

# **Sumitomo Heavy Industries, Ltd.**

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## **1Q CONSOLIDATED FINANCIAL REPORT**

**For the Three-Month Period from April 1 to June 30, 2011**

*All financial information has been prepared in accordance with generally accepted accounting principles in Japan. This document has been translated from the Japanese original as a guide to non-Japanese investors and contains forward-looking statements that are based on management's estimates, assumptions, and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. Amounts shown in this financial statement have been rounded to the nearest million yen.*

## Summary of Consolidated Financial Results

For the First Quarter Ended June 30, 2011

Presented July 29, 2011

### Sumitomo Heavy Industries, Ltd.

Listed exchanges	Tokyo Stock Exchange, Osaka Securities Exchange
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Scheduled reporting date for quarterly report	August 5, 2011
Scheduled date of payment of cash dividends	--
Availability of supplementary explanations for quarterly financial statement	None
Holding of meeting to explain quarterly financial statement	None

#### 1. FY 2011 1Q Consolidated Results (April 1, 2011, to June 30, 2011)

##### (1) Business Results

(Units: millions of yen)

	First Quarter April 1 to June 30, 2011		Previous First Quarter April 1 to June 30, 2010	
		% change		% change
Net sales	137,892	26.3	109,145	(13.9)
Operating income	10,092	119.6	4,596	53.6
Ordinary income	9,631	147.7	3,888	40.2
Net income	3,464	117.6	1,592	93.4
Net income per share (yen)	5.64		2.64	
Fully diluted net income per share (yen)	--		--	

Note: Comprehensive Income

Fiscal quarter ended June 30, 2011: 6,645 million yen (871.6%)

Fiscal quarter ended June 30, 2010: 684 million yen (--%)

**(2) Financial Position**

(Units: millions of yen)

	End of First Quarter As of June 30, 2011	End of Previous Full Year As of March 31, 2011
Total assets	626,183	626,829
Shareholders' equity	272,344	269,380
Equity ratio (%)	43.0	42.6

Reference: Equity

Fiscal quarter ended June 30, 2011: 269,547 million yen

Fiscal year ended March 31, 2011: 267,326 million yen

**2. Dividends**

(Units: yen)

	Year Ended March 31, 2011	Year Ended March 31, 2012	Year Ended March 31, 2012 (forecast)
Annual dividends per share			
First quarter	--	--	
Second quarter	0.00		4.00
Third quarter	--		--
End of term	8.00		6.00
Annual dividends	8.00		10.00

Note: Changes from the most recent dividend forecast: None

**3. FY 2011 Consolidated Forecasts (April 1, 2011, to March 31, 2012)**

(Units: millions of yen)

	Second Quarter (Cumulative) April 1, 2011, to Sept. 30, 2011		Full Year April 1, 2011, to March 31, 2012	
		% change		% change
Net sales	294,000	16.7	630,000	15.0
Operating income	18,500	13.5	54,000	17.9
Ordinary income	16,500	11.4	50,500	14.1
Net income	9,000	13.6	30,000	7.4
Projected net income per share (yen)	14.65		48.83	

Note: Changes from the most recent consolidated forecast: None

#### 4. Additional Notes

- (1) Transfers of important subsidiaries during the fiscal period (moves of specific subsidiaries due to change in scope of consolidation): None
- Newly consolidated: None
- Excluded from consolidation: None
- (2) Special accounting measures applied in the quarterly consolidated financial report: None
- (3) Changes to accounting policies, changes to accounting estimates and restatements
- (i) Changes to accounting policies resulting from revisions to accounting standards, etc.: None
- (ii) Changes other than (i): None
- (iii) Changes to accounting estimates: None
- (iv) Restatements: None
- (4) Number of shares issued (common shares)
- (i) Number of shares issued at end of fiscal period (including treasury stock):
- |                      |                    |
|----------------------|--------------------|
| As of June 30, 2011  | 614,527,405 shares |
| As of March 31, 2011 | 614,527,405 shares |
- (ii) Amount of treasury stock at end of fiscal period
- |                      |                |
|----------------------|----------------|
| As of June 30, 2011  | 132,836 shares |
| As of March 31, 2011 | 122,181 shares |
- (iii) Average number of shares during fiscal period (cumulative quarterly period)
- |                     |                    |
|---------------------|--------------------|
| As of June 30, 2011 | 614,397,333 shares |
| As of June 30, 2010 | 603,260,882 shares |

#### Recording of Implementation Conditions regarding Quarterly Review Procedures

This quarterly financial summary does not fall within the scope of the Quarterly Review Procedures referenced in the Financial Instruments and Exchange Act. At the time of disclosure of the quarterly financial summary, the Group was in the process of implementing the quarterly review procedures for its quarterly financial statements.

#### Explanations and Other Special Items regarding the Pertinent Reasons for the Earnings Forecast

Earnings forecasts and outlooks concerning future financial results are believed to be reasonable based on information available at the time of publication. Actual financial results may vary from the above forecast and outlook due to a variety of factors. For information on the assumptions that form the basis of the earnings forecast and items to note concerning the use of earnings forecasts, please see (3) *Qualitative Information regarding Consolidated Earnings Forecast* in the Supplementary Materials on page 8.

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## 1. Qualitative Information regarding Current Quarterly Consolidated Business Performance

### (1) Qualitative Information on Consolidated Business Performance

The Japanese economy during the first quarter of the current fiscal year under review slowed significantly as production activity as well as exports declined mainly due to the disruptions to the supply chain and the unstable supply of electricity as a result of the Tohoku Region Earthquake that struck in March of this year. At the same time, the overall global economy was unstable as the implementation of inflationary controls in China, which was the driving force behind global economic growth, increased uncertainty. Moreover, the European debt crisis as well as the slow recovery of the US economy left lingering doubts about the economy.

Set against this economic backdrop, the Group made earthquake recovery efforts a top priority and worked hard to normalize production activities that were disrupted. As a result, orders increased across all segments of the Group with the exception of Precision Machinery and Ships to end at JPY150.9 billion, a 28% increase from the same quarter of the previous year (hereinafter referred to as the “previous term”). In terms of sales, all segments of the Group posted improved results with the exception of Industrial Machinery and Environmental Facilities and Plant. Consequently, the Group posted total sales of JPY137.9 billion, a 26% increase from the previous term.

Turning to income, the compounding effects of an increase in sales and efforts to cut costs resulted in the Group posting an operating income figure of JPY10.1 billion, a 120% improvement from the previous term, ordinary income of JPY9.6 billion, a 148% improvement from the previous term, and quarterly net income of JPY3.5 billion, a 118% improvement from the previous term.

Conditions in each business segment of the Group are provided below:

#### 1. Machinery Components

Expansion of the market in emerging markets as well as the contribution of its European operations resulted in improvements across almost all models in the segment as compared to the previous term. Consequently, the segment as a whole posted better than previous term figures for both orders and sales. In actual figures, the segment received orders worth JPY24.2 billion (an increase of 34% from the previous term), and posted sales of JPY22.2 billion (an increase of 37% from the previous term). Further, the segment posted an operating income of JPY1.2 billion.

#### 2. Precision Machinery

With respect to plastics machinery, although demand from markets in East Asia, and in particular China, slowed, the recovery of the European markets resulted in an increase in both orders and sales for this product line. In other product areas, demand for medical devices fell. For this and other reasons, order figures for the segment as a whole declined as compared to the previous term. On the other hand, sales figures showed improvements from the previous term mainly due to the abundance of orders that were carried forward. In actual figures, the segment received orders worth JPY36.7 billion (a decrease of 1% from the previous term), and posted sales of JPY31.8 billion (an increase of 25% from the previous term). Further, the segment posted an operating income of JPY2.3 billion.

#### 3. Construction Machinery

The hydraulic excavator business saw an increase in both orders and sales despite the fact that its supply chain was disrupted due to the Tohoku Region Earthquake. The construction crane business also posted improved orders and sales figures as the North American market showed signs of recovery. As a result, the segment as a whole received orders worth JPY40.3 billion (an increase of 27% from the previous term) and posted sales of JPY34.7 billion (an increase of 20% from the previous term). Further, the segment posted an operating income of JPY1.6 billion.

#### **4. Industrial Machinery**

Orders for turbines and pumps trended positively as the level of capital improvements made by overseas customers in the resources and energy sectors increased. At the same time, by prioritizing its response to earthquake recovery efforts, demand for the segments' materials handling products improved from the previous term. On the other hand, the segment posted weaker sales figures as compared to the previous term. In actual figures, the segment received orders worth JPY26.1 billion (an increase of 68% from the previous term) and posted sales of JPY13.9 billion (a decrease of 7% from the previous term). Further, the segment posted an operating income of JPY1.8 billion.

#### **5. Ships**

The ship market has continued to remain stagnant and this is reflected in the lack of new orders received during the current quarter under review. This result was the same as the previous term where no new orders were received either. With regard to sales, three vessels were handed over during the current quarter under review, an increase of two vessels as compared to the previous term. Consequently, the segment received orders worth JPY1 billion (a decrease of 12% from the previous term), and posted sales of JPY23.3 billion (an increase of 166% from the previous term). Further, the segment posted an operating income of JPY4.8 billion.

#### **6. Environmental Facilities & Plants**

Orders increased as both the energy plant business and water treatment plant business showed positive signs of growth. Sales on the other hand decreased mainly due to the weak order figures posted in the previous term. Consequently, the segment received orders worth JPY20.6 billion (an increase of 61% from the previous term) and posted sales of JPY9.9 billion (a decrease of 26% from the previous term). Unfortunately, the decline in sales led to the segment posting an operating loss of JPY2.1 billion.

#### **7. Others**

Both orders and sales showed improvements from the previous term. In actual figures, the segment received orders worth JPY2.1 billion (an increase of 11% from the previous term) and posted sales of JPY2.1 billion (an increase of 18% from the previous term). Further, the segment posted an operating income of JPY400 million.

### **(2) Qualitative Information on the Group's Consolidated Financial Position**

Total assets at the end of the current quarter under review (ended June 30, 2011) amounted to JPY626.2 billion, a decrease of JPY600 million as compared to the end of the previous consolidated fiscal year. This was mainly due to the JPY11.9 billion decrease in notes and accounts receivable and the JPY2.7 billion decrease in investments and other assets exceeding the JPY5.0 billion increase in cash and deposits and the JPY8.0 billion increase in inventory assets.

Total liabilities also fell to a figure of JPY353.8 billion, a decrease of JPY3.6 billion as compared to the end of the previous consolidated fiscal year. On one hand, trade notes and accounts payable as well as the balance of interest-bearing liabilities increased by JPY4.6 billion and JPY1.1 billion, respectively, while on the other, the payment of corporate income and other taxes resulted in a reduction in the amount of corporate income taxes payable.

Net assets amounted to JPY272.3 billion, an increase of JPY3.0 billion as compared to the end of the previous consolidated fiscal year as the JPY1.2 billion gain on other marketable securities and the JPY1.3 billion increase in the foreign currency translation adjustment had a positive effect.

#### **Cash Flow Condition**

Although payments of corporate income and other taxes rose and the level of inventory assets fell, the level of quarterly net income before taxes and other adjustments as well as the level of accounts payable rose. As a result, cash flow from operating activities totaled JPY11.5 billion, an increase of JPY8.1 billion from the previous term.

Cash flow used for investing activities totaled JPY3.6 billion, a decrease of JPY2.1 billion from the previous term. More specifically, while there was an increase in cash used to acquire fixed assets and a decline in cash generated from the sale of marketable securities, there was also a reduction in the cash used to acquire shares of subsidiaries that resulted in a change to their consolidated status.

Cash used for financing activities totaled JPY4.3 billion, a decrease of JPY8.9 billion from the previous term as there was an increase in the balance of interest-bearing liabilities.

As a result of the foregoing, the balance of cash and cash equivalents at the end of the first quarter of the current consolidated fiscal year totaled JPY56.5 billion, an increase of JPY4.8 billion as compared to the end of the previous consolidated fiscal year.

### **(3) Qualitative Information regarding Consolidated Earnings Forecast**

No changes have been made to consolidated earnings forecast for the fiscal year ending March 2012 that was published along with the Summary of Consolidated Financial Results on May 9, 2011.

Further, please note that from the second quarter of the current consolidated fiscal year, the following currency exchange rate is being forecast: USD1 = JPY80; EUR1 = JPY115.

## **2. Notes Regarding Summary Information (Others)**

### **(1) Changes Involving Important Subsidiaries during the Current Consolidated Year-to-Date Quarterly Period**

There are no applicable items.

### **(2) Special Accounting Procedures Adopted during the Development of the Quarterly Consolidated Financial Report**

There are no applicable items.

### **(3) Changes to Accounting Policies, Changes to Accounting Estimates and Restatements**

There are no applicable items.



### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2011	End of First Quarter As of June 30, 2011
	Amount	Amount
<b>Assets</b>		
Cash and deposits	52,486	57,526
Notes and accounts receivable	155,267	143,329
Inventory assets	131,035	139,028
Other	27,546	28,315
Allowance for doubtful accounts	(991)	(1,098)
<b>Current assets</b>	<b>365,342</b>	<b>367,099</b>
Land	117,157	117,761
Other (net)	96,999	96,910
Total tangible assets	214,156	214,671
Other	6,936	6,763
Total intangible assets	6,936	6,763
Other	41,867	39,157
Allowance for doubtful accounts	(1,472)	(1,509)
Investments and other assets	40,395	37,649
<b>Fixed assets</b>	<b>261,487</b>	<b>259,083</b>
<b>Total assets</b>	<b>626,829</b>	<b>626,183</b>

(Units: millions of yen)

	End of Previous Fiscal Year As of March 31, 2011	End of First Quarter As of June 30, 2011
	Amount	Amount
<b>Liabilities</b>		
Notes and accounts payable	131,951	136,591
Short-term bank loans	21,504	24,587
Long-term loans due within one year	4,411	2,421
Allowance	7,000	7,032
Other	77,641	68,682
<b>Current liabilities</b>	<b>242,507</b>	<b>239,314</b>
Bonds	10,000	10,000
Long-term debt due after one year	31,918	31,964
Employees' severance and retirement benefits	31,380	31,605
Allowance	208	212
Deferred income taxes on revaluation	31,836	31,756
Other	9,600	8,988
<b>Long-term liabilities</b>	<b>114,943</b>	<b>114,525</b>
<b>Total liabilities</b>	<b>357,450</b>	<b>353,839</b>
<b>Net assets</b>		
Common stock	30,872	30,872
Capital surplus	23,789	23,789
Retained earnings	188,047	187,587
Treasury stock	(67)	(73)
<b>Stockholders' equity</b>	<b>242,641</b>	<b>242,175</b>
Unrealized gains on securities	981	2,231
Profit (loss) on deferred hedge	960	1,216
Adjustment regarding pension obligations of consolidated overseas subsidiaries	(1,978)	(2,006)
Revaluation reserve for land	39,851	39,735
Foreign currency translation adjustments	(15,129)	(13,803)
<b>Total accumulated other comprehensive income</b>	<b>24,686</b>	<b>27,372</b>
<b>Minority interests</b>	<b>2,053</b>	<b>2,797</b>
<b>Total net assets</b>	<b>269,380</b>	<b>272,344</b>
<b>Liabilities and net assets</b>	<b>626,829</b>	<b>626,183</b>

**(2) Consolidated Income Statements and Consolidated Statement of Comprehensive Income**
**Consolidated Income Statements**

(Units: millions of yen)

	Previous First Quarter April 1, 2010, to June 30, 2010	Present First Quarter April 1, 2011, to June 30, 2011
	Amount	Amount
Net sales	109,145	137,892
Cost of sales	86,343	106,603
Gross income	22,802	31,288
Selling, general & administrative expenses	18,206	21,197
Operating income	4,596	10,092
Non-operating income		
Interest income	22	37
Dividend income	696	302
Other	501	551
Total non-operating income	1,219	889
Non-operating expenses		
Interest expense	408	369
Other	1,519	982
Total non-operating expenses	1,927	1,350
Ordinary income	3,888	9,631
Extraordinary losses		
Loss on devaluation of marketable securities	—	1,921
Loss on contracts	—	260
Loss on impaired assets	—	229
Financial impact due to the application of the accounting standard for asset retirement obligations	480	—
Total extraordinary losses	480	2,410
Income before income taxes	3,408	7,220
Corporate income taxes	1,632	3,481
Quarterly net income before income or loss adjustments on minority interests	1,776	3,740
Minority interests	184	276
Net income	1,592	3,464

**Consolidated Statement of Comprehensive Income**

(Units: millions of yen)

	Previous First Quarter April 1, 2010, to June 30, 2010	Present First Quarter April 1, 2011, to June 30, 2011
	Amount	Amount
Net income before adjusting for profit (loss) from minority interests	1,776	3,740
Other comprehensive income		
Unrealized gains on securities	(1,872)	1,250
Profit (loss) on deferred hedge	381	256
Adjustment regarding pension obligations of consolidated overseas subsidiaries	(15)	(29)
Foreign currency translation adjustments	460	1,428
Amount applied for equity method accounting of affiliates	(45)	0
Total other comprehensive income	(1,092)	2,905
Comprehensive income	684	6,645
(Breakdown)		
Comprehensive income relating to parent company shareholdings	494	6,267
Comprehensive income relating to minority interests	190	378

**(3) Notes on Premise of a Going Concern**

There are no applicable items.

**(4) Notes regarding Significant Fluctuations to Shareholders' Equity**

There are no applicable items.

**(5) Subsequent Events of Significant Importance**

There are no applicable items.

## 4. Supplementary Information

### (1) Orders, Sales and Operational Profit, and Balance of Orders by Segment

#### Orders Received

(Units: millions of yen)

Segment	April 1, 2010 to June 30, 2010	April 1, 2011 to June 30, 2011	Y/Y Change	
	Amount	Amount	Amount	%
Machinery Components	18,033	24,171	6,138	34
Precision Machinery	37,147	36,692	(455)	(1.2)
Construction Machinery	31,634	40,283	8,650	27.3
Industrial Machinery	15,547	26,082	10,536	67.8
Ships	1,122	985	(137)	(12.2)
Environmental Facilities & Plants	12,796	20,606	7,810	61
Others	1,910	2,116	205	10.7
Total	118,189	150,936	32,747	27.7

#### Sales and Operational Profit

(Units: millions of yen)

Segment	April 1, 2010 to June 30, 2010		April 1, 2011 to June 30, 2011		Y/Y Change	
	Sales	Operational Profit	Sales	Operational Profit	Sales	Operational Profit
Machinery Components	16,183	407	22,240	1,163	6,057	756
Precision Machinery	25,371	(471)	31,824	2,346	6,453	2,818
Construction Machinery	28,841	1,121	34,687	1,638	5,846	517
Industrial Machinery	14,968	2,626	13,940	1,845	(1,029)	(781)
Ships	8,764	951	23,282	4,816	14,518	3,866
Environmental Facilities & Plants	13,274	(214)	9,863	(2,124)	(3,411)	(1,909)
Others	1,742	164	2,055	416	313	251
Adjustments	—	13	—	(9)	—	(22)
Total	109,145	4,596	137,892	10,092	28,747	5,495

**Balance of Orders Received**

(Units: millions of yen)

Segment	End of Previous Fiscal Year As of March 31, 2011	End of First Quarter As of June 30, 2011	Change	
	Amount	Amount	Amount	%
Machinery Components	26,385	28,316	1,931	7.3
Precision Machinery	66,134	71,002	4,868	7.4
Construction Machinery	23,875	29,471	5,596	23.4
Industrial Machinery	85,076	97,219	12,142	14.3
Ships	96,770	74,473	(22,297)	(23.0)
Environmental Facilities & Plants	69,811	80,554	10,743	15.4
Others	1,942	2,002	61	3.1
<b>Total</b>	<b>369,994</b>	<b>383,037</b>	<b>13,044</b>	<b>3.5</b>

The Group's operating segments are categorized as follows:

Businesses	Main Products
Machinery Components	Power transmission and control
Precision Machinery	Plastic injection molding machines, film forming machines, semiconductor production equipment, laser processing systems, cryocoolers, precision positioning equipment, ion accelerators, medical machines and equipment, plasma coating systems for FPDs, precision forgings, control components, defense equipment, machining tools
Construction Machinery	Hydraulic excavators, mobile cranes, road machinery
Industrial Machinery	Forging machines, material handling systems, logistics systems, automated parking systems, turbines, pumps
Ships	Ships
Environmental Facilities & Plants	Private power generation facilities, boilers, industrial waste treatment facilities, air pollution control equipment, water and sewage treatment systems, process equipment, pressure vessels, agitation tanks, air conditioning equipment, food processing machinery

**(2) (Summary) Consolidated Cash Flows Statement**

(Units: millions of yen)

	Previous First Quarter April 1, 2010, to June 30, 2010	Present First Quarter April 1, 2011, to June 30, 2011	Y/Y Change
Income before income taxes	3,408	7,220	3,812
Depreciation	4,357	4,246	(111)
(Increase) decrease in notes and accounts receivable	17,174	17,301	127
(Increase) decrease in inventories	(9,995)	(5,715)	4,280
Increase (decrease) in notes and accounts payable	(571)	2,022	2,593
Payments for income taxes	(5,801)	(11,117)	(5,316)
Other	(5,091)	(2,408)	2,682
<b>Net cash provided by operating activities</b>	<b>3,482</b>	<b>11,549</b>	<b>8,067</b>
Payments for purchases of property, plant, and equipment	(3,467)	(4,132)	(665)
Expenses related to the acquisition of subsidiaries that resulted in a change to their consolidated status	(2,608)	—	2,608
Proceeds from sale of securities	358	38	(320)
Other	(27)	485	512
<b>Net cash used in investing activities</b>	<b>(5,745)</b>	<b>(3,609)</b>	<b>2,136</b>
Net increase (decrease) in short-term loans	(10,529)	352	10,881
Cash dividends paid	(2,130)	(4,336)	(2,207)
Other	(521)	(344)	177
<b>Net cash used in financing activities</b>	<b>(13,179)</b>	<b>(4,328)</b>	<b>8,852</b>
Other	341	1,154	813
Cash and cash equivalents at beginning of period	61,452	51,700	(9,752)
Cash and cash equivalents at end of period	46,351	56,467	10,115