

A QUICK LOOK AT SHI

2 Financial Highlights

In the year ended March 31, 2007, orders received and net income both hit record highs for the fourth consecutive year. We were also able to achieve all numerical targets in the “Leap to Excellence ‘07” medium-term management plan launched in fiscal 2005 (ended March 31, 2006) a year ahead of schedule.



4 WHAT WE THINK

To Our Shareholders, Customers and Employees

Our growth policy of ensuring sustainable growth through innovation of first-class products under the “Leap to Excellence ‘07” plan is steadily bearing fruit. Building on this momentum, we will further strengthen our technological and product development capabilities and our cost structure as we evolve into a company of global excellence.

Medium-Term Management Plan “Leap to Excellence ‘07”

We have already met all of our quantitative targets in this plan and steadily strengthened synergies between business units and individual core product lines. We are addressing the challenge of still further growth by setting new numerical targets for fiscal 2007 and fiscal 2010.



10 Special Feature (Products): Circulating Fluidized Bed Boilers

Our circulating fluidized-bed boilers enable more efficient use of energy resources and reduction of CO₂ emissions because they can handle a range of fuels, including low-grade coal and biomass-based fuels, and because our technologies ensure high levels of efficiency and long-term stable operation. We have already won many orders for this system in Japan, and are now expanding our business in overseas markets.

12 HOW WE'RE DOING

Review of Operations

In fiscal 2006, the second year of the “Leap to Excellence ‘07” plan, we expanded and grew our business based on the following priority policies: strengthening product development capability, deepening cooperation between business units and expanding component businesses, expanding orders and profitability in the heavy machinery businesses, shifting away from government and public sector contracts to private sector orders, accelerating the development of overseas marketing, and taking steps to overhaul production systems.



24

WHY WE'RE STRONG

Research and Development

In fiscal 2005, we drew up lists of core products for each business and invested in product-planning, to enable us to continue our tradition of innovation of first-class products. In fiscal 2006, we were able to achieve good results through aggressive investment in product development and launches.

Intellectual Property

The Group has four key concepts with regard to protecting its intellectual property: attack (leverage exclusive rights), defense (respect other companies' rights), accumulation (put IP under patent) and speed (in reaction).



27

HOW WE BEHAVE

Corporate Governance and Compliance

To create enterprise value, and deepen the trust of our shareholders and stakeholders, we are creating a management system that is both highly effective and transparent, and taking measures to strengthen internal controls including strict adherence to compliance requirements.

Measures for Environmental Preservation

Based on our recognition of our corporate social responsibility to work for the protection of the global and regional environment, and promote a "zero-waste" society, the Group is engaged in a wide range of environmental initiatives centered on combating global warming.



30

FINANCIAL SECTION

58

Glossary

60

Network

62

Management

63

Corporate Data