

Review of Operations

Mass-Produced Machinery

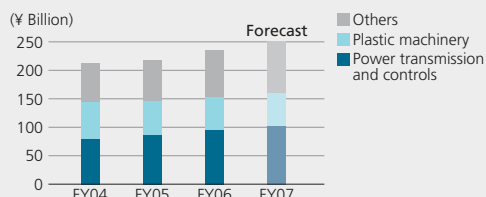
Main Products

- Power Transmission Equipment
- Plastic Injection Molding Machines
- Cyclotrons for Medical Use
- Ion Accelerators
- Plasma Coating System for FPDs (Flat Panel Displays)
- Laser Processing Systems
- Cryogenic Equipment
- XY Stages
- Transfer Molding Press Machines
- Forklift Trucks
- Precision Forgings & Castings
- Defense Equipment

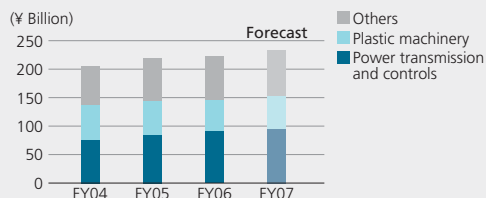
Major Units

- Sumitomo Heavy Industries Mechatronics, Ltd.
- SEN Corporation, an SHI and Axcelis Company
- Sumitomo NACCO Material Handling Co., Ltd.
- Sumitomo Machinery Corporation of America
- Sumitomo (SHI) Cyclo Drive Germany, GmbH
- Sumitomo Plastics Machinery Inc. of America
- Sumitomo (SHI) Cryogenics of America, Inc.
- SHI Manufacturing & Services (Philippines), Inc.

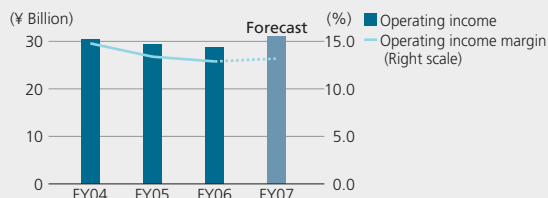
Orders



Sales



Operating Income



Segment Overview

Business Environment

Capital investment in industrial machinery is active both at home and abroad, and the selling environment for power transmission equipment has been favorable. Demand has been particularly strong for large-scale power transmission equipment for overseas customers. Investment in plastic injection molding machines has declined as a result of a fall in the market prices of LCD screens and electronic components, but demand from makers of cell phones and vehicle electronics has remained firm.

In the market for medical equipment, overseas demand has been growing strongly, particularly from East Asian countries. Overall, the operating environment for this segment has remained good both in Japan and overseas.

Review and Analysis of Results for Fiscal 2006

Operating results were strong for the power transmission and control business, both domestically and overseas, due to active new product introduction, and an expansion of business thanks to the establishment of a global supply chain, among other measures.

In the plastics machinery business, there was a fallback in demand from the automotive and electronic component industries, causing a slight decline in both orders and sales compared with the previous term. Orders received for cryocoolers and cyclotrons for medical treatment, however, recorded growth, primarily from overseas customers.

As a result, total segment orders rose 7% year-on-year, to ¥234.7 billion, sales rose 1% to ¥222.9 billion. Operating income, however, declined 4% to ¥28.8 billion.

Outlook for Fiscal 2007

Market prices for industrial machinery, notably in the automotive field, are expected to remain at a favorable level worldwide. In the IT and other cutting-edge technology fields, new capital investment can be anticipated, led by spending on increased production capacity. In the medical equipment field, demand is likely to grow in the emerging economies of Asia. For the segment as a whole, year-on-year increases are projected in orders, sales, and earnings.

Overall Conditions in Major Units

Power Transmission and Controls

Business Performance for Fiscal 2006

Due to the slowdown in capital spending, orders received in Japan rose only slightly compared with the level of the previous year. Orders from overseas, however, surged on the overall strength of economies abroad, especially in Europe and the United States.

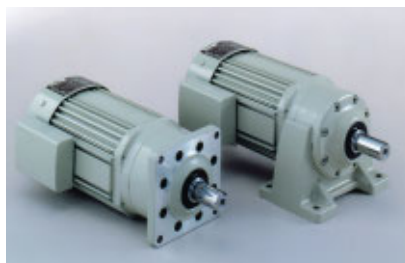
By product, demand for large gearboxes for cement mills remained buoyant, and small to medium-sized gearmotors achieved growth across a broad array of sectors, including factory automation and material handling machines for the distribution and logistics industry. Precision speed reducer units drew a good number of orders for applications in industrial robots.

Strategies for Fiscal 2007

We anticipate that capital investment will pick up again in Japan, and this should generate higher demand, while demand from Europe, China, Southeast Asia and the United States will remain strong. We will strive to strengthen our global operation bases, sales channels and marketing divisions by primarily focusing on the BRIC countries, and we will create higher customer value by entering new sectors and, in particular, introducing new products.

Our technical expertise in precision speed reducer units will be upgraded to satisfy increasingly challenging demands from customers. We aim to cut delivery times for small gearmotors featuring greater compactness and quieter operation to secure a larger share of the small gearmotor market. We will also promote the medium-sized to large gearmotors and gearboxes that we launched on the market during the previous year, and will bolster our sales force so that we can provide customers with more advanced solutions.

In addition, we will improve the production capacity of our motor plant in Vietnam to put in place a structure that enables a consistent supply of products.



ALTAX® NEO Gear Motor



RHYTAX® Drive

Plastics Machinery

Business Performance for Fiscal 2006

The market situation has remained very strong since fiscal 2003, and total shipments for the reporting term by domestic manufacturers numbered about 18,000 units. The factors behind the positive operating environment include the steady growth enjoyed by the cell phone, information technology, and office equipment industries, especially in East Asia, as well as the Japanese automobile industry. We have established new bases for enhancing customer services in East Asia, notably in Shanghai. We exhibited our fully electric injection molding machines at the National Plastic Expo 2006 (NPE2006)* held in Chicago. The SE-DU Series of general-use, small, fully electric injection molding machines in particular were well received following their launch in the previous fiscal year, as we introduced technologies that distinguish our products as being able to meet ever diversifying and complex market needs. Our medium-sized SE-HD and SE-HS series of fully electric injection molding machines likewise won praise for their distinctive technologies for the automotive and container/medical sectors. Our Group has constantly maintained the leading market share in Japan by shipment, and our customers have used our technologies to make significant strides in productivity enhancement and cost reduction.

*NPE2006: international plastics fair; the largest plastics and rubber fair in the United States

Strategies for Fiscal 2007

In addition to enhancing lineups in small and medium-sized fully electric injection molding machines, to ensure that all our products exactly meet customers' needs, the Group in fiscal 2007 will aim to consolidate its position as a technology and solution leader, while expanding sales networks in the key BRIC markets. We will harness our capabilities across the Group to promptly satisfy increasingly diverse and complex customer demands in plastic processing technologies. While creating synergistic value chains to develop together with our customers, we are steadily achieving our aim of becoming a global leader in integrated plastic machinery manufacture.



Fully Electric Controlled Injection Molding Machine "SE-DU"

Quantum Equipment

Business Performance for Fiscal 2006

In fiscal 2006, the Quantum Equipment Division received record orders.

As a result of our commitment to overseas sales activities over the past several years, especially in the East Asian region, we recorded our highest ever total value of orders from China for small cyclotrons for positron emission tomography (PET) examinations*1. China is experiencing rapid growth in advanced medical treatment in line with the increased number of wealthy patients.

We secured large orders for Plasma coating system for FPDs from the photovoltaic panel industry, a market that is expected to grow further. As in the preceding year, manufacturers of organic electroluminescence-related devices placed orders for mass-production equipment. Supported by the strength of China's steel demand and domestic capital investment, the lifting magnet*2 business maintained the healthy progress it showed in the preceding year, to achieve record order volumes.

*1. PET (positron emission tomography) is a highly effective screening test for cancer. The cyclotrons are used to produce the diagnostic agent.

*2. Lifting magnets are used to lift scrap iron and metal.

Strategies for Fiscal 2007

Our small cyclotrons for PET examinations and lifting magnets hold the leading shares in their respective markets in Japan. We will be working hard to promote overseas sales of these products to ensure continued growth.

In the medical sector, we will be expanding the area of our sales activities, primarily with the aim of boosting recognition in the East Asian region. We will be conducting aggressive sales promotion campaigns for our lifting magnets in China, and have good hopes of registering growth in orders, given that infrastructure development continues to proceed at a striking pace in that country.

In view of the buoyancy of demand for silicon wafers, we anticipate that sales growth for single crystal silicon ingot manufacturing equipment will outstrip the growth of the previous year.



PET RADIO-TRACER PRODUCTION SYSTEM "HM-125"

Laser Systems

Business Performance for Fiscal 2006

Overall demand for LCD panels rose in the mobile LCD domain, but orders for laser annealing systems turned sluggish in the face of falling prices. In the printed circuit board industry, we witnessed a number of new investments, mainly for the cell phone market, particularly in China. To respond to the demands of this market, we launched new high-speed laser drills. We also received strong orders for laser processing systems, reflecting robust capital spending in the automobile and general machinery industries.

Orders for semiconductor packages rose during the first half of the fiscal year under review, buoyed by the introduction of encapsulation machines* with 120 ton presses. However, with client companies limiting their investment during the second half of the year, overall orders for semiconductor packages increased only 6% compared with the previous year. We have commercialized compression molding machines as encapsulation machines to handle advanced packages, and they have earned a stellar reputation in the market for their molding quality.

*Semiconductor encapsulation machines are used to enclose semiconductor chips within a resin coating.

Strategies for Fiscal 2007

In the market for printed circuit boards, we anticipate that active capital investments will continue, boosting orders for our high-speed laser drills. We will seek to win orders for laser annealing systems designed for customers in the LCD and semiconductor industries, in anticipation of their resumption of capital investments. Meanwhile, we will broaden our lineup of products for the automotive and general machinery industries, which are enjoying sustained growth.

In semiconductor packages, although the level of capital spending by major semiconductor manufacturers is still uncertain, we expect steady capital spending by domestic and overseas users that subcontract post-processing. We will continue to promote 120 ton press machines, and will seek to win more substantial orders by improving the capacity of our compression molding machines.



Semiconductor encapsulation machines "SX120"

Cryogenic Equipment

Business Performance for Fiscal 2006

In fiscal 2006, this business recorded a year-on-year increase in sales, to ¥14 billion. Fully leveraging the capabilities of this division's overseas network, we commenced the development and production of new compressors locally at our research and production facilities around the world for our mainstay 4KGM cryocooler*. As a result, we have developed a structure that enables us to respond to the diversified needs of customers.

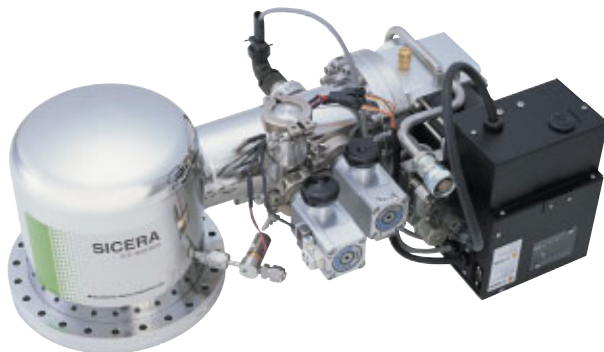
Our superior global operations were also used to launch a full-scale sales promotion for "SICERA™", a cryopump (one of our core products), a super-vacuum pump that is currently selling strongly and has the potential to grow still further, as the first step in our expansion of products used for semiconductor and liquid crystal manufacturing equipment.

*The 4KGM is so-called because it can cool materials down to 4 degrees Kelvin (i.e. 4 degrees above absolute zero), or minus 269 degrees Celsius.

Strategies for Fiscal 2007

In fiscal 2007, we hope to maintain our clear competitive edge in cryocooler components and will take firm steps to expand the cryopump business.

The markets are changing at a dramatic pace, and we must respond to these changes promptly and provide global support for customers. We will improve the quality of our global operations and further integrate our production and sales operations both in Japan and overseas. We will also make efforts to enhance product development capacity and boost sales, services, product quality and cost competitiveness so that we can continue to provide products and services that meet the needs of our customers.



Cryopump "SICERA™"

Mechatronics

Business Performance for Fiscal 2006

Since the first half of the previous term, supply had outstripped demand in the flat panel display (FPD) market, which includes our mainstay liquid crystal display (LCD) market. As a consequence, orders and sales in this business remained flat on a year-on-year comparison. Nonetheless, we embarked on a strategy of combining control technology based on our extensive knowledge and experience in equipment and machinery with mechanical, measurement, and drive technologies. Thanks to this, we were able to extend our product range from our specialty high-end products to mid-range products. We also established a sales base in Kansai as one of our initiatives to strengthen our marketing activities, and this is now starting to make its presence felt.

Meanwhile, we are making steady progress in efforts to provide control components to other business units for the purpose of expanding the vertically integrated value chain within our Group.

Strategies for Fiscal 2007

Although the markets for semiconductors and displays (including FPDs) is likely to remain sluggish in the first half of the current term, we can expect sustainable growth in the second half, spurred by rising demand for large-screen TVs, personal computers and mobile phones. We predict that capital investment will rise to fulfill the requirements of finer design rules for semiconductor devices, use of larger diameters for LCD substrates, and process reforms with the aim of cost cutting.

As for the overseas market, we already have experience in the delivery of web control* devices for LCD manufacturing in China, Taiwan and Korea, and we aim to expand further throughout East Asia. We will also launch our mainly domestic business in precision positioning devices on the global market.

We seek to attain synergy in our mechatronics technology, which fuses mechanical and electric control systems. We will continue to expand our business in new and existing markets by developing mechatronics products.

*Web control is a positioning control system for running films and sheets



SA-300 Series
Air Guided Type Planar XY Stage for Small Travel

Environmental Protection Facilities, Plants & Others

Main Products

- Power Generation Systems
- Industrial Wastewater Treatment Systems
- Water and Sewage Treatment Systems
- Landfill Leachate Treatment System
- Air Pollution Control Plants
- Chemical Process Equipment & Plants
- Food Machinery
- Software

Major Units

- Sumitomo Heavy Industries Environment Co., Ltd.
- Sumiju Environmental Engineering, Inc.
- Sumiju Plant Engineering Co., Ltd.
- Nihon Spindle Mfg. Co., Ltd.
- Izumi Food Machinery Co., Ltd.
- Lightwell Co., Ltd.

Segment Overview

Business Environment

This segment serves customers in both the public and private sectors, but as public-sector demand shrinks, we are transforming the structure of this business to focus on the private sector. Demand from the private sector centers on the segment's main products, CFB (circulating fluidized-bed) boilers, as the movement to reduce CO₂ emissions gathers momentum, and sales of these products are trending favorably. In the water-related environmental market, we are concentrating more marketing efforts on our waste-water treatment facilities for private-sector customers, and we have good hopes of growing this into a promising new market.

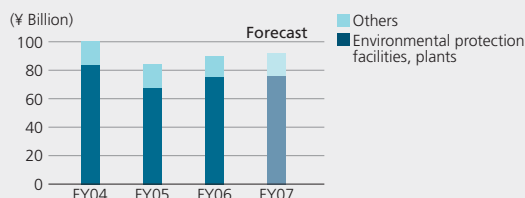
Review and Analysis of Results for Fiscal 2006

The energy plant business received a strong inflow of orders for multi-fuel boilers, but sales for the entire segment declined slightly due to a fall in sales by the water treatment business. Orders received by the segment as a whole came to ¥90.0 billion, up 8% over the previous business term, sales were down 3% at ¥79.4 billion, and operating income was up 8% at ¥4.5 billion.

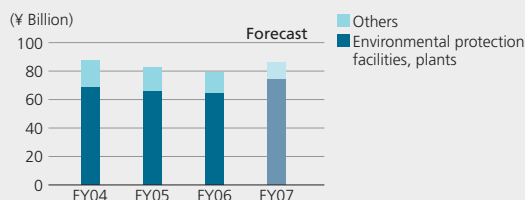
Outlook for Fiscal 2007

Rapidly rising concern over the need to protect the global environment is causing constant growth in the market for biomass-related products, and the Company's energy plant business, centered on biomass boilers for electric power generation, is expected to enjoy a continued a good inflow of orders. We spun off our water treatment business in the reporting period and reorganized it as a separate subsidiary, and are in the midst of a steady process of converting its business structure, focusing on private-sector demand with the aim of ensuring stronger and more reliable earnings.

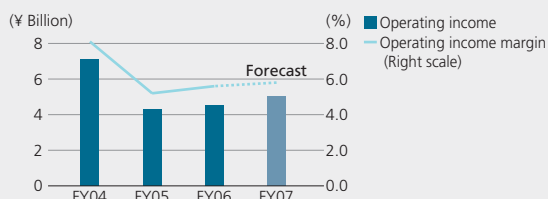
Orders



Sales



Operating Income



Overall Conditions in Major Units

Energy-Related Plants

Business Performance for Fiscal 2006

Reflecting rising awareness of the need to reduce CO₂ emissions and promote the use of alternatives to fossil fuels, orders for boilers and power generation plants that employ renewable energy remained strong.

This trend has gradually spread to the Asia-Pacific region. In Korea, we received the first order for a co-firing combustion boiler utilizing tire-derived fuel (TDF), a renewable fuel made from waste tires.

All projects delivered during the fiscal year under review employ renewable energy. This is evidence that our circulating fluidized-bed (CFB) boiler (Sumitomo CFB Boiler) constitutes a highly efficient and reliable system that can handle a wide array of renewable energy types. In addition, the world's first boiler system that uses no coal with the high multi-fuel combustion rate of waste tires is operating smoothly, attracting interest from a number of industries worldwide.

Strategies for Fiscal 2007

We anticipate that investment in the Japanese paper and pulp industry will gradually decline.

As initiatives to cut CO₂ emissions have also become more common in other industries apart from the paper and pulp sector, we will expand business to these other industries.

Coupled with economic growth, demand for power generation systems is rising in East Asia and North America. And with rising awareness of the need to reduce CO₂ emissions in Asian countries, emissions trading is growing steadily. In this environment, we expect that demand for CFB boilers will continue to grow, and we will adopt an aggressive and sustained approach to developing overseas markets, focusing primarily on East Asia and North America.

We will also bolster our development capacity to create new effective uses for fuels, satisfying the particular needs of each market. In addition, we will develop highly effective and reliable CFB boiler systems.

For more detailed information on the CFB boiler system, please refer to the product features section on Page 10.



CFB Boiler

Water Treatment Plants

Business Performance for Fiscal 2006

Our water treatment plant business consists primarily of two domains: facilities for the private sector and facilities for the public sector. Private-sector demand is expanding at a remarkable pace, supported by Japan's booming economy. By contrast, public-sector demand continues to decline, due to the scaling back of public works, and we are experiencing severe price competition in this market.

In response, we are endeavoring to improve the competitiveness of our products and develop new products and technologies for the private sector. Through these initiatives, we seek to strengthen and expand our existing operations, while also rapidly building new businesses that can take us into new markets or fields and become mainstays of the future. In the public-sector domain, we are making steady progress, with a focus on developing and expanding sales of unique component equipment. This business is being enhanced by the application of the technologies developed in our private-sector wastewater treatment business.

This operating environment has created a need for rapid management decision-making and flexible operations. Recognizing this, we spun off this business on January 1, 2007, establishing Sumitomo Heavy Industries Environment, Ltd.

Strategies for Fiscal 2007

Domestic demand remains active, and we anticipate expansion in our business for the private sector. In contrast, the market for public-sector clients is becoming increasingly difficult.

In fiscal 2007, we will continue bolstering the competitiveness of our products, while developing new products and technologies. We will also take steps to cut costs to expand our components business, and stabilize this business as an independent company.

The photograph shows the rainwater treatment facilities installed at the Company's coal yard and ore yard. The coagulation settling tank, which is the main component of these facilities employs the super-fast coagulation agent Sumi-Thickener, which allows excellent water treatment despite the space-saving nature of the facilities.



Sumi-Thickener

Ship, Steel Structure & Other Specialized Equipment

Main Products

- Bridge & Steel Structures
- Pressure Vessels
- Mixing Reactors
- Coke Oven Machines
- Ships
- Marine Structure
- Marine Equipment

Major Units

- Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
- SHI Mechanical & Equipment, Inc.
- SHI Examination & Inspection, Ltd.

Segment Overview

Business Environment

Amid rising demand for oil, the market for petroleum refinery construction is showing increased vigor. Against the background of high oil prices, petroleum companies are taking an aggressive stance on investment in the construction of new refineries and the expansion of existing facilities. Orders for ships are flowing in at a brisk pace not only due to the active shipping market, but also as a result of changes in the mandatory specifications for hull painting. Demand for new shipbuilding is projected to remain strong for the foreseeable future.

Review and Analysis of Results for Fiscal 2006

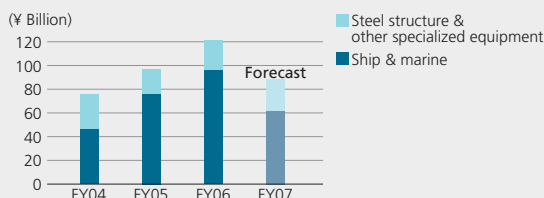
Orders for the shipbuilding business posted a two-ship increase over the previous term, to 13 ships. On the sales side, delivery of eight tankers was made. These results were due to marketing activities being concentrated in medium-sized tankers to match market needs to our shipbuilding capacity under a favorable market environment. Orders for reactor vessels recorded strong growth due to active capital investments in the oil and petrochemical industries, amidst expanding demand for energy and high oil prices.

As a result, segment orders as a whole rose 27% year-on-year, to ¥121.0 billion, sales rose 6% to ¥69.5 billion, and operating income increased to ¥6.7 billion as compared with an operating loss of ¥1.0 billion for the previous term.

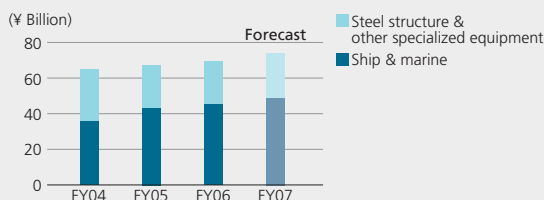
Outlook for Fiscal 2007

Demand for oil continues to grow, and consequently investment in new petroleum refining facilities is likely to maintain a favorable pace for some time to come. Reactor vessels for use in refining heavy oil are a specialty of SHI, and a steady inflow of inquiries can be expected. As for ships, we have decided to restrict our order acceptance to medium-sized Aframax tankers, and in view of the strong demand for freight shipping, we can expect ship prices to maintain a high level.

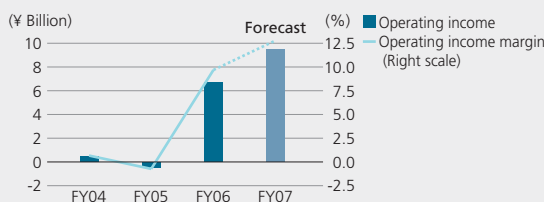
Orders



Sales



Operating Income



Overall Conditions in Major Units

Reactor Vessels

Business Performance for Fiscal 2006

During fiscal 2006, global demand for oil continued to increase, primarily in the United States and China. A significant number of new oil refineries were constructed, and the capacities of existing facilities were expanded around the world. Amid these favorable business conditions, we received record orders, mainly for petroleum coke drums*, desulfurization reactors, and contact reform reactors. In particular, orders for coke drums, our key products, jumped to 26 units in total. A notable trend in these products was the shift to larger and more multiple equipment to upgrade treatment capacity. For example, we delivered two separate portions of petroleum coke drums to a state-owned oil company in Chile and successfully assembled them for a major on-site project.

*Petroleum coke drums are vessels used to separate heavy oil into light oils and a solid carbon residue known as "coke."

Strategies for Fiscal 2007

Given rising global demand for petrochemical products — primarily from China and India — crude oil prices are likely to remain high. Consequently, we anticipate the continuous construction of new plants and the expansion of existing plants. We will seek to achieve sustainable growth, mainly by strengthening sales promotion for our competitive coke drums. The prices and delivery time for our products have been impacted by high material prices and delayed deliveries caused by strong global demand for non-ferrous and precious metals. To overcome these disadvantages, we will endeavor to provide products and services that meet the needs of customers by further improving our operational and manufacturing processes.



Coke Drum

Ships (Sumitomo Heavy Industries Marine & Engineering Co., Ltd.)

Business Performance for Fiscal 2006

New shipbuilding orders worldwide in 2006 rose to a record 93 million tons, thanks to a robust marine transport market — which benefited from the healthy growth of the global economy that began in 2003 — and to the placement of last-minute orders ahead of the enactment of the revised international regulations on shipping. Orders went to South Korean shipbuilders (38 million tons); Chinese shipbuilders (24 million tons); and Japanese shipbuilders (21 million tons). Orders received by Chinese shipbuilders have grown strongly, accompanying the rapid development of shipbuilding facilities in that country, surpassing orders received by their Japanese counterparts for the first time. Vessel prices also reached record highs, reflecting stronger demand for ships.

We now concentrate on handling medium-sized tankers in order to differentiate ourselves from our competitors. In this environment, we took orders for 13 Aframax tankers and delivered eight. In January 2007, we established a European office in Piraeus, Greece, the first overseas office of Sumitomo Heavy Industries Marine & Engineering.

Strategies for Fiscal 2007

With the global economy expected to grow steadily in fiscal 2007, driven primarily by the robust economies of the BRIC countries and the United States, we expect the marine transportation market to remain firm. However, competition in the shipbuilding market appears set to increase gradually during fiscal 2007, given growing shipbuilding capacity in China and South Korea. In response, we will continue to develop unique ships that create higher customer value. We will also bolster sales operations and improve the quality and productivity of our products. Although prices of materials such as steel are likely to continue to rise, we will take steps to further improve our performance for fiscal 2007 through extensive cost-cutting derived from production innovation.



105,200MTDW Oil Tanker

Industrial Machinery

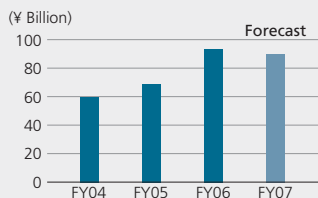
Main Products

- Logistics & Handling Systems
- Automated Parking Systems
- Moving Sidewalks
- Forging Machines
- Material Handling Systems
- Turbines
- Pumps

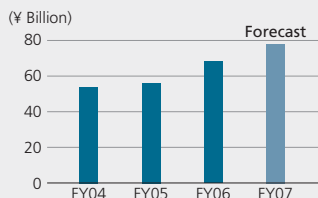
Major Units

- Sumitomo Heavy Industries Engineering and Services Co., Ltd.
- Sumitomo Heavy Industries Techno-Fort Co., Ltd.
- Shin Nippon Machinery Co., Ltd.
- SHI Machinery Service Hong Kong, Ltd

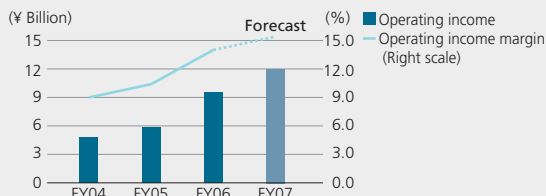
Orders



Sales



Operating Income



Segment Overview

Business Environment

Supported by the strength of economies around the world, demand for heavy machinery is brisk. Our sales of material handling systems have benefited from the vigorous investment in production facilities expansion by Japanese shipyards, and capacity utilization is maintaining a high level. In the field of steam turbines for power generation, investment in new power plants is particularly brisk in India, and demand for metal forging presses from makers of automotive components is growing. Overall, the business environment for this segment is favorable.

Review and Analysis of Results for Fiscal 2006

The material handling systems business expanded, centered on large cranes, as we raised our capacity to handle investment in increased capacity for the domestic shipbuilding and steel companies. This resulted from detailed market analysis and timely expansion of production facilities.

The turbine and pump business was favorable thanks to increased investment in biomass generation plant as well as oil and petrochemical plant, primarily in overseas markets. Sales by the forging press business rose on sustained production of forging presses for the automotive industry.

This resulted in 36% year-on-year growth in orders for the segment as a whole, to ¥93.6 billion, sales growth of 22% year-on-year to ¥68.3 billion, and a 63% growth in operating income to ¥9.5 billion.

Outlook for Fiscal 2007

Against the backdrop of vigorous capital investment by shipbuilders and steelmakers, demand for material handling systems is expected to remain favorable. Sales of turbines and pumps will benefit from growing demand for equipment used in biomass power generation and in petroleum plants, and the market scale as a whole is projected to increase. We anticipated continued brisk orders for forging presses in view of the strong business situation of the automotive industry.

Overall Conditions in Major Units

Material Handling Systems (Sumitomo Heavy Industries Engineering & Services Co., Ltd.)

Business Performance for Fiscal 2006

We achieved a record level of orders in fiscal 2006, reflecting strong capital investment by steel manufacturers and shipbuilders, which constitute the primary clientele of the material handling machinery and systems business unit.

Steel manufacturers are facing supply capacity shortfalls which they are addressing by increasing their production capacities and shifting their production to high-grade steel.



Continuous Ship Unloader

Consequently, they are vigorously replacing and expanding their material handling equipment, thanks to which we received orders for continuous ship unloaders for raw materials and a large number of steel making cranes.

With a large backlog of orders and rallying vessel prices starting to exert positive effects on shipbuilder performance, the shipbuilding industry made substantial investments to replace cranes to upgrade production capacity, and to install new equipment to meet the needs of diversification in ship block construction. We received substantial orders for high-capacity Goliath cranes and Jib cranes.

In overseas markets, we bolstered sales activities in the East Asian market, winning orders for Jib cranes from China and the Philippines.

Strategies for Fiscal 2007

As in the preceding year, the capital investment trend in the Japanese steel and shipbuilding industries will be positive. Overseas demand is likely to remain bullish overall, led by China, Taiwan and South Korea.

With our basic stance of "seeking the leading position in customer services with lifecycle solutions", we will intensively cultivate the Japanese and other priority markets in the East Asian region, with active sales promotion of products and services.

We will also continue our strong investments in crane manufacturing facilities and build up our value chain to provide powerful products and establish a strong sales force.

Turbines and Pumps (Shin Nippon Machinery Co., Ltd.) —

Business Performance for Fiscal 2006

With the growing emphasis on environmental preservation, power generation using renewable energy sources is expanding on a global scale with the aim of reducing carbon dioxide emissions. The biomass power generation market is expanding, chiefly in India, Southeast Asia and Latin America. Markets for power generation using solar energy and waste heat are also growing in North America. Orders for large multistage turbines raised by 145% as compared with those in last year, to contribute to soaring order volumes in the entire turbine business.

Circumstances were also favorable for the pump business. With economic growth in China and India and rising oil prices, there is an increase in oil, petrochemical and LNG plant construction projects in the Middle East and Southeast Asia. In particular, the entire world is stepping up its investment in heavy oil reformers thanks to booming demand for high value-added oil products. These factors prompted a surge in orders for process pumps. Those for one of the core models, namely barrel-type high pressure multistage pumps, raised by 130% as compared with those in last year. We successfully expanded this business in line with our medium-term management plan.

Strategies for Fiscal 2007

We will ascertain current customer needs through the use of

special roving marketing groups, and by leveraging our overseas sales network. We will also focus on marketing initiatives targeting key customers through close collaboration between sales and technical staff. Such activities will enable us to obtain a sufficient volume of profitable orders each year.

To improve the performance of our products, we will carry out reliability verification of new large models and develop more advanced components for our turbines and while further enhancing the performance of our pumps on the basis of flow analysis.

We will also proceed with reform of our manufacturing methods to bolster production capacity and reconstruct the product architecture with the aim of achieving significant cost savings.

Forging Presses and Industrial Machinery (Sumitomo Heavy Industries Techno-Fort Co., Ltd.) —

Business Performance for Fiscal 2006

Driven by export demand, domestic automobile production for fiscal 2006 surpassed that of the previous year. Overseas output of domestic automobile manufacturers has also been rising, and the production of forged parts has continued to shift overseas. To respond to the growth in demand for forged parts, automakers and forging companies installed new facilities in Japan and overseas as they did last year, with the consequence that the Company received substantial orders for forging presses of all sizes.

In the steel industry, Japanese companies are aggressively expanding production to meet the rising demand in the automobile, shipbuilding, and machine industries. In fiscal 2006, the majority of the orders we received were for modifications to existing production lines to bolster output capacity.

Strategies for Fiscal 2007

Conditions in the automobile and steel industries are likely to remain positive, and we believe our operating environment will generally hold firm during the current term. Our Forging Press business is undertaking a number of projects to improve its product lineup to meet customers' diverse needs. We will take measures to meet the demand stemming from our customers' expansion of overseas production, as well as measures to cope with the buoyant overseas market. The Industrial Machinery business will center on the remodeling and servicing of existing equipment, and we will strive to achieve customer satisfaction in after-sales services.

Sumitomo Heavy Industries Techno-Fort is committed to the integrated operation of production and services, and to maintaining the lead in technological fields where our proprietary technologies are strong. With our slogan of "Combine expertise and passion to compete successfully," we aim to build a system that consistently delivers strong profits, enabling us to enjoy further growth under the next medium term plan.



Barrel Type Multistage Pump [Model: BTBF]



Multistage Steam Turbine [Model: C10]



6500t Press

Construction Machinery

Main Products

Hydraulic Excavators
Mobile Cranes
Road Machinery

Major Units

Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Link-Belt Construction Equipment Company
LBX Company, LLC

Segment Overview

Business Environment

We are fielding a large number of inquiries, from Europe and China in particular, as a result of strong demand for building construction. Our launching of a new-model hydraulic excavator that conforms to the Phase III exhaust gas emission restrictions has been a significant factor in boosting our earnings. Brisk activity in North America in the construction of plants and commercial buildings, as well as the building of expressways, has led to a strong growth in orders for mobile cranes.

Review and Analysis of Results for Fiscal 2006

The hydraulic excavator business was favorable, both domestically and overseas, due to measures such as the introduction of a new model of hydraulic excavator to the market to address the Phase III exhaust gas emission restrictions and increased production capacity. Of particular note was that the growth in both sales and orders was concentrated in Europe and East Asia.

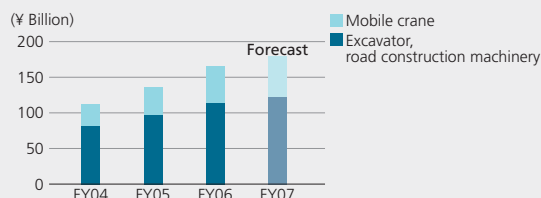
Both orders and sales in the mobile crane business recorded strong growth amid the continued dynamism of the North American market, due to the ongoing introduction of new models and expansion of production at North American sites.

This resulted in a 22% year-on-year increase in orders for the segment as a whole, to ¥166.1 billion, a 27% year-on-year growth in sales to ¥160.2 billion, and a 69% growth in operating income to ¥14.4 billion.

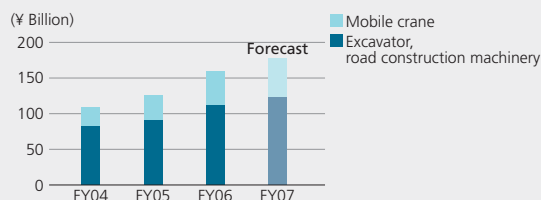
Outlook for Fiscal 2007

In the current term, business in this segment is likely to remain favorable both in Japan and overseas. We plan to concentrate our marketing efforts on Europe and East Asia in the case of hydraulic excavators, and on North America in the case of mobile cranes. We will be investing in increased production capacity and launching new models in response to the rising level of demand with the aim of realizing higher sales and a reliable earnings structure.

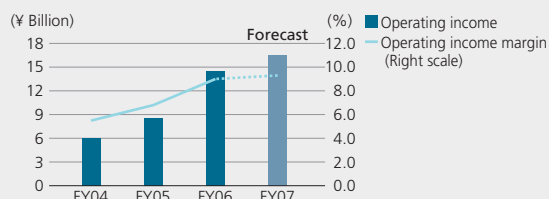
Orders



Sales



Operating Income



Overall Conditions in Major Units

Hydraulic Excavators and Road Machinery (Sumitomo (S.H.I.) Construction Machinery Co., Ltd.)

Business Performance for Fiscal 2006

Domestic demand for construction machinery soared from the previous year's level on buoyant capital investment in the private sector. We worked vigorously to market new models of the mainstay hydraulic excavators that comply with the latest emission regulations and, as in the preceding year, we focused on hydraulic vehicles used for specialized applications, such as models fitted with lifting magnets*1 and those adapted for forestry applications. Through these efforts, we successfully increased the number of new vehicles sold.

In the road machinery business, contracting domestic demand resulted in a decline in sales of asphalt finishers*2. Nonetheless, this business expanded its market share from the level of the previous year.

In overseas markets, we strengthened our tie-up with our sales partner CNH Global N.V. to expand hydraulic excavator exports to the North American market, which remains robust, as well as new unit sales to Europe. Exports of hydraulic excavators to the recovering Chinese market jumped sharply.

With respect to our production system, we expanded production capacity at the Chiba Works to meet the high demand for hydraulic excavators.

*1. Lifting magnets are used to move scrap iron and steel.

*2. Asphalt finishers are machines used to lay the final asphalt layer on a road surface.

Strategies for Fiscal 2007

In response to bullish demand for hydraulic excavators, the Chiba Works embarked on an initiative to gear itself up to consistently produce 10,000 units per year. In domestic terms, we will be proactive in sales promotion for our new-model hydraulic excavators in a bid to boost their market share. We will be bringing to market a new model asphalt finisher that conforms to the latest emission regulations.

Overseas, we will continue to strengthen ties with CNH to expand sales of hydraulic excavators in the North American and European markets. In addition, we will be strongly promoting Sumitomo-brand construction machinery to the growing Chinese market and emerging markets elsewhere in the world.



Hydraulic Excavator SH200-5 LEGEST

Crane Business (Link-Belt Construction Equipment Company)

Business Performance for Fiscal 2006

In the North American market, our wholly owned subsidiary Link-Belt Construction Equipment Company (Link-Belt) designs, manufactures, sells and supports a diverse line of mobile telescopic cranes and lattice-boom cranes. Link-Belt also jointly develops crawler cranes with Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (HSC), a joint venture between Hitachi Construction Machinery Co., Ltd. and the Company for sales in the North American market.

The North American mobile telescopic and crawler crane markets experienced double digit growth over the 2005 levels. Overall market demand for mobile telescopic and crawler cranes exceeded availability, and Link-Belt continues to benefit from the strength of demand. Link-Belt's sales for fiscal 2006 increased by approximately 46% over the previous term. The introduction of new models in market classes previously served, as well as in new market classes, has also contributed to the increased sales volume. While Link-Belt's production increased in 2006, production capacity continues to be constrained somewhat by component availability. Link-Belt initiated a Lean Sigma® program late in 2004 that has allowed it to improve efficiencies in production.

Link-Belt has continued to increase pricing on all products in order to mitigate the impact of rising commodity prices.

Strategies for Fiscal 2007

The continuing strength of Link-Belt is the introduction of new models that not only meet the customer's requirements and expectations, but exceed them. Link-Belt's continuing goal is to be the leader in customer service and satisfaction.

The fiscal 2007 outlook for the North American crane market is for continued strong growth in the mobile telescopic and crawler crane segment. As in 2006, the challenge for increasing production volumes in 2007 will be the availability of components. Link-Belt is working closely with vendors to provide an uninterrupted supply of material and components to meet production needs, aiming at increased sales and improvement in market share. Link-Belt will continue the Lean Sigma® program, which, through continuous improvement activities, will offer better quality, cost and delivery of Link-Belt's products.

Another of Link-Belt's strategies is the expansion of its presence in the global market. In April 2007 the company exhibited a mobile telescopic crane at the Bauma Trade Fair in Germany, the largest construction equipment show in the world.



A Link-Belt "Crane-Fest"