

Medium-Term Management Plan "Leap to Excellence '07"

Achievement of all Targets One Year ahead of Schedule

The Sumitomo Heavy Industries Group is working to achieve the objectives of the "Leap to Excellence '07" three-year medium-term management plan introduced in fiscal 2005. Under the previous medium-term management plan, called "Powerful Sumitomo Heavy Industries Group," the Company was able to reform its operating structure and improve its financial position. Based on "Leap to Excellence '07," we shifted our focus from bottom-line management to top-line growth, with the goal of achieving true excellence by global standards in the fields we operate in.

Plan Targets

- (1) To be a knowledge-based company that systematically supplies markets with first-class products
- (2) To integrate our businesses vertically and pursue synergies
- (3) To achieve the following three numerical targets through aggressive future investment:
 - ① Fiscal 2007 Return on Invested Capital (ROIC) above 10%: ROIC > Weighted Average Cost of Capital (WACC)
 - ② Fiscal 2007 consolidated operating income: More than ¥60 billion
 - ③ Fiscal 2007 year-end interest-bearing debt: Less than ¥150 billion
- (4) To strengthen and expand key component businesses

To achieve these targets, we have reformed our operating structure restructuring and are implementing measures to strengthen our capabilities for managing the group as a whole.

In fiscal 2006, we achieved the following figures, a year ahead of schedule:

- ROIC: 12.2%
- Operating income: ¥64.2 billion
- Outstanding interest-bearing debt: ¥88.0 billion

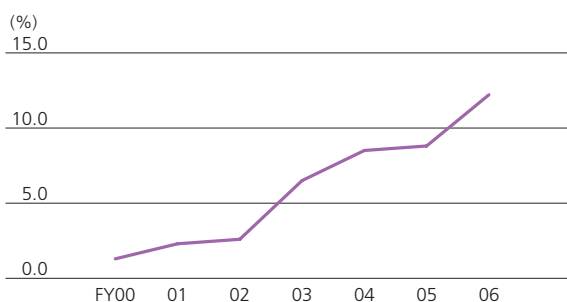
Operating and Net Income

In fiscal 2006, we posted increases in operating ordinary and net income at all our operations except Mass-Produced Machinery. As a result, operating, ordinary and net income hit all-time highs, net income for the fourth consecutive term.

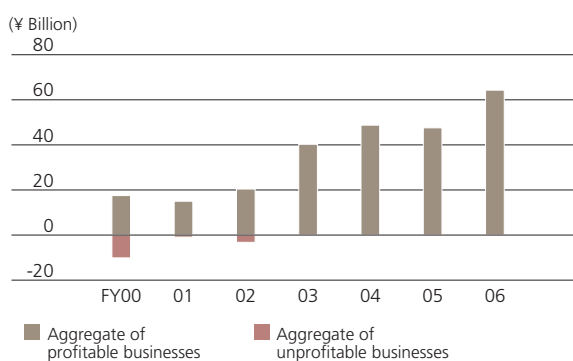
Interest-Bearing Debt

We were able to reduce our balance of interest-bearing debt by an amount that far exceeded our target, due to aggressive repayment of outstanding loans on the back of an improved earnings performance and stricter cash flow management.

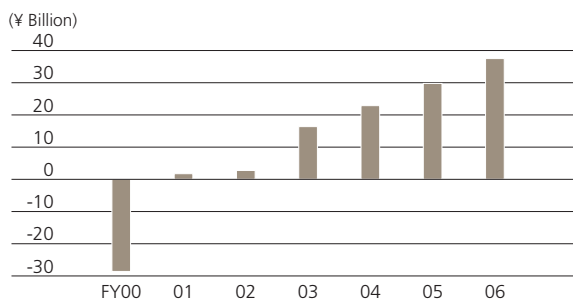
ROIC (After Tax)



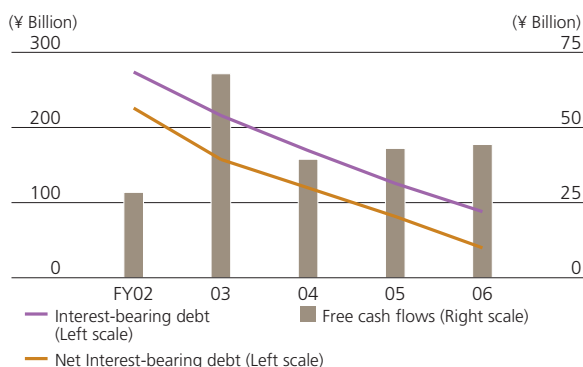
Operating Income



Net Income



Interest-Bearing Debt



Deepening Synergies, Strengthening Core Products

We launched the motion control drive business unit as one of the strategies implemented under our synergy model. By combining the technologies of our power transmission controls, which enjoy an overwhelming competitive advantage in terms of performance, and our specialty precision controls, we are targeting the actuator market.

Regarding individual products, each business unit nominates products to become the focus of development investments. For example, in power transmission and controls, we have expanded our line-up of compact gear boxes featuring high efficiency, low noise and high-power output torque. We have also launched a new series of medium-sized injection molding machines that target the automotive industry, and also the container and medical equipment industries. In this way, we are working to implement commercialization strategies that are in line with the demands of the market. We aim to steadily continue development of promising products to build up our core portfolio.

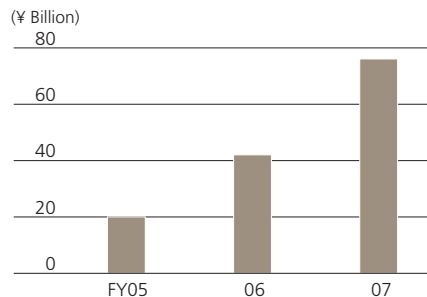
Targets for Fiscal 2007

Having met our targets in the "Leap to Excellence '07" plan a year ahead of schedule, we have set the following new objectives for fiscal 2007:

Sales: ¥650 billion

Operating income: ¥74.0 billion

● Core Product Sales



Cyclo® Speed Reducer for Precision Control



Air Actuator



Control Board, Controller

The Next Medium-Term Management Plan

We aim to translate our significantly improved profitability into investment for the next stage of our growth. For fiscal 2010 we have the following targets:

Sales: ¥800 billion

Operating income: ¥100 billion

We will provide more detail on these targets later. With customer-oriented product excellence as our watchword, we plan to aggressively advance into overseas markets going forward.