr. Hidayat, gives a congratulatory address at the grand opening ceremony

# Launch of operations at manufacturing plant in Brazil

## ■ Points

- (1) Operations are scheduled to start in November as the supply location for medium and large size gearboxes for the South American region.
- (2) An increase in infrastructural investments, relating to increased demand for medium and large size gearboxes, can be expected in Brazil, which has resource demand for iron ore, as well as others, and where the World Cup and Olympic games will take place.
- (3) Cost competitiveness can be improved through production in Brazil, in order to expand sales, aiming for an annual net sales of JPY5 billion by 2015.

## ■ Summary of company

Company name	Sumitomo Industrias Pesadas do Brasil Ltda		
Location	State of Sao Paulo, Federative Republic of Brazil		
Capital	1.3 million Real (Approx. JPY6.3 billion)		
Establishment	July 2010		
Manufacturing plant area	Approx. 11,200m <sup>2</sup>	Building area	Approx. 2,400m <sup>2</sup>
Start of operation	Planned for November 2011		
Production capacity	Monthly production of 200 units		



Manufacturing plant main building



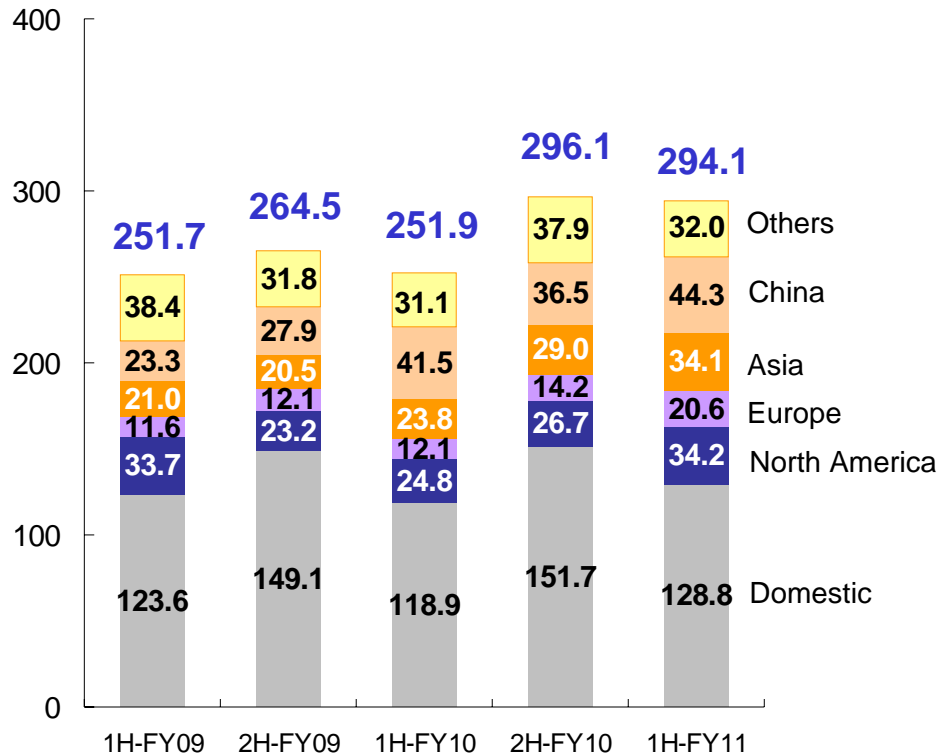
Factory building

# Overseas Sales

Unit: JPY billion

### Overseas Sales by Regional Segment

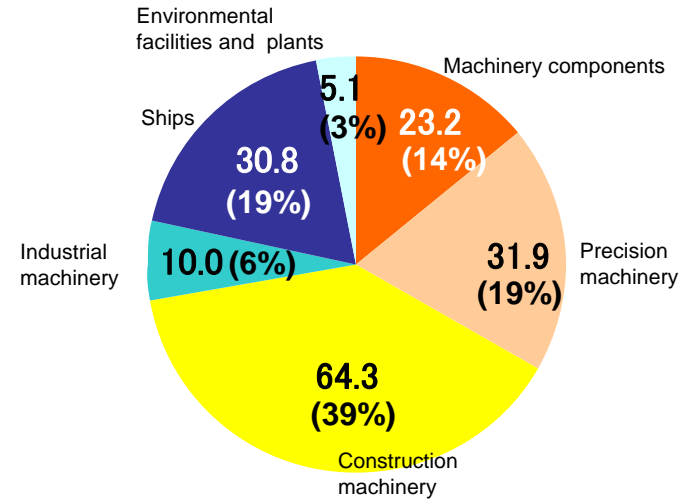
Unit: JPY billion



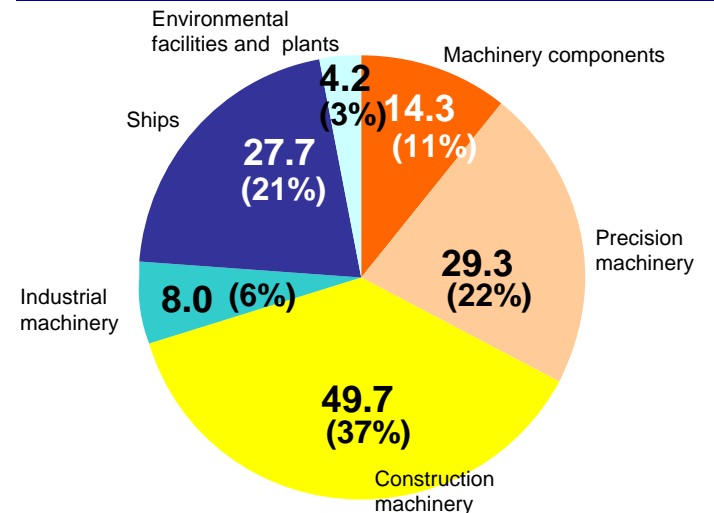
Overseas sales **128.0**    **115.4**    **133.1**    **144.3**    **165.2**

Overseas sales ratio **51%**    **44%**    **53%**    **49%**    **56%**

### FY2011 / 1H Overseas Sales by Segment



### FY2010 / 1H Overseas Sales by Segment



# Management Policies

## **FY2011:**

**Amidst the global economy for which the outlook is unclear, we aim to build a “Strong and Powerful SHI” by assessing the situation of future prospects in a prudent manner.**

- ✓ **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.