



SmartHeat Inc.

NASDAQ Global Market : “HEAT”

**A Highly Profitable Market Leader in the
Clean Technology Energy Savings Industry**

August 2009

www.smartheatinc.com



Forward Looking Statement

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Who Wants to Live in This Polluted Environment?

**SmartHeat Addresses Air Pollution Problems
through Clean Technology Energy Savings Products**





The Reality: Coal Burning Pollutes China

- Coal is China's primary source of heat and energy – broad industrial, commercial and residential demand
- Coal burning causes severe environmental problems across China
- China is world's biggest emitter of carbon dioxide, the main greenhouse gas
- **SOLUTION**: SmartHeat's products utilize energy savings technology to dramatically improve energy efficiency through higher heat transfer efficiency and heat recovery – less coal required, less environmental degradation and lower heating costs



Significant Environmental Benefits - A Case Study-

Estimated cost of heating 100,000 m² (1,000 households) for one month with coal priced at \$85/ton

Heating Method	Coal Consumption (metric tons)	Heat Produced (Kcal, million)	CO₂ Emitted (tons)	Costs in Coal, USD (excluding water and other costs)
<u>WITH SMARTHEAT PRODUCTS:</u> District heating system connected to a co-generation power plant	550	1,680-1,870 KCal	1,944	<u>\$46,750</u>
<u>WITHOUT SMARTHEAT PRODUCTS:</u> Small Boiler with traditional shell-and-tube heat exchanger	1,496	1,680-1,870 KCal	5,293	<u>\$127,160</u>

Equipment: 1-2 PHE Units would be required in the given example

Payback Period: 1-2 years (just for the PHE Units)

Equipment Lifespan: 20 years

Source: Company Estimates

Note: Real costs may differ significantly depending on a number of variables.



Extensive Client Network

300 clients - broad distribution of customer segmentation

FLUOR

Coca-Cola



BRIDGESTONE

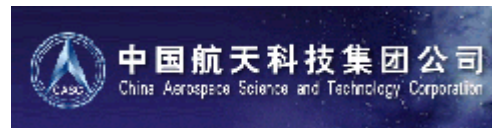


Plate Heat Exchangers (PHE)

Overview

- **A leading authorized PHE manufacturer in China:** Products are sold with Sondex and Non-Sondex components with design & service performed locally.
- **Broad industry applications:** over 50% are sold to the utilities, petrochemical and chemical processing industries
- **Rapid market growth:** Market growth of 30% expected through 2010¹
- **Capacity:** 6,330 PHEs annually with available excess production capabilities

Product Description

- Thin stamped plates made of stainless steel, titanium, or nickel alloys are sealed with gaskets and compressed together by tightening the nuts and bolts against the thick metal plates
- Heat is transfer from the hot fluid to its neighboring cold fluid as the two fluids move in opposite directions
- Plate heat exchangers offer efficient heat transfer, compact design, ease of maintenance and the ability to adjust performance simply by adding or removing plates





Overview

- **Advanced PHE Systems:** Using sophisticated CAD/CAM and numerical control manufacturing techniques, SmartHeat builds custom made PHE systems (units) primarily utilized in China's HVAC market
- **A major revenue driver:** 63% of total revenues in 2008
- **Capacity:** 1000 units annually with available excess production capabilities

Product Description

- Pipes, valves, pumps, sensors, and gauges are added to a PHE to form a PHE unit
- PHE units are more complicated than PHEs and require additional customization to match the operating pressure and temperature
- The revenue from a PHE unit can be 4x as much as the PHE component



Heat Meters

Overview

- **New Product:** rapid sales growth anticipated due to new government regulations requiring heat meters to be installed in both existing and newly constructed public and residential buildings.
- **Shift in Pricing Methods:** shifting from pricing methods based on the area serviced to pricing methods based on actual heat consumption will motivate consumers to conserve heat and save energy
- **Capacity:** 200,000 heat meters annually



Product Description

- Like gas, water, and electricity meters, heat meters allow the utility company to track and bill individual homes or apartments
- Heat meters track flow rates and temperature to calculate the amount of heat consumed



Broad Product Applications



Energy saving benefits:

- Improve energy efficiency by 20 to 36%
- Greater heat distribution and temperature control in both industrial and residential applications
- Cool equipment and reduce turbine or machine pressure



Broad Industry applications:

- Chemicals & Petrochemicals
- Food & Beverage processing
- Energy & Utilities
- Steel
- HVAC
- Pulp & Paper
- Textiles
- Pharmaceutical



Market Leader in a Rapidly Growing Industry

Global – a \$12 billion industry

- Worldwide markets for heat transfer equipment - \$12 billion (2006), of which PHE Units account for approximately \$2.3 billion¹
- Global manufacturers include Alfa Laval, Sondex, Tranter SWEP, Danfoss, Hisaka Works and GEA

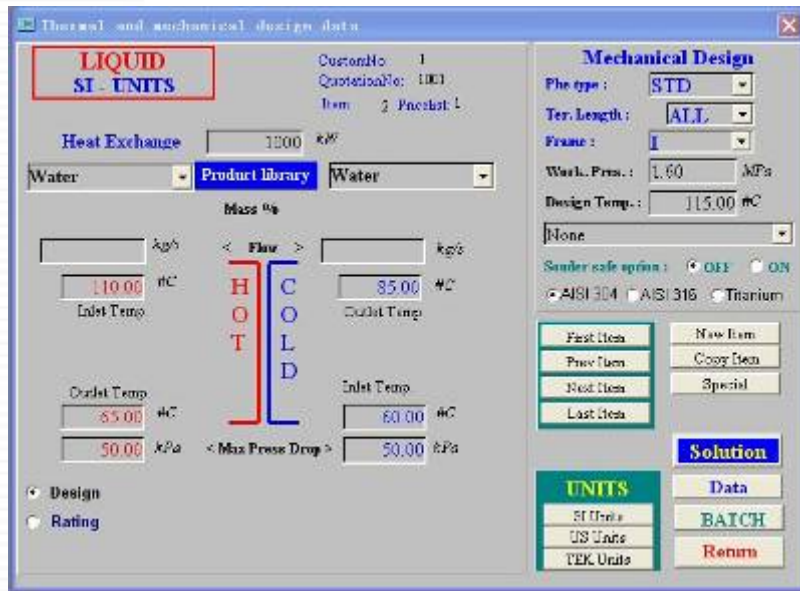
China – the world's fastest growing market

- 2007 market for PHEs approximately \$2.4 billion with annual growth of 30% expected through 2010²
- 2007 market for PHE Units approximately \$139 million. Market is expected to grow at a rate of 70% annually between 2008 and 2010²
- PHE market dominated by western producers [>50%] while compact PHE Units market is highly fragmented among many foreign and domestic firms³



Unique Advantage: Real Time Product Design

Just-in-Time Design & Production



- Self-designed online Computer Assistance Design (CAD) software integrated with real time Enterprise Resources Planning (ERP) system allows field salesmen to input orders, obtain draft models, access quotes, and confirm delivery dates in minutes
- Enables inventory and production to accurately schedule and reduces lead production time to 5 days for PHEs and 10 days for Units

- The use of advanced software helps SmartHeat to improve its operating efficiency and reduce costs



Favorable Government Regulations

Environmental Targets

China set new pollution reduction standards¹ in the 11th 5-Year Plan (2006-2010):

- 20% ↓ energy consumption per unit GDP by 2010
- 10% ↓ industry expulsion of pollutant particles by 2010

Causes of Pollution

- Coal accounts for 80% of CO₂ emissions in China today² and is the primary fuels used for heating in China.
- Burning 1 ton of coal produces 2.5 tons of CO₂³
- **Inefficient coal-fuelled heating systems are a major cause of pollution in northern China.**

Heating-Related Policies

- Expansion of district heating networks ~ 50% more efficient than small boilers⁴
- Growth of cogeneration units (CHP) supplying both electricity and heat ~ 30% more efficient than separate generation⁴
- Heat metering made mandatory in both new and existing buildings under China Energy Conservation Law
- **Smartheat energy saving equipment is used in district heating, cogeneration, and heat metering.**



Favorable Market Environment

Social Trends

Urbanization:

-Urban population increased by 275 million between 1990 and 2006¹

Construction:

-2 billion m² of new residential space added annually²

-Estimated 10% of the new buildings will be using PHEs, PHE Units or similar heat exchangers³.

-Existing construction area of over 40 billion m² ~ vast retrofitting market.

Economic Trends

Increasing demand in industries requiring PHEs:

Energy Saving Technologies
demand from various industries expected to remain strong in China and overseas

Greater Reliance on Nuclear Power:

-Nuclear Capacity projected to increase from 9,000 megawatts to 100,000 megawatts by 2030⁴

-Nuclear plants use PHE technology for cooling and heat distribution

Stimulus Package

\$586 Billion government stimulus package includes:

- \$31 billion allocated to energy-saving projects⁵

- \$59 billion to be spend on affordable housing projects⁵

- projects paid by the stimulus money have to be completed by the end of 2010

- heating infrastructure projects mostly paid by municipal government/private partnerships.



Significant Competitive Advantages

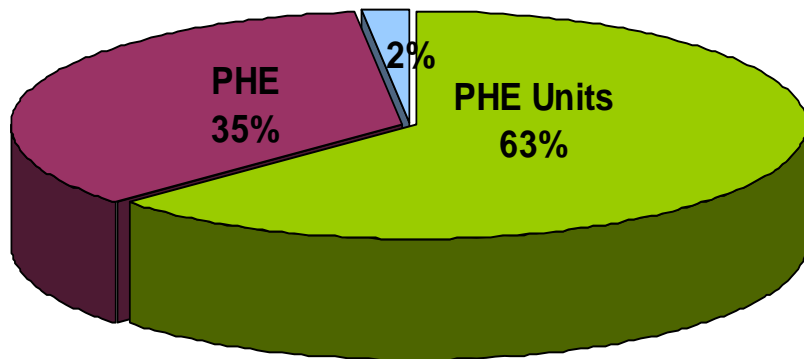
- ***Leading brand:*** compact PHE Units are sold in China under our own brand, recognized as a national standard for the industry.
- ***Environmental benefits:*** more efficient heat utilization leads to energy savings
- ***Proven business model:*** established reputation as authorized SONDEX OEM and designer/manufacturer of PHE Units
- ***Strong R&D:*** Leading R&D center in China for heat exchangers and applications
- ***Experienced management:*** industry experts
- ***Extensive sales network:*** new and repeat customers.
- ***Quality with value:*** Pricing on average 15% less than imports, product quality as superior as imports while significantly exceeds other domestic brands



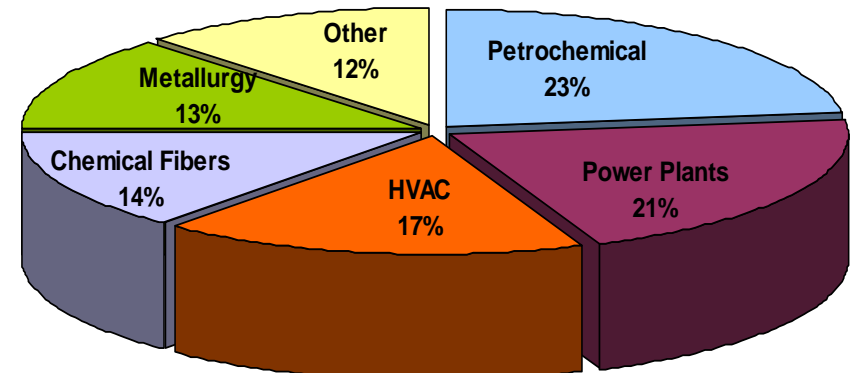
Extensive Sales Channels

- **Growing and broad diversity of customer base in almost all industries:** less impacted by economic cycles
- **Wholesale and company direct sales channels:** 32% of sales to distributors; 68% sales directly to customers in 2008
- **Excellent after sale services:** 12-18 month service warranties
- **70% of sales made between June and December**

2008 Revenue Breakdown



2008 PHE Sales by Industry





Broad Market Reach in China

- 1 Sales Center at Corp HQ
- 4 Sales & Service Centers
- 3 Service Centers





Strong Management Team

James Jun Wang **CEO**

Co-founder in 2002. Former sales manager of **Honeywell China**; former sales manager of **ALFA Laval-China**. Extensive industry background and experience.

Grace Zhijuan Guo **CFO**

Strong financial and accounting background. CFO since inception.

Wen Sha **VP, Marketing**

Extensive sales experience and industry contacts. Joined SmartHeat as Regional Sales Manager in 2005. Prior to that, he served as the General Manager of Nanjing Hui Dun Ltd and APV in Shanghai, a leading international PHE firm

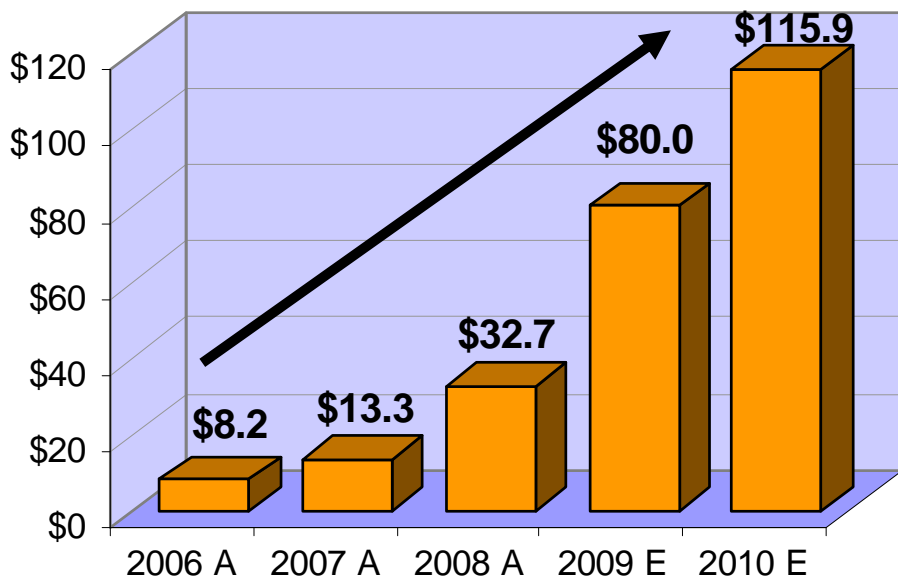
Strong industry relationships coupled with technical knowledge allow management to expand SmartHeat's markets and profitability



Rapid Sales and Earnings Growth

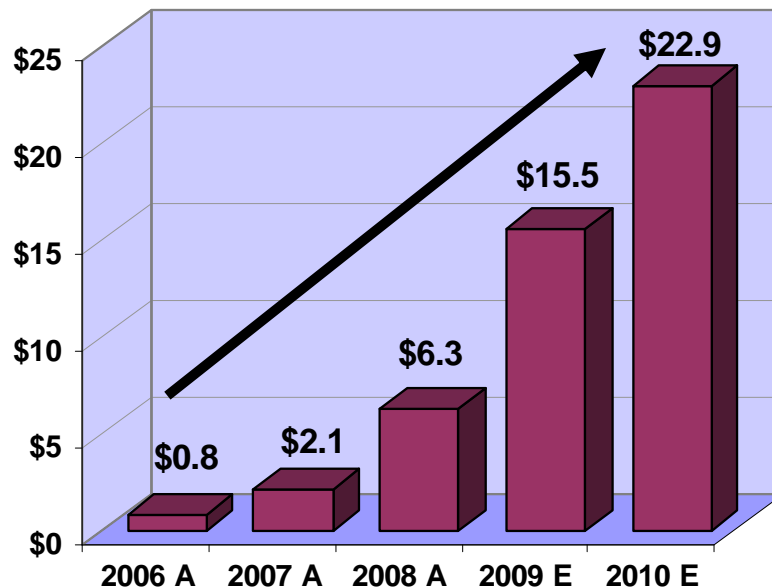
REVENUE GROWTH

(In US\$ Millions)



NET INCOME GROWTH

(In US\$ Millions)





Growth Strategies - Organic Growth & Strategic Acquisitions

Organic growth:

- New project development
- Aggressive expansion of SmartHeat PHE market share
- Rapid growth in the heat meter sector following recently codified favorable governmental regulations which mandate the broad use of heat meters

Strategic Acquisitions:

- 2008: Acquisition of a Shanghai based leading domestic PHE manufacturer, increased annual PHE capacity to approximately 6,333 PHEs and broadened SmartHeat's customer base
- May 2009: completed asset acquisition of a large domestic PHE manufacturer with a well-known national brand, extends market reach to the petrochemical and nuclear power sectors

Recurring incomes – ongoing service & maintenance fees

- Installed PHEs and PHE Units age and must undergo repairs and maintenance



Investment Highlights

- **Advanced clean tech, energy savings products with broad environmentally friendly applications:**
 - 20-36% savings in energy costs
 - Reduces coal consumption and CO₂ emissions by 63% when used in district heating networks connected to co-generation power plants - less fuel is consumed to produce the same amount of heat thereby decreasing energy costs and pollution
- **A clear market leader in the heat energy savings industry**
 - Largest market share in PHE Units domestically¹
- **Rapid sales & earnings growth for 2008 and beyond**
 - Annual revenue and net income growth exceeds 100%, average 70% annual revenue growth in last 5 years
 - Favorable government policy and social trends present historical growth opportunities
 - Stable OEM sales provide steady cash flow
- **Management entered into 3 year share lock-up agreements since January 2009**
 - Experienced management team consists of industry leaders and innovators

1- China Heating Association