

Part 1: Second Quarter Financial Summary and Projections for FY2012

Sumitomo Heavy Industries, Ltd.

FY2012 Second Quarter Performance Summary

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■ Key points

Unit: JPY billion

(1) Orders

- Overall decline due to difficult market conditions.

(2) Net Sales

- Increases seen in Precision Machinery and Environmental Facilities and Plant segments. Decrease in Ships segment. Other segments are relatively flat.

(3) Operating Income

- Overall decline as compared to previous year with the exception of the Environmental Facilities and Plant segment.

(4) Net Income

- Increase as compared to the previous year due to a reduction in extraordinary losses.

(5) Income levels have turned around (positively) since the forecast published at the end of July.

	FY2012 1H	FY2011 1H	Change
Orders	266.6	301.6	(35.0)
Net Sales	293.3	294.1	(0.8)
Operating income	17.4	21.6	(4.2)
Operating income ratio	5.9%	7.3%	(1.4%)
Ordinary income	16.6	20.2	(3.6)
Ordinary income ratio	5.7%	6.9%	(1.2%)
Extraordinary income or loss	(1.0)	(2.8)	1.7
Net income	9.8	9.2	0.6
Net income ratio	3.4%	3.1%	0.2%

Orders and Net Sales

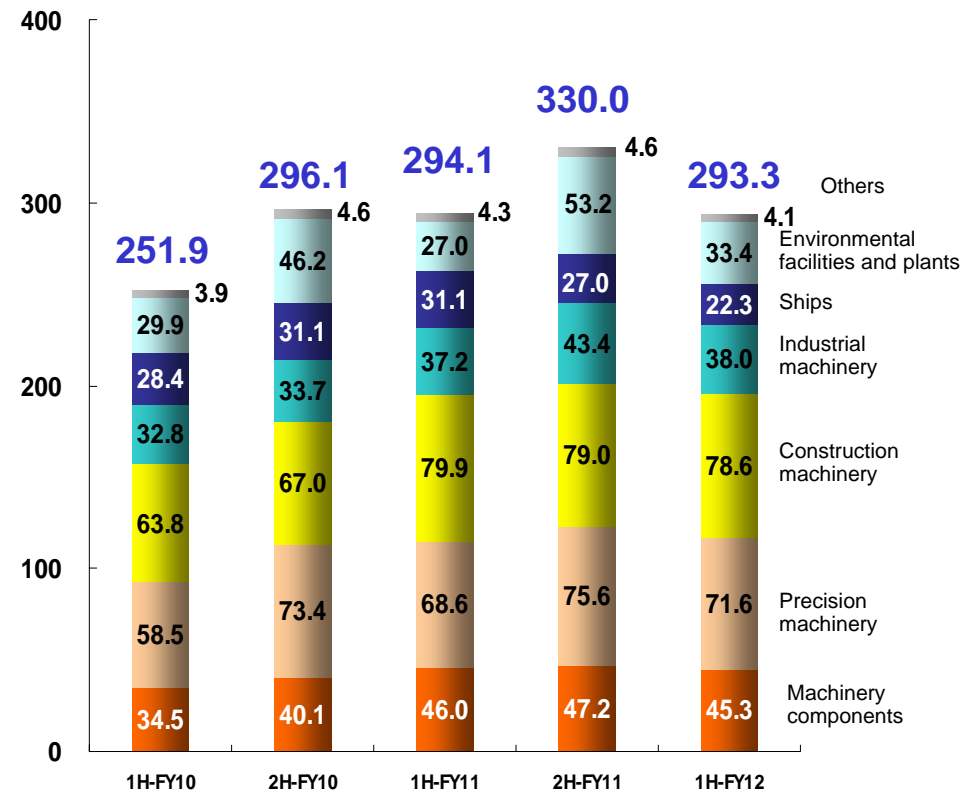
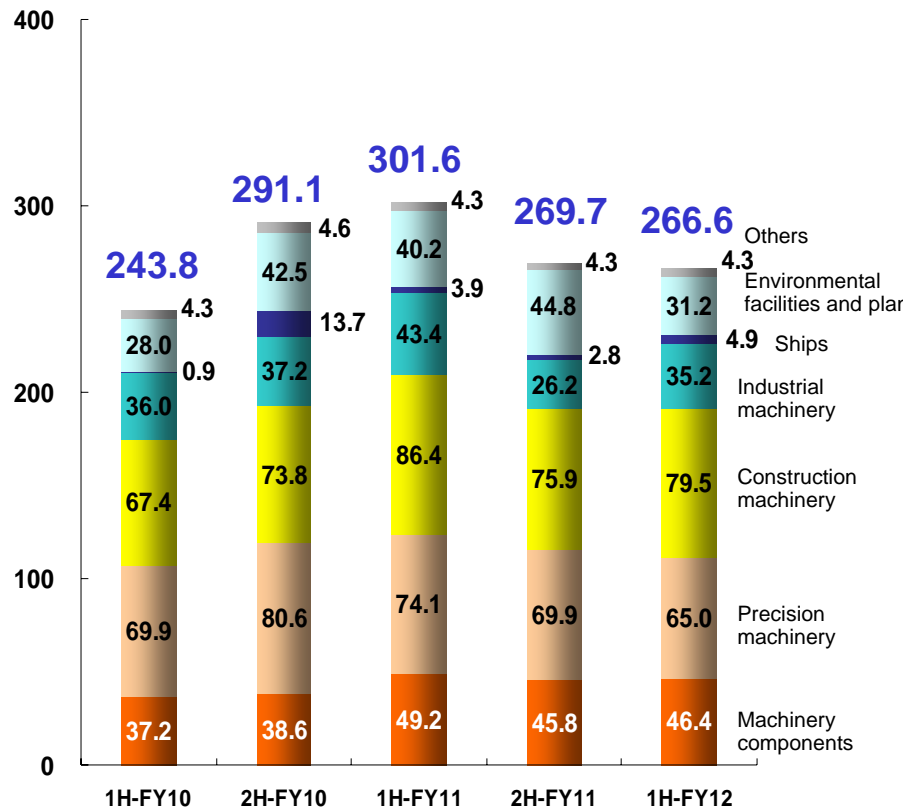
Unit: JPY billion

Orders

Order levels were relatively low due to the sluggish economy. No orders for new ships were received.

Net Sales

Increases seen in the Precision Machinery and Environmental Plant and Facilities segment as compared to the previous period. Two ships handed over in the Ships segment.



Operating Income by Segment

■ Comparison with previous year

<Machinery Components>

Decline in income due to a reduction in orders domestically and the lower profitability levels of large scale models.

<Precision Machinery>

Slight reduction in income due to the slowdown in the electronics and semiconductor markets exceeding any increases seen in plastics machinery and precision equipment.

<Construction Machinery>

Income falls as demand for hydraulic excavators in China slowed. Increases seen in the US mobile crane business.

<Industrial Machinery>

Decline in income due to difficult market conditions in the iron and steel, and shipbuilding industries.

<Ships>

Decline in income as only two new ships were handed over during the period, which is two less than the previous period.

<Environmental Plant and Facilities>

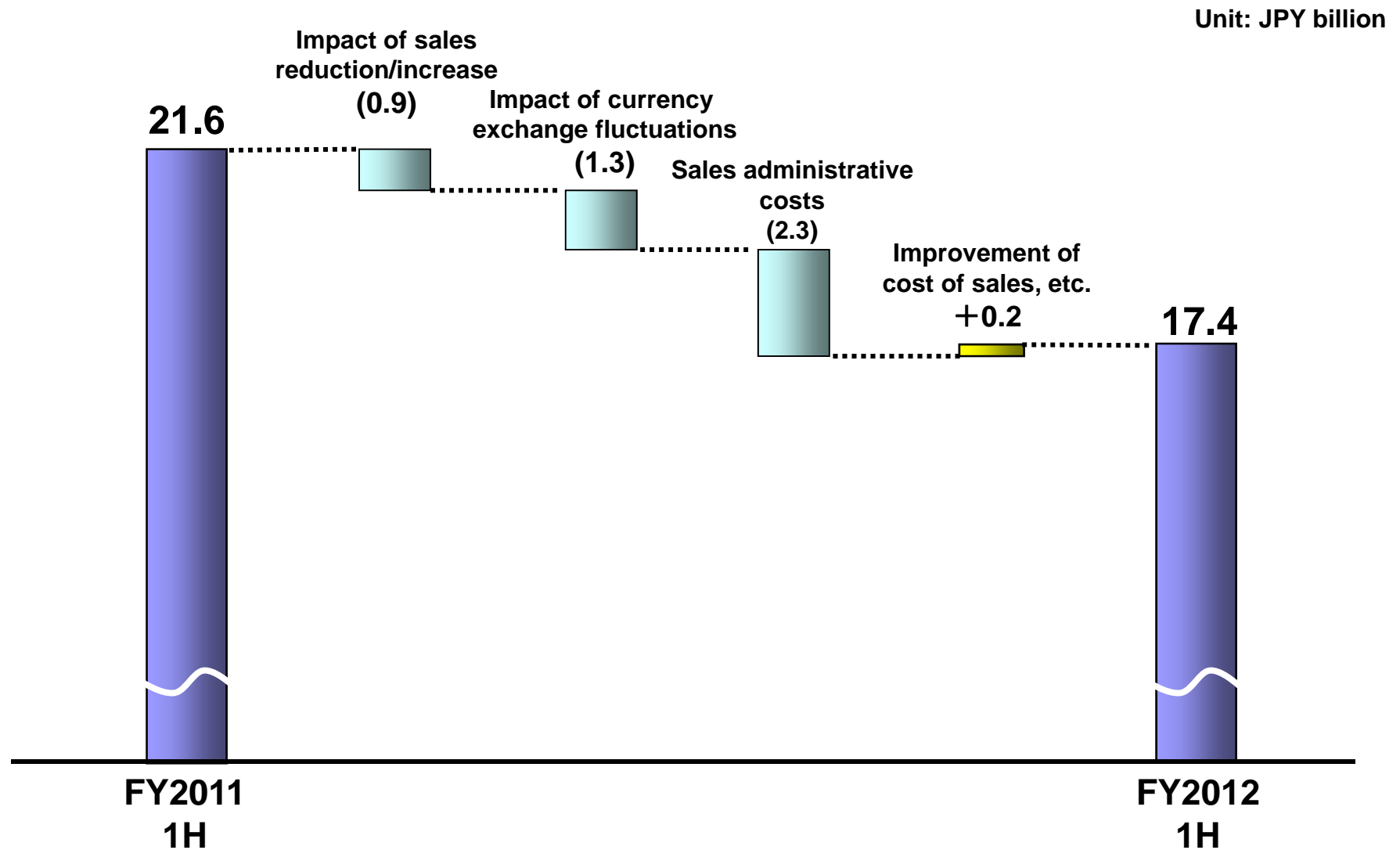
Previous period was impacted by the unprofitable construction of the incinerated ash melting facility installed for the City of Kyoto.

Unit: JPY billion

	FY2012 1H	FY2011 1H	Change
Machinery components	0.5	2.2	(1.7)
Precision machinery	5.5	6.0	(0.5)
Construction machinery	3.1	3.9	(0.8)
Industrial machinery	3.5	4.9	(1.4)
Ships	2.8	5.7	(2.9)
Environmental facilities and plants	1.4	(2.0)	3.4
Others	0.6	0.8	(0.3)
Total	17.4	21.6	(4.2)

Analysis of change in Operating Income (FY2011 / 1H to FY2012 / 1H)

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Consolidated Balance Sheet

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Unit: JPY billion

	September 2012	March 2012	Change		September 2012	March 2012	Change
Current assets	386.1	429.0	(43.0)	Liabilities	361.0	409.7	(48.7)
Cash and deposits	43.7	73.4	(29.7)	Notes and accounts payable	131.0	153.8	(22.9)
Notes and accounts receivable	168.3	181.2	(12.9)	Advance payments received	23.1	27.8	(4.7)
Inventories	149.2	143.9	5.3	Interest-bearing debts	87.8	96.5	(8.7)
Others	24.9	30.5	(5.6)	Others	119.1	131.6	(12.5)
Fixed assets	262.1	262.8	(0.7)	Net assets	287.2	282.1	5.1
Tangible assets	221.6	219.8	1.8	Common equity	261.8	255.6	6.2
Intangible assets	6.8	6.4	0.4	Total accumulated other comprehensive income	21.8	23.2	(1.4)
Investments and other assets	33.7	36.6	(2.9)	Minority interests	3.6	3.3	0.3
Total	648.2	691.8	(43.6)	Total	648.2	691.8	(43.6)
				Net ratio of interest-bearing debts	6.8%	3.3%	3.5%
				Stockholders' equity ratio	43.8%	40.3%	3.5%

Consolidated Cash Flow Statement

Unit: JPY billion

Category	FY2012 1H	FY2011 1H	Change
Operating activities	(4.7)	13.5	(18.3)
Income before income taxes	15.5	17.4	(1.9)
Depreciation	8.5	8.5	(0.1)
Working capital	(18.9)	(0.2)	(18.7)
Others (income taxes etc.)	(9.9)	(12.2)	2.3
Investing activities	(12.1)	(8.7)	(3.4)
Free cash flow	(16.8)	4.9	(21.7)
Financing activities	(13.8)	(0.6)	(13.2)
Change in cash and cash equivalents	(30.5)	4.0	(34.5)
Cash and cash equivalents at end of fiscal term	42.3	56.4	(14.1)

Performance Forecast for FY2012 by Segment

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■ Key Points:

- (1) Orders significantly impacted by the decline in demand for hydraulic excavators from the Chinese market in the Construction Machinery segment.
- (2) Decline in sales for machinery components, construction machinery, industrial machinery and ships.
- (3) Overall decline in operating income as all segments posted lower levels with the exception of the Environmental Plant and Facilities segment. Ships segment posted an operating loss.

Unit: JPY billion

		Record FY2011 2H	Record FY2012 1H	Forecast FY2012 2H	Forecast FY2012	Record FY2011
Machinery components	Orders	45.8	46.4	43.6	90.0	95.1
	Net Sales	47.2	45.3	47.7	93.0	93.2
	Operating income	2.0	0.5	2.0	2.5	4.2
Precision machinery	Orders	69.9	65.0	75.0	140.0	143.9
	Net Sales	75.6	71.6	78.4	150.0	144.1
	Operating income	6.5	5.5	5.5	11.0	12.5
Construction machinery	Orders	75.9	79.5	70.5	150.0	162.4
	Net Sales	79.0	78.6	71.4	150.0	158.9
	Operating income	4.4	3.1	1.4	4.5	8.3
Industrial machinery	Orders	26.2	35.2	31.8	67.0	69.6
	Net Sales	43.4	38.0	34.0	72.0	80.7
	Operating income	4.6	3.5	2.5	6.0	9.5
Ships	Orders	2.8	4.9	13.1	18.0	6.7
	Net Sales	27.0	22.3	24.7	47.0	58.1
	Operating income	5.3	2.8	(3.8)	(1.0)	10.9
Environmental facilities and plants	Orders	44.8	31.2	64.8	96.0	85.0
	Net Sales	53.2	33.4	46.6	80.0	80.1
	Operating income	2.0	1.4	5.6	7.0	0.0
Others	Orders	4.3	4.3	4.7	9.0	8.6
	Net Sales	4.6	4.1	3.9	8.0	8.9
	Operating income	0.8	0.6	1.4	2.0	1.7
Total	Orders	269.7	266.6	303.4	570.0	571.3
	Net Sales	330.0	293.3	306.7	600.0	624.1
	Operating income	25.6	17.4	14.6	32.0	47.1

Performance Forecast for FY2012

■ Key Points:

- As the difficult order environment is expected to persist for the time being, the full-year income projection announced at the end of July has been put on hold. The projections do not include the potential penalty payments for the overcharging claim made against the Group's defense system business.
- The JPY8 annual dividend has also been put on hold.

	Record FY2012 1H	Forecast FY2012 2H	Forecast FY2012	Record FY2011
Orders	266.6	303.4	570.0	571.3
Net Sales	293.3	306.7	600.0	624.1
Operating income	17.4	14.6	32.0	47.1
Operating income ratio	5.9%	4.8%	5.3%	7.6%
Ordinary income	16.6	12.4	29.0	44.6
Ordinary income ratio	5.7%	4.0%	4.8%	7.1%
Extraordinary income or loss	(1.0)	(0.5)	(1.5)	(6.4)
Current net income	9.8	6.7	16.5	19.5
Current net income ratio	3.4%	2.2%	2.8%	3.1%
Dividends	JPY4	JPY4	JPY8	JPY10
Dividend payout ratio	-	-	29.8%	31.5%
ROIC (after tax)	-	-	4.7%	7.4%
Integrated exchange rate (US dollars)	JPY79 (actual)	JPY78	-	JPY85 (actual)

Unit: JPY billion

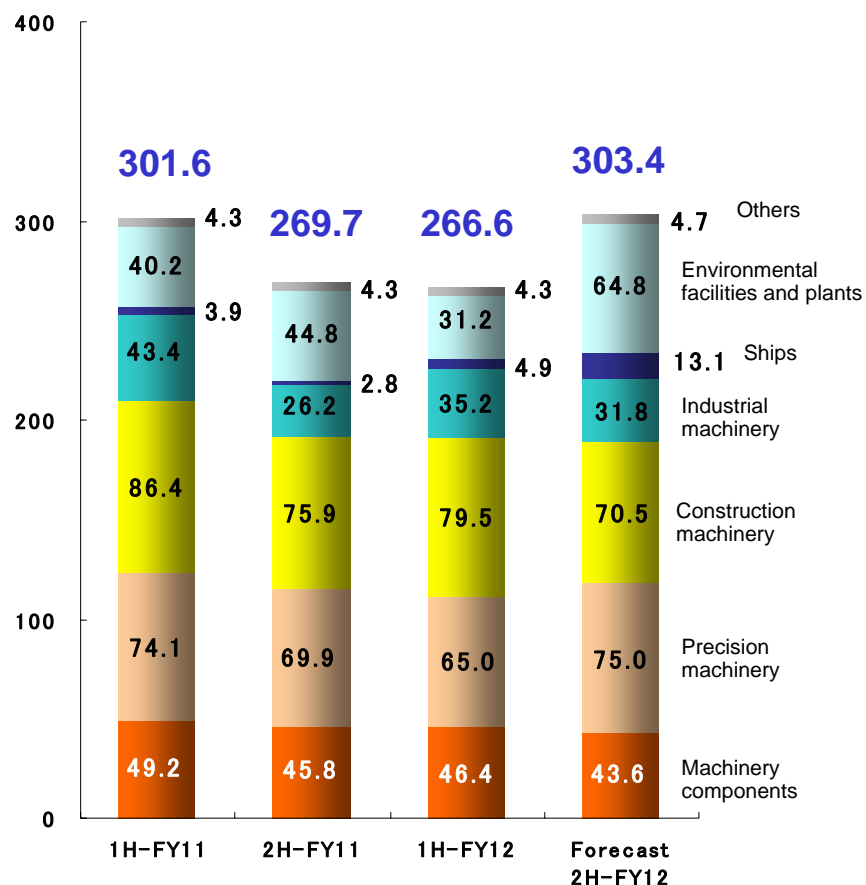
Part 2: Management Strategy

Transitions of Orders and Net Sales

Unit: JPY billion

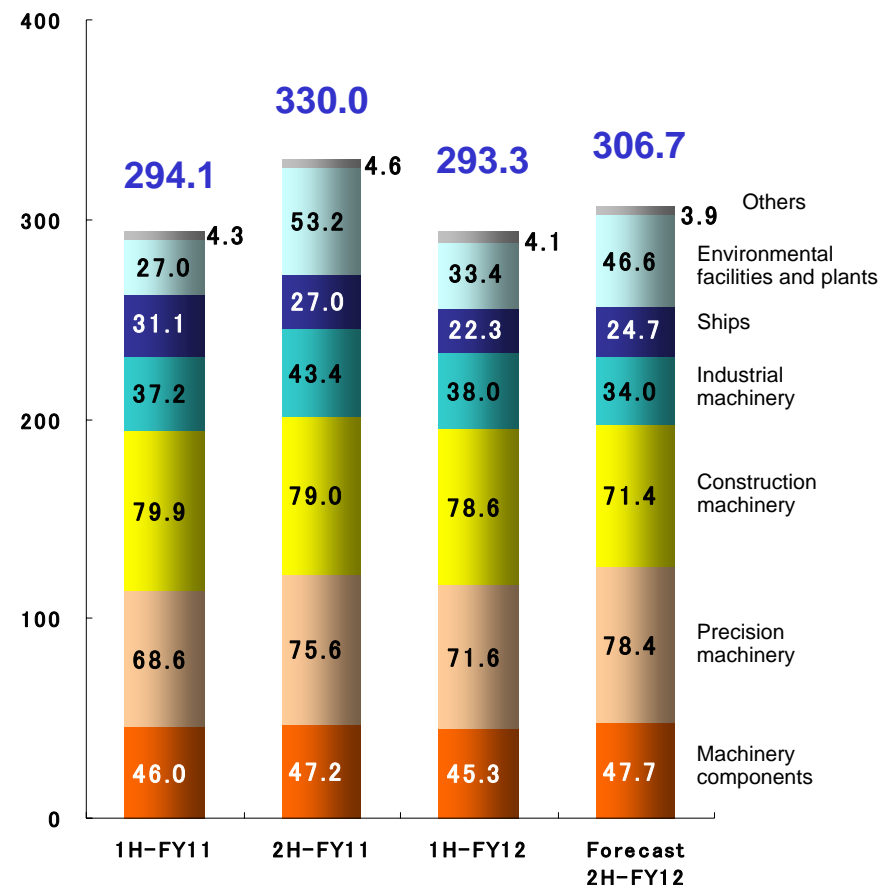
Orders

Order environment for construction machinery and machinery components remain weak. However, multiple large-scale opportunities exist in the Environmental Plant and Facilities segment.



Net Sales

Ships segment is expected to hand over three ships in the second half of the fiscal year. Conditions in other segments, including the Construction Machinery segment, will continue to be challenging.



Order-receiving Environment for FY2012 2H by Segment 2-2

- Future outlook for mass produced machinery remains uncertain due to the impact of the long-term financial strain in Europe and the delay in the recovery of the Chinese economy.
- With the exception of certain areas, the order environment for heavy machinery will continue to be challenging.

Unit: JPY billion

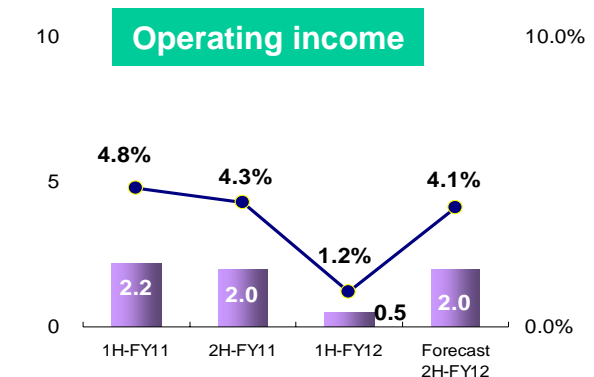
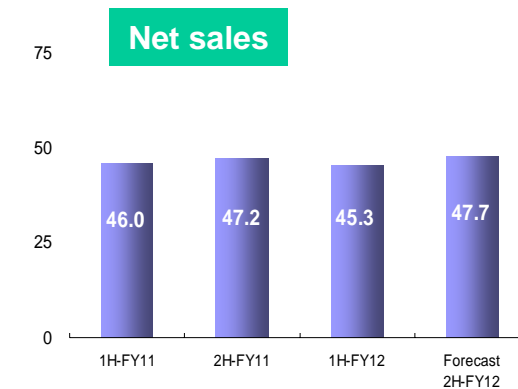
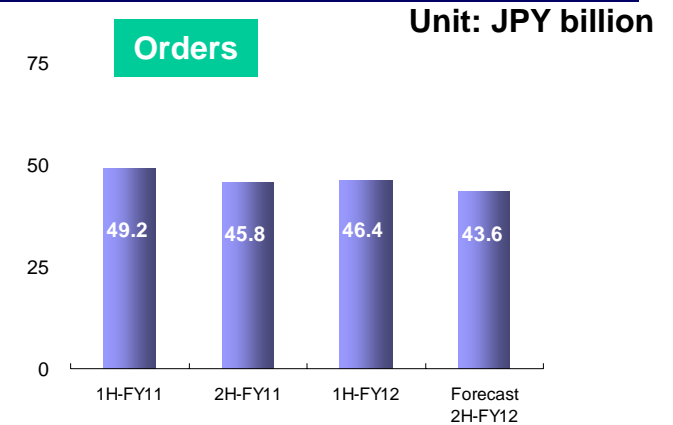
Segment	Order-receiving environment	FY2012 amount of orders		
		Actual 1H	Forecast 2H	Forecast Annual
Machinery components	<ul style="list-style-type: none"> ▪ China's growth slowdown is projected to continue for the time being. Demand environment in Europe and Japan remains uncertain. ▪ The pace of economic expansion in emerging markets is anticipated to slow. 	46.4	43.6	90.0
Precision machinery	<ul style="list-style-type: none"> ▪ The IT-related market in North Asia for plastic injection molding machines is stagnant. In Europe, demand from the auto-related industries is expected to weaken. ▪ Upturn in MRI-related orders is expected. However, other medical areas, especially overseas markets where there have been inquiries, may take some time for such inquiries to become actual orders. ▪ Products designed for the electronics and semiconductor industries will remain weak. 	65.0	75.0	140.0
Construction machinery	<ul style="list-style-type: none"> ▪ For hydraulic excavators, although domestic earthquake-recovery related demand continues to be strong, the slowdown of the Chinese economy has become more long-term than projected. ▪ In the first half of the fiscal year, the energy-related market for mobile cranes showed signs of recovery. However, this trend is expected to reverse in the second half of the fiscal year. 	79.5	70.5	150.0
Industrial machinery	<ul style="list-style-type: none"> ▪ For turbines, difficult conditions will persist as projects are delayed and the Yen continues to remain strong. ▪ For forging presses, the trend for automotive industry customers to move their operations abroad and make the necessary investments is expected to continue. ▪ For cranes, the difficult environment will persist as market conditions in the iron and steel, and shipbuilding industries worsen. 	35.2	31.8	67.0
Ships	<ul style="list-style-type: none"> ▪ For new ships, the environment is tough as the market for tankers is sluggish and the Yen remains strong. 	4.9	13.1	18.0
Environmental facilities and plants	<ul style="list-style-type: none"> ▪ Industrial boiler market in Japan is booming due to FIT (Feed-in tariff). Orders have also increased from certain overseas markets. ▪ A delay in implementing public budgets has resulted in deferred capital investments for water treatment plants. Private demand remains weak as capital investments are being strictly controlled. ▪ Difficult order environment continues for pressure vessels as the strong Yen and weak Euro trend looks to remain for the time being. 	31.2	64.8	96.0
Others	—	4.3	4.7	9.0
Total		266.6	303.4	570.0

Machinery Components

Power transmission & control equipment:

FY2012 / 1H: Although positive signs were seen in overseas markets with the exception of China, there was a slowdown in the domestic market, especially for large-scale models.

FY2012 / 2H: Although demand from the water treatment industry domestically is expected to be quite strong, in overall terms, severe price competition will continue as the market softens even further. Look to maintain profitability by shifting production overseas and by cutting costs.



Precision Machinery

Plastic machinery:

FY2012 / 1H: Demand from North Asian markets, in particular China, fell while Japan was down slightly. European market was relatively flat. Increases achieved for sales for the flooding-recovery related demand in Thailand.

FY2012 / 2H: Overall domestic demand is projected to slow.

Although competition is expected to intensify, and the strong Yen will put downward pressure on exports, we will look to counteract this negativity through the introduction of new product models. In Europe, although the slowdown of the auto industry is expected to worsen, we will focus on maintaining order levels.

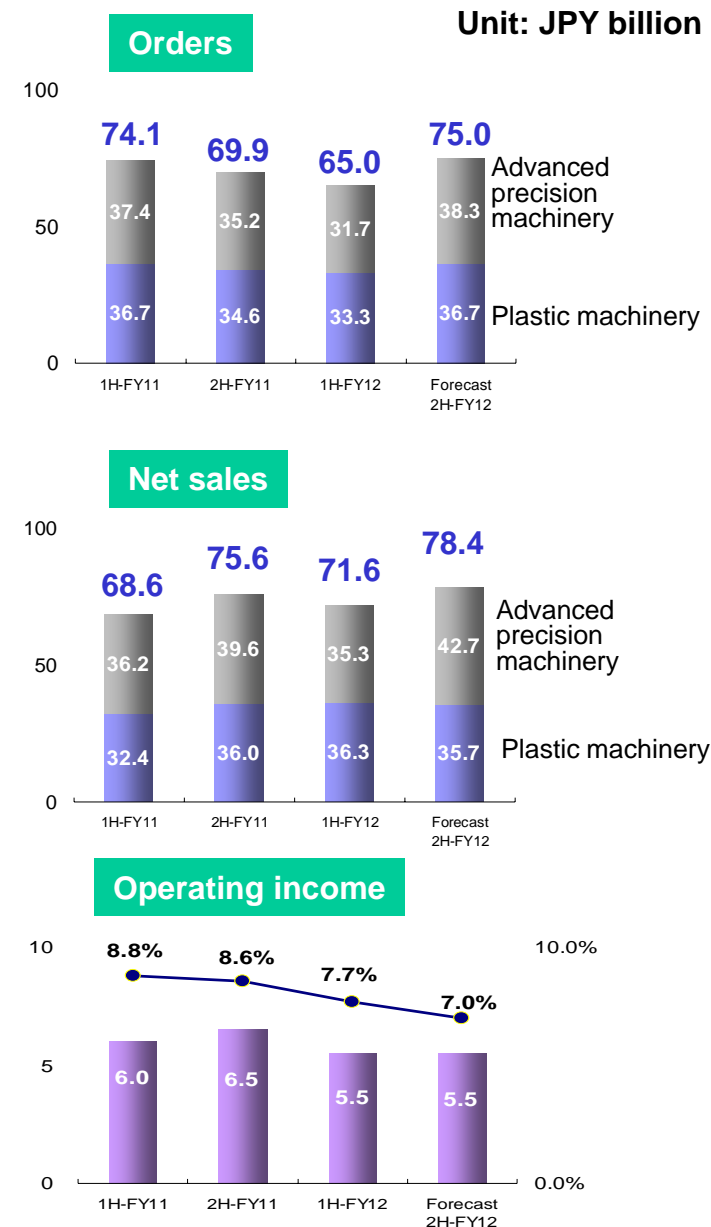
Advanced precision machinery:

FY2012 / 1H: Demand for cryogenic coolers was strong.

In addition, orders for semiconductor manufacturing equipment were secured from overseas clients.

FY2012 / 2H: Demand for cryogenic coolers will remain strong.

Domestic conditions for semiconductor manufacturing equipment will continue to be difficult. Aim to increase orders from overseas markets.



Construction Machinery

Hydraulic excavators:

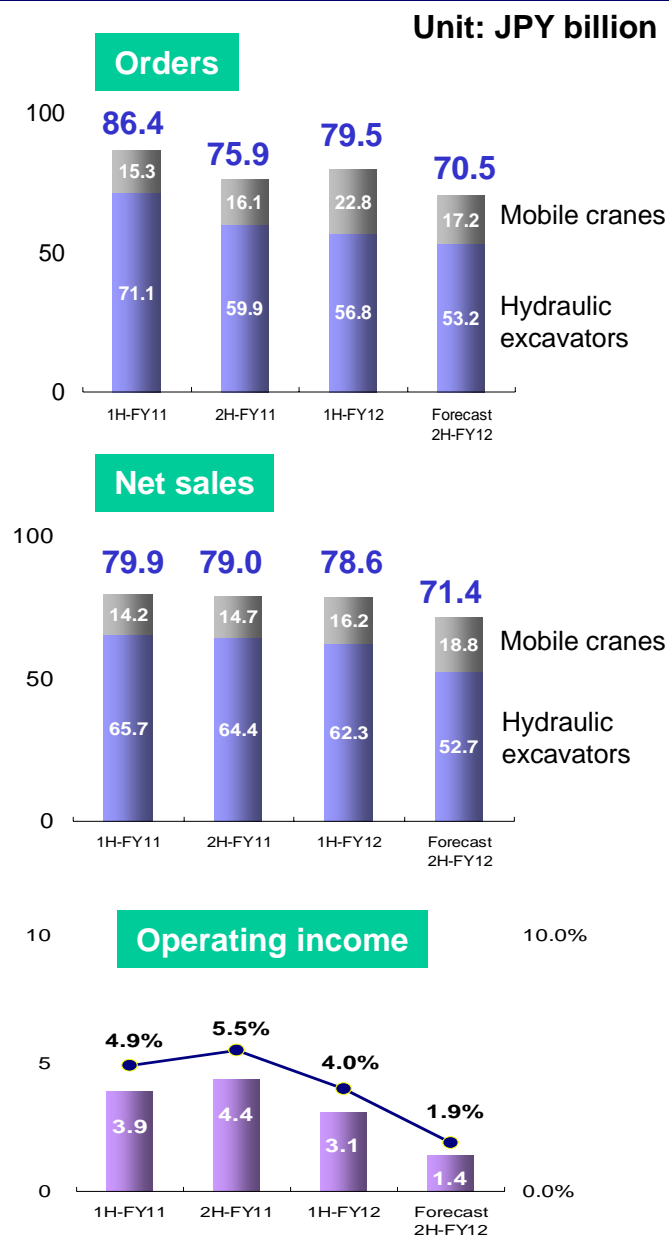
FY2012 / 1H: Strong earthquake-recovery related demand domestically resulted in better results than first anticipated at the beginning of the year. Overseas demand, especially from China, did not reach anticipated levels, and as a result, overall orders and sales fell.

FY2012 / 2H: The slowdown of the Chinese economy is expected to continue for a while longer. As a result, projections for orders, sales and operating income have been revised downwards.

Mobile cranes:

FY2012 / 1H: Orders and sales increased as energy-related demand from the North American market recovered.

FY2012 / 2H: Although a slowdown is expected in the second half of the fiscal year, the focus will be on securing more orders.



Industrial Machinery

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Forging press :

FY2012 / 1H: Orders from overseas Japanese manufacturers continued to be received.

FY2012 / 2H: Continue to focus on sales activities aimed at both domestic and overseas customers.

Material handling systems:

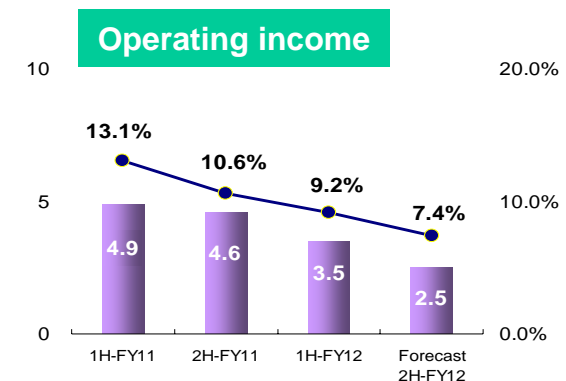
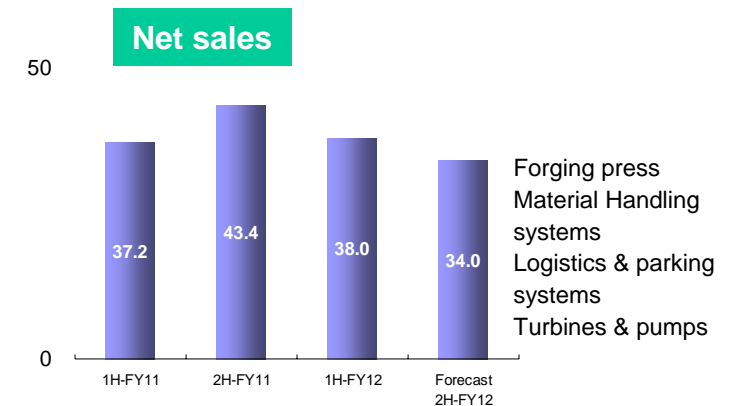
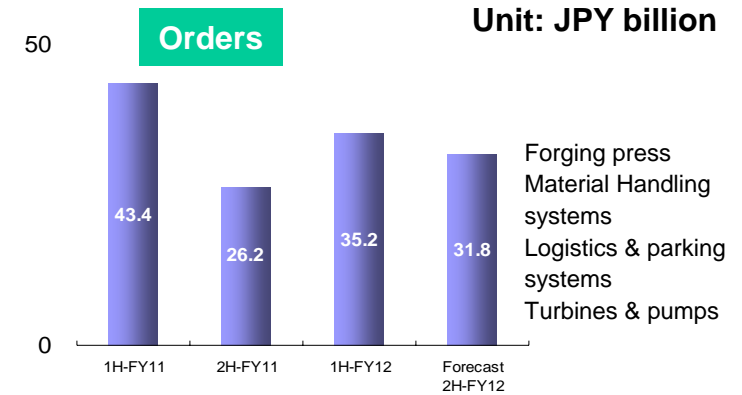
FY2012 / 1H: Orders declined due to slow demand from the shipbuilding, and iron and steel industries.

FY2012 / 2H: Focus on securing orders through repair and maintenance business.

Turbines & Pumps:

FY2012 / 1H: Orders declined as business plans in emerging markets were either cancelled or deferred.

FY2012 / 2H: Look to secure orders through enhanced sales activities in the Southeast Asia region for turbines.



Ships

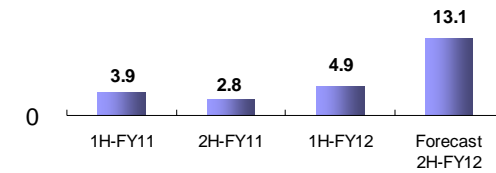
Ships:

FY2012 / 1H: No recovery was seen in the tanker market while ship owners continue to take a wait and see approach. As a result, no orders for new ships were received in the first half of the fiscal year. Sales-wise, only two ships were handed over during the first half of the fiscal year, which is a two ship decline as compared to the previous period.

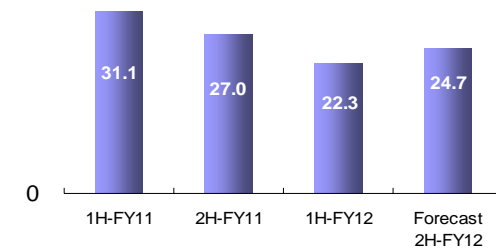
Order levels for ship repair work were high.

FY2012 / 2H: Order environment will continue to be difficult. However, we are projecting receiving orders for three new ships. Sales-wise, we anticipate handing over three ships. Nevertheless, a loss is anticipated.

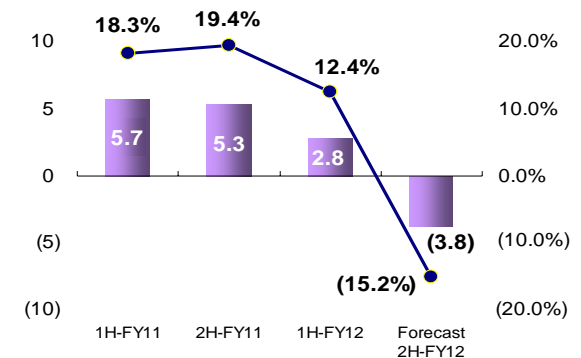
50 **Orders** Unit: JPY billion



50 **Net sales**



Operating income



Environmental Facilities and Plants

CFB Boilers for IPP:

FY2012 / 1H: We received one boiler order from a domestic customer.

FY2012 / 2H: Domestic market is expected to improve due to FIT (Feed-in tariff) and efforts will be made to ensure that we are ready for this. Enhanced sales activities in the Southeast Asia region will continue to be strengthened.

Water treatment facilities:

FY2012 / 1H: Due to the prioritized distribution to earthquake-related recovery efforts, orders and sales levels fell.

FY2012 / 2H: Aggressive domestic sales expansion targeted for strong unit products. Look to also expand and strengthen overseas sales activities.

Nihon Spindle:

FY2012 / 1H: Timing of decision making deferred on investments.

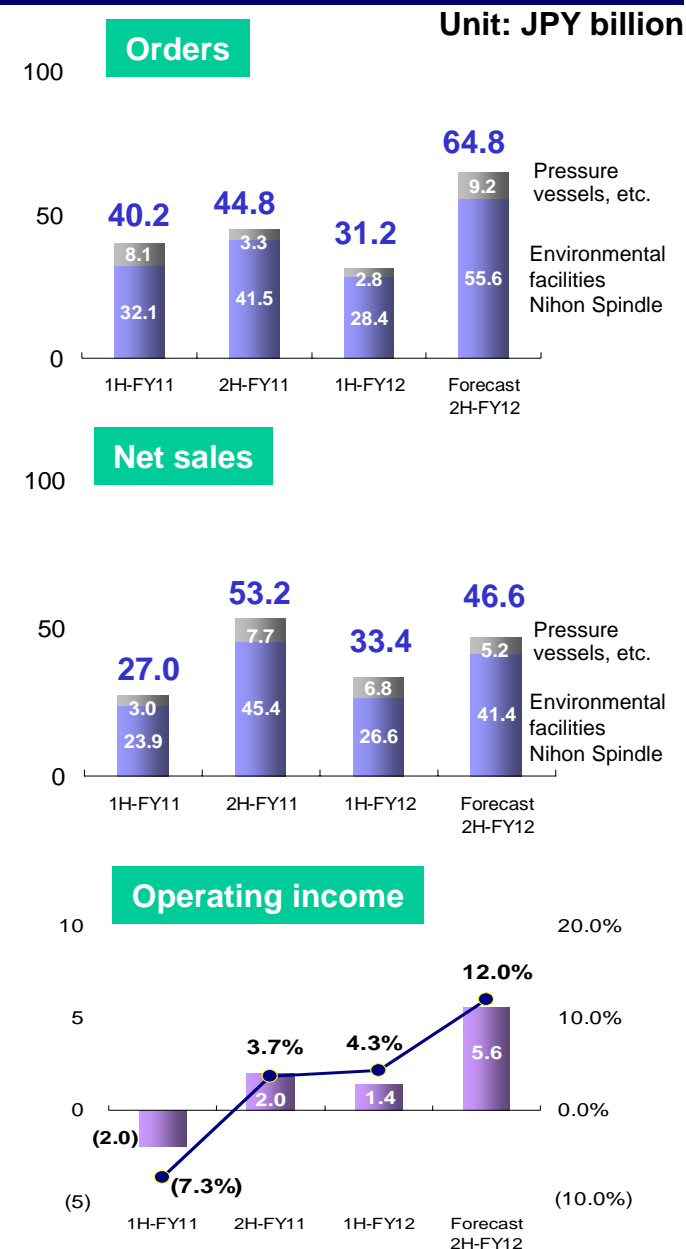
FY2012 / 2H: Look to strengthen sales activities targeting emerging market capital investment projects as well as orders for iron and steel mill dust collectors.

Commence taking orders from overseas markets for food-related machinery.

Pressure vessels, etc.:

FY2012 / 1H: Timing of decision making deferred for investments.

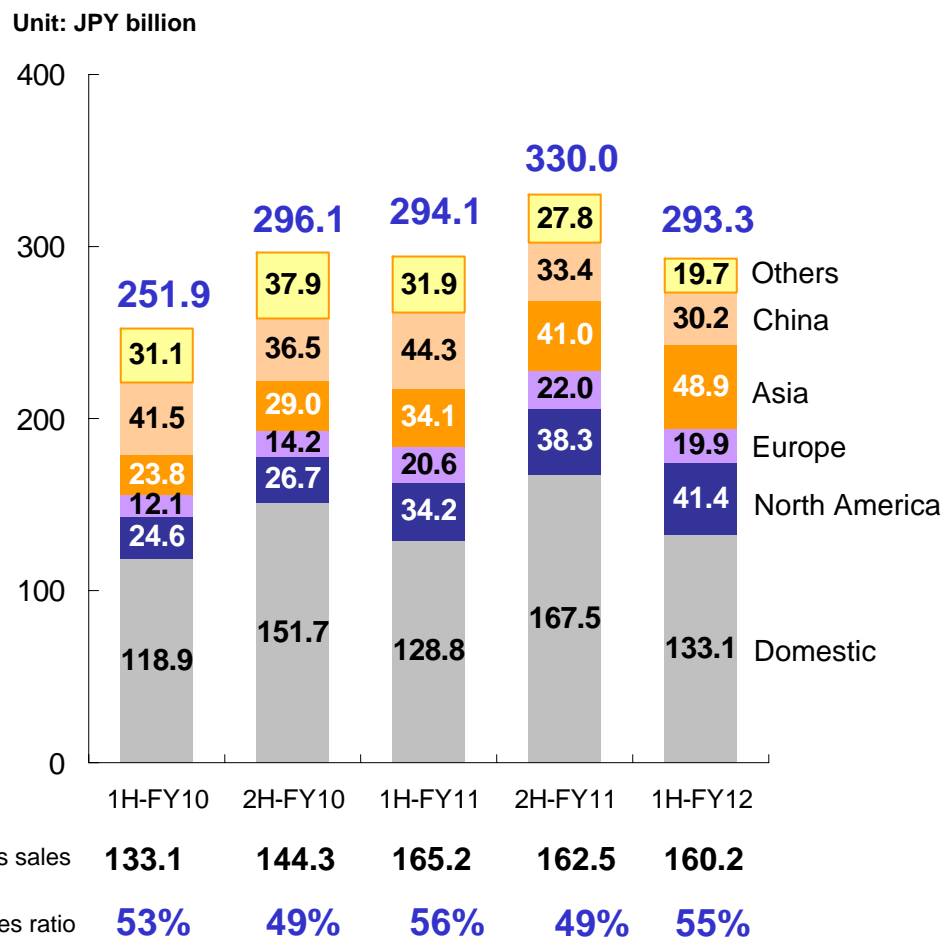
FY2012 / 2H: Competition expected to intensify for pressure vessels. Aim to secure orders for mixing reactor and coke oven machinery.



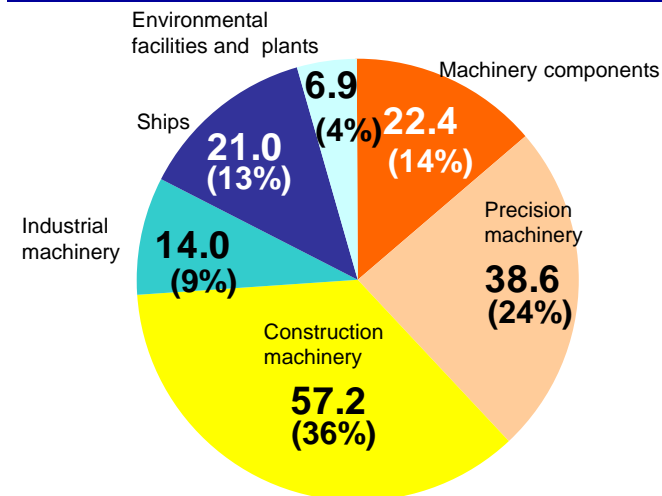
Overseas Sales

Unit: JPY billion

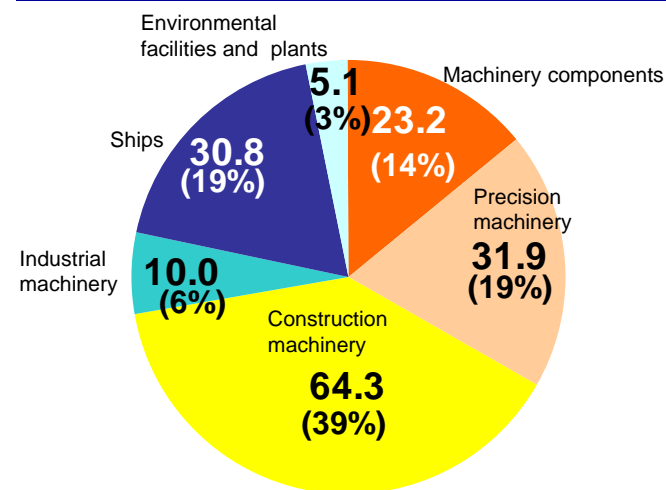
Overseas Sales by Regional Segment



FY2012 / 1H Overseas Sales by Segment



FY2011 / 1H Overseas Sales by Segment



■ Summary

With respect to defense equipment contracts entered into with the Ministry of Defense, it was discovered that expenses were inflated through the shifting of man-hours for indirect operations.

■ Total Contract Value

Approximately JPY25.8 billion across 5 years as of the previous fiscal year.

※ Overall contract value after summing the contract values of both SHI and a wholly-owned SHI subsidiary, Sumiju Tokki Service Co.,Ltd.

■ Impact to Financials

- Currently we are suspended from bidding for any new contracts with the Ministry of Defense.
- Actual amount of overcharged expenses as well as the scope of penalized areas is unknown at this time as the issue is still being investigated. As soon as further details are available, it will be disclosed.
- We are currently looking into developing preventive measures.

Notes on the Incinerated Ash Melting Facility for the City of Kyoto

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■ Status

- May 2011 ~ Nov 2011: Carried out test operations of the incinerated ash melting facility
- Nov 2011: Stopped test operations
- Nov 2011 ~ Apr 2012: Carried out the following
- Inspected each piece of equipment in the facility
 - Extracted all potential trouble spots and reasons for failure
 - Developed proposals for repairs
- Jul 2012: Received approval for repair proposals from Kyoto City
- Aug 2012: Repair work commenced
- By the end of Aug 2013: The facility handed over

■ Impact to Financials

The provisions for rationally projected construction losses have already been set aside as a reserve in the 2011 financials.

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.