

Eleven-Year Summary

SUMITOMO HEAVY INDUSTRIES, LTD. and Consolidated Subsidiaries

	FY1996	FY1997	FY1998	FY1999
Summary of Income (For the year):				
Net sales.....	¥606,537	¥556,786	¥554,488	¥566,668
Cost of sales	505,636	460,254	464,286	473,798
Selling, general and administrative expenses	78,367	75,743	80,572	80,162
Research and development expenses	9,763	8,121	8,983	12,206
Operating income.....	22,534	20,789	9,630	12,709
EBITDA (Note 2).....	32,297	35,128	23,800	26,910
Net income (loss)	5,923	4,613	(12,298)	(6,328)
Cash Flows (For the year):				
Cash flows from operating activities	¥ 12,503	¥ 516	¥ 11,348	¥ 39,117
Cash flows from investing activities.....	(15,254)	(4,198)	(9,050)	(1,969)
Free cash flows (Note 3).....	(2,751)	(3,682)	2,298	37,148
Cash flows from financing activities	(1,539)	(1,933)	19,709	(48,765)
Cash and cash equivalents at the end of year.....	41,018	35,403	57,410	45,173
Financial Position (At year-end):				
Total assets.....	¥740,091	¥748,017	¥723,673	¥657,149
Total current assets.....	559,900	566,559	542,689	474,059
Property, plant and equipment	128,396	128,757	124,757	128,784
Interest-bearing debt	363,894	365,923	387,199	341,912
Net interest-bearing debt.....	322,876	330,520	329,789	298,617
Stockholders' equity	76,123	78,909	72,975	64,829
Total net assets (Note 6)	—	—	—	—
Amounts per Share of Common Stock:				
Net income (loss) (Note 4).....	¥ 10.06	¥ 7.83	¥ (20.88)	¥ (10.74)
Stockholders' equity	129.30	134.04	123.96	110.12
Cash dividends	3.0	3.0	—	3.0
Financial Indexes:				
Operating income margin	3.7	3.7	1.7	2.2
EBITDA margin	5.3	6.3	4.3	4.7
R&D expenses ratio to net sales	1.6	1.5	1.6	2.2
Return on assets (ROA)	0.8	0.6	(1.7)	(1.0)
Return on equity (ROE)	7.8	5.8	(16.9)	(9.8)
Stockholders' equity ratio	10.3	10.5	10.1	9.9
Interest-bearing debt ratio	49.2	48.9	53.5	52.0
D/E ratio (Times)	4.8	4.6	5.3	5.3
ROIC (Note 5)	3.2	2.8	1.6	1.9
Investment in Plant and Equipment, and Others:				
Capital expenditures	¥ 20,732	¥ 16,208	¥ 14,763	¥ 12,606
Depreciation and amortization.....	15,378	15,805	14,170	14,201
Number of employees.....	14,842	14,357	13,840	13,748

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥118=\$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2007.

2. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization

3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities

4. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.

5. ROIC (Return on Invested Capital) = $\frac{\text{Operating income} + \text{Interest and dividend received}}{\text{Average of stockholders' equity} + \text{Average of interest-bearing debt}} \times 55\%$ (= 1 - Effective tax rate)

6. Net assets are presented following enforcement of the new Japanese Corporate Law in 2006. Net assets comprise shareholders' equity as previously defined, plus minority interests and share subscription rights.

						Millions of yen	Thousands of U.S. dollars (Note 1)
FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2006
¥513,753	¥517,138	¥481,289	¥482,765	¥521,310	¥551,339	¥600,256	\$5,086,918
434,544	430,399	400,460	378,422	407,512	434,904	464,071	3,932,802
71,724	72,564	63,616	64,112	65,025	68,930	71,961	609,841
8,688	6,777	5,800	6,263	6,317	7,441	8,599	72,875
7,485	14,175	17,213	40,231	48,773	47,505	64,224	544,275
20,402	26,078	29,322	50,344	58,055	56,577	74,873	634,517
(28,612)	1,650	2,688	16,262	22,792	29,742	37,352	316,538
¥(16,957)	¥ 38,808	¥ 29,499	¥ 75,775	¥ 45,451	¥ 50,023	¥ 56,789	\$ 481,262
29,560	(3,343)	(1,074)	(7,929)	(6,087)	(7,024)	(12,461)	(105,601)
12,603	35,465	28,425	67,846	39,364	42,999	44,328	375,661
(21,403)	(32,785)	(22,116)	(56,666)	(46,490)	(48,812)	(41,193)	(349,092)
36,496	40,846	47,661	57,678	49,108	43,644	47,523	402,740
¥579,772	¥634,904	¥588,010	¥580,291	¥569,771	¥579,233	¥600,890	\$5,092,287
394,252	371,049	329,231	321,400	316,166	317,813	332,509	2,817,876
119,135	199,758	196,104	258,891	253,605	261,421	268,381	2,274,411
324,324	294,552	273,544	215,807	169,228	125,504	88,045	746,149
287,609	254,402	225,571	157,353	119,592	81,587	39,890	338,053
30,049	87,494	89,331	114,526	137,157	167,740	—	—
—	—	—	—	—	—	206,010	1,745,847
						Yen	U.S. dollars (Note 1)
¥ (48.60)	¥ 2.80	¥ 4.57	¥ 27.01	¥ 37.80	¥ 49.45	¥ 61.99	\$ 0.53
51.04	148.63	151.86	190.25	227.90	279.02	338.95	2.87
—	—	—	—	3.0	5.0	7.0	0.06
						%	
1.5	2.7	3.6	8.3	9.4	8.6	10.7	
4.0	5.0	6.1	10.4	11.1	10.3	12.5	
1.7	1.3	1.2	1.3	1.2	1.3	1.4	
(4.9)	0.3	0.5	2.8	4.0	5.1	6.2	
(95.2)	1.9	3.0	14.2	16.6	17.7	24.0	
5.2	13.8	15.2	19.7	24.1	29.0	34.1	
55.9	46.4	46.5	37.2	29.7	21.7	14.7	
10.8	3.4	3.1	1.9	1.2	0.7	0.4	
1.3	2.3	2.6	6.5	8.5	8.8	12.2	
						Millions of yen	Thousands of U.S. dollars (Note 1)
¥ 14,305	¥ 15,549	¥ 14,406	¥ 10,562	¥ 8,175	¥ 10,285	¥ 17,257	\$ 146,250
12,916	11,902	12,118	10,112	9,282	9,072	10,649	90,250
12,411	12,457	11,777	11,282	11,149	11,319	12,561	

Analysis of Financial Conditions and Results of Operations

(1) Analysis of Results of Operations for the Fiscal Year (Consolidated)

(i) Sales

Sales were ¥600.3 billion, up ¥48.9 billion from the previous fiscal year, which is due to the increase in sales by ¥33.8 billion and ¥12.2 billion in the Construction Machinery Group and the Industrial Machinery Group, respectively, from the previous fiscal year.

As for sales by region, domestic sales were ¥324.1 billion, up ¥3.1 billion from the previous fiscal year due to the increase in sales of forging presses and material handling systems business in the Industrial Machinery Group. Sales in North America were ¥112.3 billion, up ¥17.4 billion from the previous fiscal year due to the increase in sales of mobile cranes in the Construction Machinery Group. Sales in Asia were ¥83.8 billion, up ¥10.3 billion from the previous fiscal year due to the increase in sales of hydraulic excavators in the Construction Machinery Group. Sales in other regions were ¥80.0 billion, up ¥18.1 billion from the previous fiscal year due to the increase in sales from shipbuilding for the Central and South America markets in the Ship, Steel Structure & Other Specialized Equipment Group.

(ii) Cost of sales

With the increase in sales, cost of sales increased by ¥29.2 billion from the previous fiscal year to ¥464.1 billion. Cost to sales ratio was 77.3%, which is an improvement of 1.6 points from the previous fiscal year due to the improvement of the ratio in the Ship, Steel Structure & Other Specialized Equipment Group and the Industrial Machinery Group.

(iii) Selling, general and administrative expenses

Selling, general and administrative expenses were ¥72 billion, up ¥3 billion from the previous fiscal year. The main items that recorded an increase were labor costs and R&D costs.

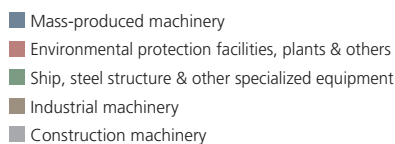
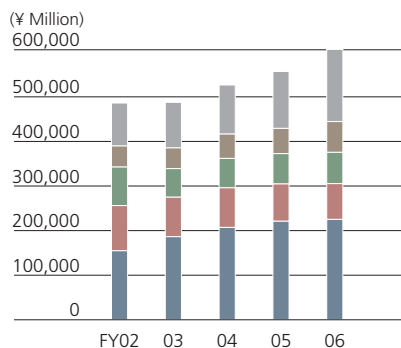
(iv) Nonoperating profit and loss

Nonoperating profit and loss resulted in a profit of ¥1.1 billion, up ¥1 billion from the previous fiscal year. Nonoperating income was almost at the same level as the previous fiscal year. On the other hand, nonoperating expenses decreased by ¥1 billion from the previous fiscal year mainly because the interest expenses decreased by ¥0.7 billion to ¥1.7 billion from the previous fiscal year with the decrease in interest-bearing debt. Foreign currency influence included in the nonoperating profit and loss was a loss of ¥0.7 billion, which is an unfavorable change by ¥0.8 billion from the previous fiscal year.

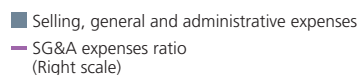
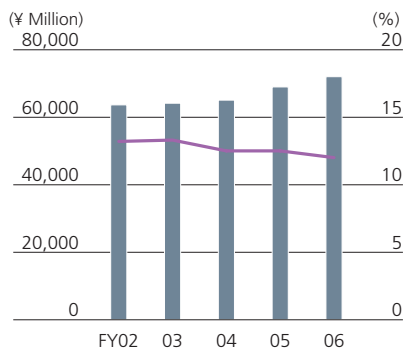
(v) Extraordinary gains and losses

Extraordinary gains and losses resulted in a loss of ¥2.4 billion, which is an unfavorable change by ¥0.9 billion from the previous fiscal year. Extraordinary gains were ¥1.7 billion, up ¥0.8 billion from the previous fiscal year due to an increase in the gain on sale of securities by ¥0.5 billion from the previous fiscal year. Extraordinary losses were ¥4.1 billion, up ¥1.7 billion from the previous fiscal year mainly because the loss from business reorganization of ¥1.9 billion and the loss from business transfer of ¥1.3 billion were recorded.

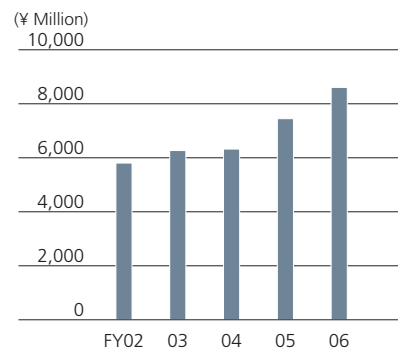
● Net Sales



● Selling, General and Administrative Expenses, SG&A Expenses Ratio



● R&D Expenses



(2) Analysis of Financial Conditions for the Fiscal Year (Consolidated)

(vi) Corporate taxes, etc. (the total of corporate tax, inhabitant tax, business tax and income tax-deferred)

Corporate tax, etc., were ¥25 billion, up ¥9.1 billion from the previous fiscal year due to the increase in income before corporate taxes recorded at each company.

(vii) Minority interest

Minority interests were ¥0.6 billion, up ¥0.2 billion from the previous fiscal year due to the favorable operational results of each company.

(viii) Net income

Net income for this fiscal year was ¥37.4 billion, up ¥7.6 billion from the previous fiscal year.

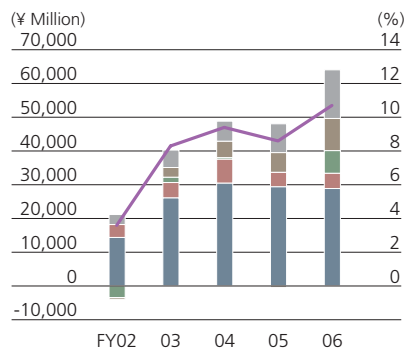
(i) Source of capital and liquidity of fund

The Company Group has applied borrowings and internal funds to the operating fund and equipment fund. As for the fund raising through borrowing, the total of interest-bearing debts as of the end of this fiscal year of consolidated accounts amounted to ¥88.0 billion, down ¥37.5 billion from the end of the previous fiscal year of consolidated accounts. The Company Group has introduced CMS (Cash Management System) to promote fund efficiency of the Company Group as a whole by centralizing at the Company fund related tasks of subsidiaries and affiliated companies.

Cash and deposits at the end of this fiscal year of consolidated accounts was ¥48.2 billion, which is equivalent to the sales for 1.0 month. This amount is at the level to secure improved fund efficiency and appropriate fund liquidity. In addition, the Company secures extremely affluent fund liquidity by concluding with multiple financial institutions commitment line agreements totaling ¥26.8 billion when such agreements concluded in Japan and overseas countries are combined.

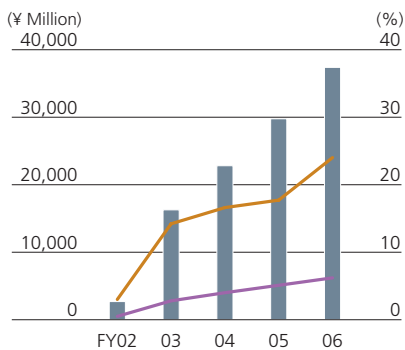
Based on the viewpoint of securing necessary funds stably, the Company has established as the current basic policy the maintenance of well-balanced long-term fund raising. The ratio of interest-bearing long-term debt in the interest-bearing debt at the end of this fiscal year of consolidated accounts was 58%, a 3-point decrease from the previous fiscal year.

● Operating Income, Operating Income Margin



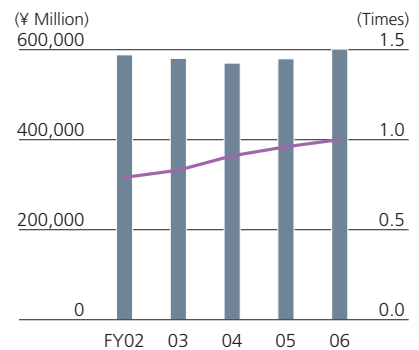
- Mass-produced machinery
- Environmental protection facilities, plants & others
- Ship, steel structure & other specialized equipment
- Industrial machinery
- Construction machinery
- Operating Income Margin (Right scale)

● Net Income, Net Income Margin, ROE



- Net income
- Net income margin (Right scale)
- ROE (Right scale)

● Total Assets, Total Assets Turnover



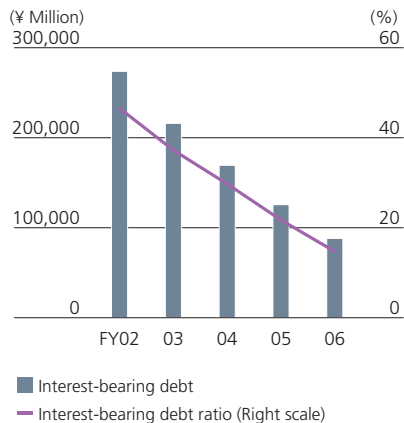
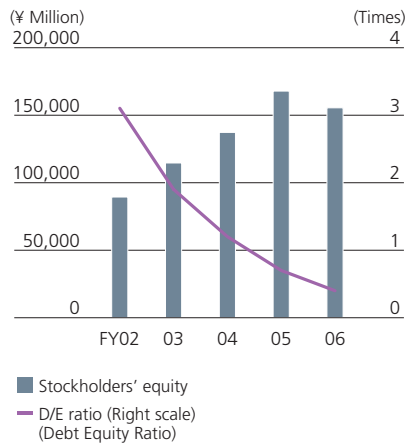
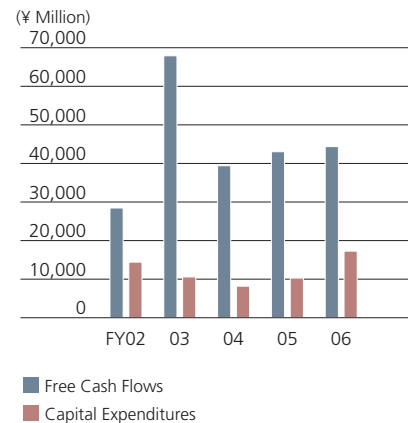
- Total assets
- Total assets turnover (Right scale)

(ii) Conditions of assets, liabilities and net assets

Cash and deposits became ¥48.2 billion, up ¥4.2 billion from the previous fiscal year because the collection of receivables was further promoted. Trade receivables became ¥158.4 billion, down ¥0.5 billion from the previous fiscal year because the collection of receivables was further promoted. Net property, plant and equipment became ¥185.1 billion, up ¥3.7 billion from the previous fiscal year because the capital investment was promoted. Investment securities became ¥60.8 billion, up ¥5.8 billion from the previous fiscal year due to the increased book value for the companies to which the equity method is applied.

Notes payable, trade was ¥150.9 billion, up ¥8.1 billion from the previous fiscal year because trade volume increased due to an increase of backlog by ¥103.8 billion from the previous fiscal year. Interest-bearing debts were ¥88.0 billion, down ¥37.5 billion from the previous fiscal year because repayment was promoted to improve financial strength. Advance payments received on contracts was ¥40.5 billion, up ¥8.5 billion from the previous fiscal year resulting from an increase in the amount recorded in the Ship, Steel Structure & Other Specialized Equipment Group.

Net assets were ¥206.0 billion, up ¥38.3 billion from the total assets for the previous fiscal year because net income of ¥37.4 billion was recorded and capital surplus increased by ¥3.7 billion due to the stock exchange with consolidated subsidiaries, etc., in this fiscal year. As a result, capital-to-asset ratio as of the end of this fiscal year of consolidated accounts was 34.1%, up 5.1 points from the previous fiscal year.

Interest-Bearing Debt, Interest-Bearing Debt Ratio**Stockholders' Equity, D/E Ratio****Free Cash Flows, Capital Expenditures**

Business Risk

Risks that could adversely affect the business performance or financial position of the Group are as follows.

All statements below regarding future events represent judgments made by the management of the Group as of March 31, 2007.

(1) Macroeconomic Factors

Demand for capital equipment, which accounts the more than half of Group sales, may be influenced by economic trends in both Japan and various overseas markets where the Group sells its products. Any contraction in demand triggered by a slump in the major markets for our products in Japan, the rest of East Asia, North America and Europe could have an adverse impact on the business performance or financial position of the Group.

(2) Exchange-Rate Fluctuation

The Group's business includes production and marketing of products in countries all around the world. Yen translations are applied in the consolidated financial statements for transactions (involving overseas sales, expenses, assets and liabilities) undertaken in local currencies. Due to exchange rate effects, the Group may suffer adverse impact on transaction values after yen translation even if there is no such change in local currency terms. As of March 31, 2007, the Group had an order backlog, chiefly in its shipbuilding business, of US\$1.3 billion. To minimize the impact of exchange-rate fluctuations on our business performance, the Company uses forward exchange contracts to hedge against risk. However, it is not possible to eliminate all risk using this method. For this reason, the Company could suffer adverse impact on its business performance from exchange-rate fluctuations.

(3) Price Rises and Delivery Difficulties for Raw Materials and Parts

As the global economy picks up, there have been significant rises in prices for oil, iron, copper and other raw materials, meaning that prices of materials used in our products could rise in tandem. As our suppliers near the limits of their delivery capacity, it is becoming difficult to secure the necessary volumes of certain raw materials and parts. In parallel with its cost-cutting measures, the Group seeks to pass price rises on to end-users and adjusts production schedules, after factoring rising raw-material prices into its estimates. However, rising costs and procurement difficulties could still have adverse impact on the Group's business performance.

(4) Overseas Businesses

The Group conducts its business on a global scale, with a focus on mass-produced machinery and construction machinery for markets in North America, Asia, and Europe. To meet expanding overseas demand, the Company is upgrading its marketing networks and production facilities. However, wherever we operate, our markets are subject to political change and unpredictable legal and regulatory change. This could have adverse impact on the business performance of our overseas units.

(5) Product Quality

The Group manufactures a wide range of products in line with very strict quality control standards. However, total defect elimination is impossible, and we cannot rule out having to undertake repair work, under guarantee at our own expense, in the event of product flaws. The Group has taken out insurance to cover product-defect liability, but we cannot guarantee that these policies will cover the full sums of compensation that may become payable in liability settlements. Repairs under guarantee and product compensation payments can generate significant costs for the Group, and this can adversely affect the business performance and financial position of the Group.

(6) Impact of Impairment Accounting

Based on the Law Concerning Revaluation of Land (Ordinance No. 34, issued March 31, 1998) and the Law to Partially Modify the Law Concerning Revaluation of Land (Ordinance No. 19, March 31, 2001), the Company revalued land used by its businesses on March 31, 2002. The difference between the market value of the land at the end of the term before the revaluation and the book value after a revaluation was ¥22.0 billion, a decline of 22%. If land values continue to fall, we may have to recognize impairment losses on fixed assets. Such a situation could adversely affect the business performance of the Group.

(7) Environmental Protection Measures

Under the Group's environmental policy, we take a range of measures to reduce our environmental footprint such as avoidance of environmental risk factors and minimizing waste. We have taken every measure to prevent environmental pollution, but cannot rule out responsibility for instances of environmental pollution due to unforeseen events. Should we be responsible for incidence of environmental pollution, significant costs could be generated, negatively affecting the business performance of the Group.

(8) Natural and Other Disasters

The Group has in place inspection, training and communications mechanisms for minimizing the occurrence and fallout of disasters such as fires, earthquakes, typhoons and other wind and flooding damage. However the Group's business activities could be adversely affected if such disasters cause material damage to our operations or injury to our staff. We cannot guarantee that our casualty insurance would be sufficient to cover all such events.

Financial Statements-Consolidated Balance Sheets

March 31, 2007 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current assets:			
Cash and deposits (Note 2)	¥ 48,155	¥ 43,917	\$ 408,096
Trade receivables:			
Notes receivable	17,553	16,208	148,751
Accounts receivable	140,823	142,685	1,193,418
Allowance for doubtful receivables	(776)	(794)	(6,578)
Inventories (Note 3).....	100,519	92,981	851,853
Deferred income taxes (Note 6).....	10,342	7,844	87,647
Prepaid expenses and other current assets	15,893	14,971	134,689
Total current assets.....	332,509	317,812	2,817,876
Property, plant and equipment:			
Land (Note 5).....	111,468	114,115	944,641
Buildings and structure	116,568	115,143	987,866
Machinery and equipment	114,186	115,551	967,679
Construction in progress.....	3,714	3,525	31,474
	345,936	348,334	2,931,660
Accumulated depreciation	160,791	166,854	1,362,636
Net property, plant and equipment.....	185,145	181,480	1,569,024
Investments, long-term loans and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	26,714	23,612	226,392
Long-term loans receivable and Investment securities (Note 11)	34,115	31,457	289,107
Deferred income taxes (Note 6).....	7,288	7,400	61,764
Other assets.....	16,712	19,774	141,621
Allowance for doubtful receivables	(1,593)	(2,302)	(13,497)
Total Investments, long-term loans and other assets.....	83,236	79,941	705,387
	¥600,890	¥579,233	\$5,092,287

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY / NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current liabilities:			
Short-term bank loans (Note 5).....	¥ 21,711	¥ 28,188	\$ 183,989
Long-term debt due within one year (Note 5).....	14,285	30,529	121,062
Commercial paper (Note 5).....	15,000	20,000	127,119
Trade payable:			
Notes payable.....	53,515	52,865	453,518
Accounts payable.....	97,359	89,913	825,077
Advance payments received on contracts.....	40,502	31,976	343,238
Accrued income taxes.....	15,264	9,129	129,353
Allowance for loss on reorganization of business (Note 1).....	596	—	5,052
Allowance for loss on business transfer (Note 1).....	161	—	1,367
Accrued expenses and other current liabilities.....	38,820	36,946	328,976
Total current liabilities.....	297,213	299,546	2,518,751
Long-term liabilities:			
Long-term debt due after one year (Note 5).....	37,049	46,787	313,979
Employees' severance and retirement benefits (Note 13).....	24,110	22,578	204,322
Allowance for retirement benefits for directors, corporate auditors and executive officers (Note 1).....	896	921	7,590
Allowance for loss on product liability (Note 1).....	262	—	2,221
Deferred income taxes on revaluation reserve for land (Note 1).....	32,306	33,505	273,779
Other long-term liabilities.....	3,044	4,403	25,798
Total long-term liabilities.....	97,667	108,194	827,689
Minority interests.....	—	3,752	—
Contingent liabilities (Note 8)			
Stockholders' equity (Notes 1 and 7):			
Common stock			
Authorized-1,200,000 thousand shares in 2006.....	—	30,872	—
Issued-602,626 thousand shares in 2006.....	—	—	—
Capital surplus.....	—	16,808	—
Retained earnings.....	—	68,848	—
Revaluation reserve for land, net of income taxes (Note 1).....	—	42,142	—
	—	158,670	—
Unrealized gains on securities, net of income taxes.....	—	10,269	—
Foreign currency translation adjustments.....	—	(654)	—
Treasury stock at cost, 1,439,859 shares in 2006.....	—	(544)	—
Total stockholders' equity.....	—	167,741	—
Total liabilities, minority interest, and stockholders' equity.....	¥ —	¥579,233	\$ —
Net assets (Notes 1 and 7)			
Common stock:			
Authorized 1,200,000 thousand shares in 2007.....	30,872	—	261,624
Issued 605,726 thousand shares in 2007.....	—	—	—
Capital surplus.....	20,518	—	173,879
Retained earnings.....	104,950	—	889,411
Treasury stock at cost, 1,832,402 shares in 2007.....	(996)	—	(8,441)
Total owners' equity.....	155,344	—	1,316,473
Unrealized gains on securities, net of income taxes.....	11,195	—	94,875
Unrealized losses on hedging derivatives, net of income taxes.....	(1,652)	—	(14,001)
Adjustment regarding pension obligations of consolidated overseas subsidiaries.....	(772)	—	(6,542)
Revaluation reserve for land, net of income taxes.....	40,411	—	342,464
Foreign currency translation adjustments.....	166	—	1,404
Total valuation and translation adjustments.....	49,347	—	418,200
Minority interests.....	1,318	—	11,174
Total net assets.....	206,010	—	1,745,847
Total liabilities and net assets.....	¥600,890	—	\$5,092,287

See accompanying notes.

Consolidated Statement of Stockholders' Equity

Year ended March 31,

	Millions of yen							
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings (Accumulated deficit)	Revaluation reserve for land, net of income taxes	Unrealized gains (losses) on securities, net of income taxes	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	602,626	¥30,872	¥16,803	¥42,677	¥45,265	¥ 4,476	¥(2,741)	¥(195)
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method.....				(55)				
Increase owing to merger				278				
Adjustment of retirement benefits of a subsidiary in the UK.....				(839)				
Transfer from revaluation reserve for land, net of income taxes to retained earnings				399	(3,123)			
Sales of treasury stock			5					
Net income.....				29,742				
Adjustment from translation of foreign currency financial statements.....							2,087	
Adjustment for unrealized gains on securities						5,793		
Treasury stock								(349)
Bonuses to directors and corporate auditors				(42)				
Dividends				(3,308)				
Bonus for employee in numbers of consolidated subsidiaries				(4)				
Others.....				0				
Balance at March 31, 2006	602,626	¥30,872	¥16,808	¥68,848	¥42,142	¥10,269	¥ (654)	¥(544)

See accompanying notes.

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2007

	Millions of yen					
	Owners' Equity					
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock	Sub-total
Stockholders' equity at March 31, 2006 as previously reported	602,626	¥30,872	¥16,808	¥ 68,848	¥(544)	¥115,984
Reclassification due to adoption of new accounting standards at April 1, 2006.....						
Net assets at April 1, 2006	602,626	¥30,872	¥16,808	¥ 68,848	¥(544)	¥115,984
Dividends (*Note).....				(1,503)		(1,503)
Dividends.....				(2,104)		(2,104)
Net income.....				37,352		37,352
Acquisition of treasury stock.....					(457)	(457)
Disposal of treasury stock.....			182		78	260
Difference from transfer of Revaluation reserve for land.....				1,731		1,731
Stock exchange with consolidated subsidiaries... ..	3,100		3,521		(73)	3,448
Increase from increase of consolidated subsidiaries with change in scope of consolidation.....				633		633
Correction of capital allotment after merger of parent company and consolidated subsidiaries.....			7	(7)		—
Changes in items other than owners' equity in the period (net).....						
Total changes in the period.....	3,100	—	3,710	36,102	(452)	39,360
Balance at March 31, 2007	605,726	¥30,872	¥20,518	¥104,950	¥(996)	¥155,344

	Millions of yen							
	Valuation and translation adjustments							
	Unrealized holding gains on other securities	Gain/loss on deferred hedge	Adjustment of pension obligation of overseas subsidiaries	Revaluation reserve for land	Foreign exchange translation adjustments	Sub-total	Minority interests	Total
Stockholders' equity at March 31, 2006 as previously reported	¥10,269	—	—	¥42,142	¥(654)	¥51,757	—	¥167,741
Reclassification due to adoption of new accounting standards at April 1, 2006.....							3,752	3,752
Net assets at April 1, 2006	¥10,269	—	—	¥42,142	¥(654)	¥51,757	¥3,752	¥171,493
Dividends (*Note).....								(1,503)
Dividends.....								(2,104)
Net income.....								37,352
Acquisition of treasury stock.....								(457)
Disposal of treasury stock.....								260
Difference from transfer of Revaluation reserve for land.....								1,731
Stock exchange with consolidated subsidiaries... ..								3,448
Increase from increase of consolidated subsidiaries with change in scope of consolidation.....								634
Correction of capital allotment after merger of parent company and consolidated subsidiaries.....								
Changes in items other than owners' equity in the period (net).....	926	(1,652)	(772)	(1,731)	820	(2,409)	(2,434)	(4,843)
Total changes in the period.....	926	(1,652)	(772)	(1,731)	820	(2,409)	(2,434)	34,517
Balance at March 31, 2007	¥11,195	¥(1,652)	¥(772)	¥40,411	¥ 165	¥49,347	¥1,318	¥206,010

*Note: The dividends were made with the approval of the general stockholders' meeting held on June 29, 2006. See accompanying notes.

	Thousand of U.S. dollars					
	Owners' Equity					
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock	Sub-total
Stockholders' equity at March 31, 2006 as previously reported	602,626	\$261,624	\$142,438	\$583,456	\$(4,611)	\$ 982,907
Reclassification due to adoption of new accounting standards at April 1, 2006.....						
Net assets at April 1, 2006	602,626	\$261,624	\$142,438	\$583,456	\$(4,611)	\$ 982,907
Dividends>(*Note).....				(12,737)		(12,737)
Dividends.....				(17,827)		(17,827)
Net income.....				316,538		316,538
Acquisition of treasury stock.....					(3,869)	(3,869)
Disposal of treasury stock.....			1,540		657	2,197
Difference from transfer of Revaluation reserve for land.....				14,672		14,672
Stock exchange with consolidated subsidiaries... ..	3,100		29,840		(619)	29,222
Increase from increase of consolidated subsidiaries with change in scope of consolidation.....				5,370		5,370
Correction of capital allotment after merger of parent company and consolidated subsidiaries.....			62	(62)		
Changes in items other than owners' equity in the period (net).....						
Total changes in the period.....	3,100		31,442	305,955	(3,831)	333,566
Balance at March 31, 2007	605,726	\$261,624	\$173,879	\$889,411	\$(8,441)	\$1,316,473

	Thousand of U.S. dollars							
	Valuation and translation adjustments							
	Unrealized holding gains on other securities	Gain/loss on deferred hedge	Adjustment of pension obligation of overseas subsidiaries	Revaluation reserve for land	Foreign exchange translation adjustments	Sub-total	Minority interests	Total
Stockholders' equity at March 31, 2006 as previously reported	\$87,029	—	—	\$357,135	\$(5,546)	\$438,619	—	\$1,421,527
Reclassification due to adoption of new accounting standards at April 1, 2006.....							31,794	31,794
Net assets at April 1, 2006	\$87,029	—	—	\$357,135	\$(5,546)	\$438,619	\$31,794	\$1,453,321
Dividends(*Note).....								(12,737)
Dividends.....								(17,827)
Net income.....								316,538
Acquisition of treasury stock.....								(3,869)
Disposal of treasury stock.....								2,197
Difference from transfer of Revaluation reserve for land.....								14,672
Stock exchange with consolidated subsidiaries... ..								29,222
Increase from increase of consolidated subsidiaries with change in scope of consolidation.....								5,370
Correction of capital allotment after merger of parent company and consolidated subsidiaries.....								
Changes in items other than owners' equity in the period (net).....	7,847	(14,001)	(6,452)	(14,672)	6,950	(20,419)	(20,621)	(41,040)
Total changes in the period.....	7,847	(14,001)	(6,452)	(14,672)	6,950	(20,419)	(20,621)	292,526
Balance at March 31, 2007	\$94,875	\$(14,001)	\$(6,452)	\$342,463	\$ 1,404	\$418,200	\$11,174	\$1,745,847

*Note: The dividends were made with the approval of the general stockholders' meeting held on June 29, 2006. See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥62,940	¥46,066	\$533,388
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation	10,649	9,072	90,250
Impairment losses of fixed assets.....	208	229	1,762
Gain on sale of property, plant and equipment	(227)	(89)	(1,920)
Loss on sale of property, plant and equipment	68	686	578
Loss on disposal of property, plant and equipment	1,012	836	8,577
Gain on sale of investment securities.....	(1,398)	(906)	(11,851)
Loss on sale of investment securities	3	1	25
Loss from write-down of investment securities	136	471	1,153
Loss from liquidation of subsidiaries	—	70	—
Loss from write-down of shares of affiliated company.....	—	7	—
Loss from reorganization of business.....	1,870	—	15,844
Gain on business transfer	(294)	—	(2,494)
Loss on business transfer	1,270	—	10,760
Loss on breach of antimonopoly law	746	705	6,325
Increase in employee' severance and retirement benefits.....	(329)	1,315	(2,785)
Increase in provision for retirement benefits to directors, corporate auditors and executive officers	(21)	292	(180)
Equity in earnings of unconsolidated subsidiaries and affiliated companies.....	(4,584)	(4,303)	(38,847)
Decrease in allowance	616	(5,227)	5,221
Interest and dividend income	(866)	(587)	(7,335)
Interest expenses	1,666	2,384	14,115
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	10,394	3,028	88,084
Increase in deposits received	(4,119)	3,544	(34,903)
(Increase) decrease in inventories	(7,213)	(1,634)	(61,128)
Increase in notes and accounts payable.....	7,106	6,533	60,217
Other-net	(3,028)	5,958	(25,661)
Sub-total	76,605	68,451	649,195
Interest and dividend received.....	1,617	679	13,701
Interest expenses	(1,535)	(2,258)	(13,007)
Payment for income taxes.....	(19,898)	(16,849)	(168,627)
Net cash provided by operating activities.....	¥56,789	¥50,023	\$481,262

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from investing activities:			
Net decrease in time deposits	¥ (10)	¥ 278	\$ (84)
Payments for securities.....	(5,577)	(1,295)	(47,261)
Proceeds from sale of securities.....	4,017	1,280	34,046
Disbursement for investment in affiliated company	—	(1,080)	—
Proceeds from liquidation of subsidiaries.....	—	1,528	—
Payments for purchases of property, plant and equipment	(16,657)	(11,497)	(141,162)
Proceeds from sale of property, plant and equipment	1,769	2,202	14,989
Proceeds from refund of investment	—	1,462	—
Payments for long-term loans receivable	(43)	(44)	(361)
Collection of long-term loans receivable.....	148	332	1,253
Proceeds from business transfer	5,895	—	49,957
Other-net	(2,003)	(190)	(16,978)
Net cash used in investing activities.....	(12,461)	(7,024)	(105,601)
Cash flows from financing activities:			
Net decrease in short -term loans.....	(6,516)	(18,074)	(55,217)
Net increase in commercial paper.....	(5,000)	8,500	(42,373)
Proceeds from long-term debt	4,500	17,990	38,136
Payments for long-term debt	(30,482)	(52,540)	(258,319)
Payments for redemption of bonds	—	(1,000)	—
Proceeds from sale of treasury stock	379	8	3,215
Disbursement for acquisition of treasury stock	(454)	(352)	(3,847)
Cash dividends paid.....	(3,607)	(3,308)	(30,564)
Payment of dividends for minority stockholders.....	(13)	(36)	(123)
Net cash used in financing activities	(41,193)	(48,812)	(349,092)
Effect of exchange rate changes on cash and cash equivalents	259	343	2,202
Net decrease in cash and cash equivalents.....	3,394	(5,470)	28,771
Cash and cash equivalents at beginning of year.....	43,644	49,108	369,861
Increase due to new consolidated company	485	3	4,108
Increase due to merger and acquisition	—	215	—
Net decrease from the change in consolidated companies.....	—	(212)	—
Cash and cash equivalents at the end of year (Note 2)	¥47,523	¥43,644	\$402,740

See accompanying notes.

Notes to Consolidated Financial Statements

1. Significant accounting policies

Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of consolidated statements of shareholders' equity for 2006.) from the consolidated financial statements of Sumitomo Heavy Industries, Ltd. ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in "Change in accounting policy", is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 1, the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries ("the Companies"). All significant inter-company transactions, accounts and profits have been eliminated in consolidation.

Investments in unconsolidated subsidiaries and significant affiliated companies are accounted for by the equity method. The difference between costs and net assets acquired of subsidiaries and affiliated companies, consolidated or accounted for by the equity method, are deferred and amortized over 5 years as long as the amounts are significant. In case of amounts being insignificant, such amounts are charged or credited to income as incurred.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority stockholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

Statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturity not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Marketable and investment securities

Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with fair market values are stated at fair market value. (Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the stockholders' equity / net assets, Realized gains on sale of such securities are computed using the moving-average method.) Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. Unlisted available-for-sale securities are stated at cost based on the moving-average method.

Inventories

Work in process is stated principally at cost based on the specific identification method. Finished products, semi-finished products, raw materials and supplies are stated principally at cost based on the average method.

Some subsidiaries of construction machinery segment adopted the lower of cost or market method based on the specific identification method for the valuation of certain finished products.

Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost except for certain land revalued. Depreciation is computed primarily using the declining-balance method at rates based on respective useful lives, except that buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Allowance for doubtful receivables

The Company and consolidated subsidiaries provide a general allowance for doubtful receivables. Calculation of this allowance is based on actual collection losses incurred in the past. Additionally, for accounts receivable considered at risk (bankruptcy, companies under rehabilitation plan), an allowance is booked based on an estimation of the uncollectible amount, on a case by case basis.

Revaluation reserve for land

The Company revaluated land used for business operations on March 31, 2002 in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land effective March 31, 1998. As a result of the revaluation, the land, which previously had a book value of ¥32,412 million, was revaluated at ¥109,349 million, which is determined primarily based on real estate tax value. The Company recorded ¥44,585 million as revaluation reserve for land in stockholders' equity / net assets section, after reflecting deferred income tax effects of ¥32,352 million which were recorded as long-term liabilities.

The current value of the land on March 31, 2007 fell ¥22,027 million (\$186,667 thousand) in comparison with the book value of the land after revaluation.

Employees' severance and retirement benefits

In order to provide for retirement benefits to be paid to employees, the amount considered to have accrued as at the end of the term is stated based on the estimated amount of retirement benefit obligations and pension plan assets as at the end of the term.

The prior service cost will be recognized in expenses as incurred by the Company, and will be recognized in expenses in equal amounts over a period within the average remaining service year of employees (mainly 12 years) by consolidated subsidiaries.

The actuarial gains (losses) will be recognized in expenses in equal amounts over a period within the average remaining service year of employees (mainly 12 years) commencing with the next year of the accrual.

Retirement benefits for directors, corporate auditors and executive officers (collectively, "officers")

The Company and certain of the Company's consolidated subsidiaries resolved to abolish their retirement benefit plans for directors, corporate auditors and executive officers (collectively, "officers"), and provided liabilities for such benefits at the amounts corresponding to the considerations for the service period until the plan abolishment.

Allowance for losses on construction of contract

With regard to construction contracts that have not yet been delivered and are with high probability of generating substantial losses at the end of the fiscal year, and where it is possible to reasonably estimate the amount of such losses, the estimated amount of losses to be incurred in the future is provided as allowance for losses on construction contract.

Allowance for losses from business reorganization

Allowance for losses from business reorganization is provided at an amount estimated to be incurred in the future with regard to reorganization of an overseas subsidiary.

Allowance for losses from business transfer

Allowance for losses from business transfer is provided at an amount estimated to be incurred in the future in connection with the resort development business transferred in 2007.

Allowance for losses from product liabilities

Allowance for losses from product liabilities is provided at an estimated amount of product liabilities to be incurred related to the crane business of overseas subsidiaries.

Impairment of fixed assets

Effective April 1, 2005, "Accounting standard for impairment of fixed assets" ("Opinion Concerning establishment of accounting Standard for Impairment of Fixed Assets" (issued by the Business Accounting Deliberation Council on August 9, 2002)) and the "implementation guidance for accounting standard for impairment of fixed assets" (the financial Accounting Standard Implementation Guidance No.6 issued on October 31, 2003) became effective and were adopted by the Company and consolidated domestic subsidiaries.

Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, companies are required to adopt the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the New Accounting Standards. The accompanying consolidated statement of stockholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

Sales

Sales are principally recognized on a delivery basis except those for long-term (over 1 year) contracts of ¥1 billion or more, which are recognized, based on the percentage-of-completion method.

Software costs

The Companies amortize costs of software for its own use using the straight-line method over the estimated useful life (5 years).

Research and development costs

Research and development costs included in production cost, and selling, general and administrative expenses were ¥8,599 million (\$72,875 thousand) and ¥7,441 million for the years ended March 31, 2007 and 2006, respectively.

Income taxes

The Companies recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

The Company and some of the consolidated subsidiaries adopted the Japanese tax regulations allowing the Company to file a consolidated tax return.

Bond issuance expense

Bond issuance expense is charged to income in the year incurred.

Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing the balance sheet dates of the foreign subsidiaries, except for common stock and capital surplus, which are translated at historical rates.

Income and expenses are translated at the rates prevail at the balance sheet dates. The resulting foreign currency translation adjustment is reported in net assets (stockholders' equity).

Information for certain leases as Lessee

The Company and certain consolidated domestic subsidiaries account for finance leases which do not transfer ownership of leased assets to lessees as operating leases.

Derivatives and hedge accounting

Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner.

If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

- a) The difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
- b) The discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Also, if a currency option contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the currency option contract are recognized.

Amounts per share

The computation of net income per share of common stock is based on the weighted-average number of shares of common stock outstanding during each fiscal year.

The diluted net income per share is not presented, because the Company does not have any outstanding convertible bonds or bonds with warrant.

Cash dividends applicable to the year represent the actual amount declared as applicable to the respective years.

Reclassifications

Certain amounts in the consolidated financial statements for the year ended March 31, 2006 have been reclassified to conform to the 2007 presentation.

Change in accounting policies

- (a) Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and shareholders' equity sections.

The amount corresponding to the total of the "Stockholders' Equity" under former accounting policies is ¥207,115 million (\$1,755,216 thousand). There were no effects on the consolidated statement of income for the year ended March 31, 2007.

- (b) Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures

From this fiscal year, "accounting standards concerning business combination" (issued by business accounting deliberation council on October 31, 2003), "Accounting standards concerning business separation, etc.," (ASBJ statement No.7 December 27, 2005) and "the accounting standards implementation Guide concerning business combination and business separation, etc." (ASBJ statement implementation guide No. 10, finally amended on December 22, 2006) are being applied.

There were no effects on the consolidated statement of income for the year ended March 31, 2007.

Stock exchange

As of October 1, 2006, the Company executed a stock exchange with SEISA Gear, Ltd. ("SEISA Gear"), a consolidated subsidiary of the Company, with SEISA Gear being the acquired company of the transaction. The stock exchange was recognized as a transaction with minority stockholders.

Business of SEISA Gear is manufacture and sales of gear, gear transmission, various reduction gears and various coupling.

With the stock exchange, SEISA Gear expects to construct a system for utilization of the technology and human resources of the Company in order to achieve current targets of the enhanced competitiveness of products that respond to the diversified customers' needs and global sales development.

The stock exchange was implemented as a simplified stock exchange under Article 796 Paragraph 3 of the Corporate Law, and the Company acquired additional 50.8% of the voting rights of SEISA Gear, including 4.8% of indirect ownership. As a result of the stock exchange, the Company owns 100% of SEISA Gear.

The ratio of the stock exchange is as follows:

	The Company	SEISA Gear
Stock exchange ratio	1	0.36

(Note) 1. Share exchange ratio

0.36 share of the common stock of the Company was provided in exchange for one share of the common stock of SEISA Gear. However, no shares of the Company have been allotted to the shares of the common stock of SEISA Gear owned by the Company (8,200,000 shares).

(Note) 2. Method of calculation and basis of calculation by a third party institution

The Company and SEISA Gear asked Daiwa Securities SMBC Co. Ltd. and Nomura Securities Co., Ltd. respectively, to calculate the stock exchange ratio. Daiwa Securities SMBC Co. Ltd. conducted an analysis with respect to both the Company and SEISA Gear, based on the market share-value method as well as the discount cash flow method, and determined the stock exchange ratio by comprehensively considering the results of these analyses. Nomura Securities Co., Ltd. conducted an analysis of the Company based on the market share-value average method and an analysis of SEISA Gear based on the market stock value average method, the comparison with similar companies method and the discount cash flow method. And then, Nomura Securities Co., Ltd. determined the stock exchange ratio by comprehensively considering the results of the analyses. Based on the above results, the Company and SEISA Gears determined the stock exchange ratio as indicated above through discussions.

Number of shares delivered and estimated value

Number of shares delivered to SEISA Gear	3,100,809 shares
Evaluation	3,805 million yen

This amount is the estimated issue price that was calculated based on the average share price during a reasonable period before the main terms and conditions of the stock exchange had been agreed on and announced to the public, multiplied by the number of shares planned to be delivered.

Amount of goodwill generated 1,310 million yen

The goodwill represents the difference between the value of the shares delivered to shareholders, excluding the Company's consolidated subsidiary, and the amount of the equity held by minority shareholders.

Method of depreciation of goodwill

Goodwill will be depreciated evenly in 5 years.

(c) Allowance for losses on construction contracts

In the year ended March 31, 2006, with regard to construction works that have not yet been delivered and are with high probability of generating substantial losses as of the annual balance sheet date and in cases where it is possible to reasonably estimate the amount of such losses, the accounting policy has been changed so that the estimated amount of such losses to be incurred in the following fiscal years are recognized in the current fiscal year as allowance for losses on construction contracts.

This change was made in order to strengthen financial health and to more appropriately calculate periodical operating results, in light of the recent trend that the establishment of such allowance has become a general practice of accounting.

As a result, in the year ended March 31, 2006, cost of sales increased by ¥45 million, and operating income and income before income taxes and minority interests decreased by the same amount, respectively, compared with what would have been reported under the previous accounting policy. Effects on the segment information are disclosed in Note 9.

(d) Retirement benefits for directors, corporate auditors and executive officers (collectively, "officers")

In the year ended March 31, 2006, certain consolidated domestic subsidiaries abolished their Officers' Retirement Benefit Plans and determined to pay officers' retirement benefits in the amounts calculated for their service periods up to the time when the plan was abolished. Pursuant to the decision, in order to further strengthen financial health, such consolidated domestic subsidiaries changed the accounting policy effective in the year ended March 31, 2006, and recognized officers' retirement benefits on an accrual basis and set up an allowance for retirement benefits for officers.

Due to this change, for the year ended March 31, 2006, ¥29 million of the officers' retirement benefits incurred for that year, was recognized as selling, general and administrative expenses, and ¥257 million, which corresponds to the previous years' benefits, was recognized as special losses. As a result, in 2005, operating income decreased by ¥29 million and income before income taxes and minority interests decreased by ¥286 million compared with what would have been reported under the previous accounting policy. Effects on the segment information are disclosed in Note 9.

(e) Impairment of fixed assets

Effective April 1, 2005, "Accounting standard for impairment of fixed assets" ("Opinion Concerning establishment of accounting Standard for Impairment of Fixed Assets" (issued by the Business Accounting Deliberation Council on August 9, 2002)) and the "implementation guidance for accounting standard for impairment of fixed assets" (the financial Accounting Standard Implementation Guidance No.6 issued on October 31, 2003) became effective and were adopted by the Company and consolidated domestic subsidiaries.

As a result, in the fiscal year ended March 31 2006, income before income taxes minority interests decreased by ¥229 million.

2. Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less those are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.

Cash and cash equivalents as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash and deposits.....	¥48,155	¥43,917	\$408,096
Time deposits with maturities over three months.....	(288)	(273)	(2,442)
Collateral deposits.....	(344)	—	(2,914)
Cash and cash equivalents.....	¥47,523	¥43,644	\$402,740

The Company sold all shares of a consolidated subsidiary in the year ended March 31. The following table summarizes assets and liabilities of the subsidiary.

SHI Resort Development, Ltd. (as of September 20th, 2006)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Current assets.....	¥ 323		\$ 2,738
Long-term assets.....	¥2,798		\$23,712
Total assets.....	¥3,121		\$26,450
Current liabilities.....	¥3,853		\$32,655
Long-term liabilities.....	¥ 459		\$ 3,894
Total liabilities.....	¥4,312		\$36,549

The proceeds from sale of the shares of SHI Resort Development, Ltd. are included in the proceeds from transfer of resort development business as described below.

Decrease of assets and liabilities caused by business transfer

The following table summarizes the relation between the decreases in assets and liabilities and the proceeds from transfer of resort development business.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2007	2007
Current assets.....	¥ 1,481	\$ 12,552
Long-term assets.....	¥ 6,303	\$ 53,416
Current liabilities.....	¥ (340)	\$ (2,883)
Long-term liabilities.....	¥ (459)	\$ (3,894)
Loss on business transfer.....	¥(1,270)	\$ (10,760)
Consideration of business transfer.....	¥ 5,715	\$ 48,431
Cash and cash equivalents of SHI Resort Development, Ltd. as of the deconsolidation date.....	¥ (135)	\$ (1,144)
Net transfer of resort development business.....	¥ 5,580	\$ 47,287

The following table summarizes the relation between the decrease in assets and the proceeds from transfer of sliding gate business.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2007	2007
Current assets.....	¥ 21	\$ 175
Gain on business transfer.....	¥294	\$2,494
Consideration of business transfer.....	¥315	\$2,669
Cash and cash equivalents.....	—	—
Net transfer of resort development business.....	¥315	\$2,669

3. Inventories

Inventories as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Finished products and semi-finished products.....	¥ 31,348	¥26,744	\$265,658
Work in process.....	53,915	53,344	456,906
Raw materials and supplies.....	15,256	12,893	129,289
	¥100,519	¥92,981	\$851,853

4. Impairment losses of fixed assets

The Company and certain consolidated domestic subsidiary recorded the following impairment losses in the year ended March 31, 2007.

Application	Category	Location	Millions of yen	Thousands of U.S. dollars (Note 1)
			2007	2007
Business Property	Building and structures	Miyakonojo, Miyazaki-pref.	¥183	\$1,547
Idle	Machinery and delivery equipment	Yokosuka, Kanagawa-pref. ...	¥ 25	\$ 215
Total			¥208	\$1,762

Reason for recording impairment loss

Due to the decrease in profitability and changes in business plan, it is expected that invested money cannot be recovered.

Method of grouping of assets

Asset grouping is determined for each operation group basically. Idle assets that are not expected to be used in the future are evaluated by each item.

Method of calculation of correctable amount

The correctable amount is based on the net sale price; it is calculated by deducting costs related to sale from the sale price.

The Company recorded the following impairment losses in the year ended March 31, 2006.

Application	Category	Location	Millions of yen 2006
Idle	Land	Kurashiki-shi, Okayama-pref.	¥229
Total			¥229

Reason for recording impairment loss

Company house site for the employees has been idle with the company house already been removed no plan for future use and the decline in the land price.

Method of grouping of assets

Asset grouping is determined for each operation group basically. Idle assets that are not expected to be used in the future are evaluated by each item.

Method of calculation of collectible amount

The collectible amount is based on the net sale price; it is calculated by deducting costs related to sale from the sale price.

5. Bank loans, commercial paper and long-term debt

Bank loans at March 31, 2007 and 2006 consisted of short-term loans, bearing interest principally at 1.05% and 0.59% per annum, respectively.

At March 31, 2007 and 2006 commercial paper principally bore an average annual interest rate of 0.66% and 0.3%, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
1.0% domestic bonds due in March 2010	¥10,000	¥10,000	\$ 84,745
Loans principally from banks and insurance companies due serially through March 2015 with interest ranging from 1.35% to 2.35% in 2007			
Secured	3,486	4,544	29,537
Unsecured	37,849	62,772	320,758
	51,335	77,316	435,040
Amount due within one year	14,285	30,529	121,061
Amount due after one year	¥37,049	¥46,787	\$313,979

Annual maturities of long-term debt as of March 31, 2007 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
	2007	2007
2008	¥14,285	\$121,061
2009	2,610	22,116
2010	11,193	94,856
2011	8,132	68,916
2012	4,100	34,742
2013 and there after	11,015	93,349

At March 31, 2007, assets pledged as collateral for bank loans, secured long-term loans from banks and insurance companies and domestic mortgage bonds were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2007	2007
Land	¥36,534	\$309,614
Bank deposit, accountants receivable, other property, plant and equipment, at cost less accumulated depreciation	3,178	26,929
Total	¥39,712	\$336,543

The Company has agreements with six banks for revolving lines of credit and four global commitment lines for timely operating-fund raising in the aggregate maximum amount of ¥26,809 million (\$227,195 thousand). As of March 31, 2007, the balance of borrowings under these agreements was ¥3,129 million (\$26,516 thousand).

The item concerning global commitment lines is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2007	2007
Aggregate guarantee	¥11,800	\$100,000
The amount of loan as at March 31, 2007	3,129	26,516

6. Income tax

The Companies are subject to a number of income taxes, which, in the aggregate indicate a statutory tax rate in Japan of approximately 41% for the years ended March 31, 2007 and 2006.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for consolidated financial statement purposes for the year ended March 31, 2006.

	2006
Statutory tax rate	40.69%
Increase (decrease) in tax rates resulting from:	
Expenses not deductible for tax purposes	1.56%
Per capital inhabitant tax	0.46%
Income not counted for tax purpose	(1.64%)
Elimination of dividend received	0.47%
Equity in earnings of affiliated companies	(2.69%)
Amortization of consolidation adjustment	(0.51%)
Retained earnings in consolidated subsidiaries overseas	2.92%
Decrease in less-valuation allowance	(5.82%)
Others	(0.99%)
Effective tax rate	34.45%

Since the effective tax rate for consolidated financial statement purposes for the year ended March 31, 2007 differed from the statutory tax rate by less than 5%, disclosure of reconciliation between these tax rates is omitted.

Significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Deferred tax assets:			
Accrued bonuses	¥ 3,403	¥ 3,058	\$ 28,837
Allowance for doubtful accounts	1,553	1,442	13,165
Allowance for warranty.....	1,937	1,339	16,413
Allowance for employees' severance and retirement benefit	15,066	14,041	127,677
Profit/loss from deferred hedge	1,134	—	9,614
Unrealized profit on inventories	1,299	1,077	11,010
Devaluation of marketable securities and investments.....	1,549	2,880	13,124
Excess depreciation	829	676	7,028
Operating losses carry forward.....	2,840	3,532	24,065
Others	4,123	4,151	34,938
Total deferred tax assets	33,733	32,196	285,871
Less-valuation allowance.....	(5,966)	(6,930)	(50,555)
Deferred tax assets-net	27,767	25,266	235,316
Deferred tax liabilities:			
Excess tax depreciation reserve.....	(135)	(147)	(1,145)
Net unrealized holding gains on securities.....	(5,918)	(6,980)	(50,155)
Difference on revaluation of assets and liabilities of subsidiaries	(1,849)	(1,849)	(15,667)
Accelerated depreciation.....	(335)	(527)	(2,836)
Retained earnings in consolidated subsidiaries overseas	(2,782)	(1,851)	(23,574)
Others	(31)	(38)	(266)
Deferred tax liabilities.....	(11,050)	(11,392)	(93,643)
Net deferred tax assets.....	¥16,717	¥13,874	\$141,673

7. Net assets

Under the Corporate Law of Japan (the "Corporate Law"), at least 50% of the issue price of new shares, is required to be designated as common stock. The portion which is to be designated as common stock is determined by resolution of the Board of Directors. Proceeds in excess of amount designated as common stock are credited to additional paid-in capital.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Corporate Law.

Under the Corporate Law, certain amount of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal earnings reserve (a component of retained earnings) until the total amount of additional paid-in capital and legal earnings reserve, which is not available for dividends, equals 25% of common stock. Subject to both resolution of stockholders and legal requirement, the amount of total additional paid-in capital and legal earnings reserve that exceeds 25% of common stock may be transferred to a reserve which the Company can distributed as dividends.

The maximum amount that the Company can distribute as dividends at March 31, 2007 amounted to ¥25,905 million (\$219,533 thousand).

In accordance with the customary practice in Japan, the appropriations are not accrued in financial statements for the period to which they relate, but are recorded in the subsequent according period after shareholders' approval has been obtained. Retained earnings at March 31, 2007 include amounts representing the year-end cash dividends approved at the shareholders' meeting held on June 28, 2007.

8. Contingent liabilities

Certain consolidated domestic subsidiary is contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥112 million (\$950 thousand) at March 31, 2007. In addition, at the same date the Company and certain consolidated subsidiaries are contingently liable as guarantors of bank loans or other borrowings by unconsolidated subsidiaries, affiliated companies and employees in the amount of ¥6,114 million (\$51,810 thousand) (net of guarantees by co-guarantors).

9. Segment information

(A) The Companies' primary business activities include (1) mass-produced machinery, (2) environmental protection facilities, plants & others, (3) ship, steel structure & other specialized equipment, (4) industrial machinery, and (5) construction machinery.

A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 2007 and 2006, and a summary of identifiable assets, depreciation expenses and capital expenditures by segment of business activities for the years ended March 31, 2007 and 2006 are presented below:

	Millions of yen						
	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
2007							
I Sales and operating income							
Sales:							
Unaffiliated customers	¥222,906	¥79,397	¥69,491	¥68,286	¥160,177	¥ —	¥600,256
Intersegment.....	2,160	2,490	511	423	31	(5,615)	—
Total	225,066	81,888	70,002	68,709	160,208	(5,615)	600,256
Costs and expenses.....	196,222	77,393	63,287	59,182	145,812	(5,865)	536,032
Operating income	¥ 28,844	¥ 4,495	¥ 6,715	¥ 9,527	¥ 14,396	¥ 250	¥ 64,224
II Identifiable assets							
Depreciation expenses.....	5,601	892	1,250	1,240	1,666	—	10,649
Impairment losses of fixed assets.....	—	—	—	25	183	—	208
Capital expenditures	9,188	1,124	1,606	2,497	2,842	—	17,257
	Millions of yen						
	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
2006							
I Sales and operating income							
Sales:							
Unaffiliated customers	¥218,798	¥82,740	¥67,372	¥56,054	¥126,375	¥ —	¥551,339
Intersegment.....	2,059	2,903	421	335	56	(5,774)	—
Total	220,857	85,643	67,793	56,389	126,431	(5,774)	551,339
Costs and expenses.....	191,519	81,365	68,273	50,542	117,898	(5,763)	503,834
Operating income	¥ 29,338	¥ 4,278	¥ (480)	¥ 5,847	¥ 8,533	¥ (11)	¥ 47,505
II Identifiable assets							
Depreciation expenses.....	4,722	975	1,355	609	1,411	—	9,072
Impairment losses of fixed assets.....	—	—	—	—	—	229	229
Capital expenditures	5,316	1,458	1,206	1,010	1,295	—	10,285
	Thousands of U.S. dollars (Note 1)						
	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
2007							
I Sales and operating income							
Sales:							
Unaffiliated customers	\$1,889,032	\$672,852	\$588,909	\$578,697	\$1,357,429	\$ —	\$5,086,918
Intersegment.....	18,309	21,102	4,328	3,584	266	(47,589)	—
Total	1,907,341	693,954	593,237	582,281	1,357,695	(47,589)	5,086,918
Costs and expenses.....	1,662,902	655,874	536,335	501,545	1,235,695	(49,706)	4,542,643
Operating income	\$ 244,439	\$ 38,080	\$ 56,902	\$ 80,736	\$ 122,000	\$ 2,117	\$ 544,275
II Identifiable assets							
Depreciation expenses.....	\$2,025,684	\$501,808	\$752,201	\$427,548	\$1,050,773	\$334,273	\$5,092,287
Depreciation expenses.....	47,466	7,559	10,597	10,512	14,116	—	90,250
Impairment losses of fixed assets.....	—	—	—	215	1,547	—	1,762
Capital expenditures	77,866	9,522	13,611	21,162	24,089	—	146,250

Identifiable assets under the elimination and/or corporate column primarily are consisted of cash and time deposits and marketable securities.

Change in segment affiliation for the year ended March 31, 2007.

Japan Electron Beam Irradiation Service Co., Ltd. and SHI Examination and Inspection Ltd. have been transferred to the Mass-Produced Machinery segment from the current year due to changes in organizational management of the Company. The two companies had formerly been grouped into the Environmental Protection Facilities, Plants and Others segment and the Ship, Steel Structures and Other Specialized Equipment segment, respectively.

Compared to previous method, these changes have resulted in the following increase for the Mass-produced Machinery segment and decreases in the Environment Protection Facilities, Plants and Others segment, and the Ship, Steel Structures and Other Specialized Equipment segment. Mass-produced Machinery segment: Increase of ¥1,960 million (\$16,609 thousand) in sales, ¥1,423 million (\$12,062 thousand) in operating expenses, ¥537 million (\$4,548 thousand) in operating profit, ¥1,717 million (\$14,555 thousand) in assets, ¥152 million (\$1,287 thousand) in depreciation expenses, and ¥572 million (\$4,848 thousand) in capital expenditures.

Environmental Protection Facilities, Plants and Others segment: Decrease of ¥745 million (\$6,310 thousand) in sales, ¥593 million (\$5,022 thousand) in operating expenses, ¥152 million (\$1,289 thousand) in operating profit, ¥403 million (\$3,412 thousand) in assets, ¥19 million (\$161 thousand) in depreciation expenses, and ¥72 million (\$614 thousand) in capital expenditures.

Ship, Steel Structures and Other Specialized Equipment segment: Decrease of ¥2,407 million (\$20,398 thousand) in sales, ¥1,881 million (\$15,939 thousand) in operating expenses, ¥526 million (\$4,458 thousand) in operating profit, ¥1,628 million (\$13,796 thousand) in assets, ¥133 million (\$1,127 thousand) in depreciation expenses, and ¥500 million (\$4,234 thousand) in capital expenditures.

(B) Information by geographic area for the years ended March 31, 2007 and 2006 is as follows:

2007	Millions of yen				
	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	¥494,178	¥71,264	¥34,815	¥ —	¥600,256
Intersegment	31,671	745	12,330	(44,746)	—
Total	525,849	72,008	47,145	(44,746)	600,256
Costs and expenses	472,246	64,054	44,200	(44,468)	536,032
Operating income	¥ 53,603	¥ 7,954	¥ 2,945	¥ (278)	¥ 64,224
II Identifiable assets	¥481,001	¥43,137	¥33,645	¥43,107	¥600,890

2006	Millions of yen				
	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	¥465,769	¥56,672	¥28,898	¥ —	¥551,339
Intersegment	28,053	856	2,894	(31,803)	—
Total	493,822	57,528	31,792	(31,803)	551,339
Costs and expenses	452,275	53,176	29,984	(31,601)	503,834
Operating income	¥ 41,547	¥ 4,352	¥ 1,808	¥ (202)	¥ 47,505
II Identifiable assets	¥471,752	¥37,707	¥21,763	¥48,011	¥579,233

2007	Thousands of U.S. dollars (Note 1)				
	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	\$4,187,948	\$603,929	\$295,041	\$ —	\$5,086,918
Intersegment	268,395	6,310	104,496	(379,201)	—
Total	4,456,343	610,239	399,537	(379,201)	5,086,918
Costs and expenses	4,002,087	542,829	374,573	(376,845)	4,542,643
Operating income	\$ 454,256	\$ 67,410	\$ 24,964	\$ (2,355)	\$ 544,275
II Identifiable assets	\$4,076,277	\$365,571	\$285,128	\$365,310	\$5,092,286

Notes: 1. Identifiable assets under the elimination and/or corporate column primarily consisted of cash, time deposits and marketable securities.

2. Other areas include mostly the United Kingdom, Germany, and Singapore.

(C) Overseas sales of the Companies for the years ended March 31, 2007 and 2006 were as follows:

2007	Millions of yen			Total
	To North America	To Asia	To other areas	
Overseas Sales	¥112,282 18.7%	¥83,811 14.0%	¥80,027 13.3%	¥276,120 46.0%

2006	Millions of yen			Total
	To North America	To Asia	To other areas	
Overseas Sales	¥94,903 17.2%	¥73,514 13.3%	¥61,889 11.2%	¥230,306 41.7%

2007	Thousands of U.S. dollars (Note 1)			Total
	To North America	To Asia	To other areas	
Overseas Sales	\$951,546	\$710,264	\$678,189	\$2,339,999

Notes: 1. Other areas include mostly the United Kingdom and Germany.

2. Overseas sales consist of export sales by the Company and certain consolidated domestic subsidiaries as well as sales by overseas consolidated subsidiaries.

(D) The effect of the change on segment information.

As explained in Note 1, effective this fiscal year, the Company and certain consolidated subsidiaries changed accounting policies as follows.

Allowance for losses on construction contracts

In the year ended March 31, 2006, the Company and certain consolidated domestic subsidiaries changed their accounting policies and accrued estimated amount of losses on construction contracts to be incurred in the following fiscal year.

The effects of the change on the industrial machinery segment are to increase cost and expense by ¥45 million and to decrease operating income by ¥45 million. Also the effects of the change on Japan segment is to increase cost and expense by ¥45 million and to decrease operating income by ¥45 million.

Accrued retirement benefits for directors, corporate auditors and executive officers (collectively, "officers")

In the year ended March 31, 2006, the Company and a consolidated domestic subsidiary changed its accounting policy and accrued retirement benefits for officers at March 31, 2006. Such benefits had previously been expensed upon officers' retirement.

The effects of the change on the mass-produced machinery segment are to increase costs and expenses by ¥9 million and to decrease operating income by ¥9 million. Those on the environmental protection facilities, plants & others group are to increase costs and expenses by ¥5 million and to decrease operating income by ¥5 million. Those on the ship, steel structure & other specialized equipment segment are to increase costs and expenses by ¥3 million and to decrease operating income by ¥3 million. Those on the industrial machinery segment are to increase costs and expenses by ¥3 million and to decrease operating income by ¥3 million. Those on the construction machinery segment are to increase costs and expenses by ¥9 million and to decrease operating income by ¥9 million. Also, the effects of the change on Japan segment are to increase costs and expenses by ¥29 million and to decrease operating income by ¥29 million.

Impairment of fixed assets

Effective April 1, 2005, the Company and consolidated domestic subsidiaries adopted new accounting standard for impairment of fixed assets.

In the year ended March 31, 2006, although impairment loss of ¥229 million was recognized, there were no effects on Segment information as the related property was sold during that year.

10. Information for certain leases

The summary of assumed amounts of acquisition cost, accumulated depreciation and net book value with respect to finance leases accounted for in the same manner as operating leases as of March 31, 2007 is as follows:

(A) Lessees

	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated Impairment loss	Net book value
Machinery and equipment.....	¥29,131	¥10,376	¥143	¥18,612
Others	331	183	—	148
Total.....	¥29,462	¥10,559	¥143	¥18,760

	Thousands of U.S. dollars (Note 1)			
	Acquisition cost	Accumulated depreciation	Accumulated Impairment loss	Net book value
Machinery and equipment.....	\$246,869	\$87,932	\$1,212	\$157,725
Others	2,806	1,547	—	1,259
Total.....	\$249,675	\$89,479	\$1,212	\$158,984

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥4,559 million (\$38,633 thousand) and ¥4,292 million for the years ended March 31, 2007 and 2006, respectively.

Future lease payments as of March 31, 2007 and 2006, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Due within one year.....	¥ 5,127	¥ 4,356	\$ 43,453
Due after one year	13,776	11,738	116,743
Total.....	¥18,903	¥16,094	\$160,196

Also, future lease payments under operating leases as of March 31, 2007 were ¥860 million (\$7,287 thousand), including ¥665 million (\$5,636 thousand) due within one year.

(B) Lessors

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment.....	¥102	¥70	¥32
Total	¥102	¥70	¥32

	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment.....	\$861	\$588	\$273
Total	\$861	\$588	\$273

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥21 million (\$182 thousand) and ¥21 million for the years ended March 31, 2007 and 2006, respectively.

Future lease payments as of March 31, 2007 and 2006, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Due within one year.....	¥14	¥20	\$122
Due after one year	28	31	235
Total.....	¥42	¥51	\$357

Also, future lease payments under operating leases as of March 31, 2007 were ¥1,362 million (\$11,546 thousand), including ¥275 million (\$2,334 thousand) due within one year.

11. Securities

(A) The following tables summarize book values of securities not stated at fair value as of March 31, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Held-to-maturity debt securities:			
Non-listed corporate bonds	¥ 10	¥ 10	\$ 85
Available-for-sale securities:			
Non-listed equity securities	2,394	4,266	20,289
Others	1,011	1,011	8,567
Total.....	¥3,415	¥5,287	\$28,941

(B) The following tables summarize acquisition costs and book values of securities with fair value as of March 31, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Available-for-sale securities			
Acquisition cost:			
Equity securities.....	¥13,339	¥ 8,703	\$113,043
Total.....	13,339	8,703	113,043
Book value:			
Equity securities.....	30,383	25,865	257,487
Total.....	30,383	25,865	257,487
Difference:			
Equity securities.....	17,044	17,162	144,444
Total.....	¥17,044	¥17,162	\$144,444

(C) Total sales amount of available-for-sale securities sold in the year ended March 31, 2007 amounted to ¥3,633 million (\$30,789 thousand) and the net gain amounted to ¥1,395 million (\$11,825 thousand).

(D) The following tables summarize maturities of available-for-sale securities and held to maturity securities as of March 31, 2007

2007	Millions of yen					2007	Thousands of U.S. dollars (Note 1)				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total		Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	¥—	¥10	¥—	¥—	¥10	\$—	\$85	\$—	\$—	\$85	
Total	¥—	¥10	¥—	¥—	¥10	\$—	\$85	\$—	\$—	\$85	

12. Derivatives information

The Companies enter into forward currency exchange contracts, interest rate swap contracts and currency option contracts as derivative financial instruments. The Companies deal with forward currency exchange transactions to hedge exchange rate risk of monetary receivables and payables denominated in foreign currencies in order to minimize the risk of exchange rate fluctuations. Interest rate swap transactions are made in order to minimize the risk of interest rate hike on borrowings. The Companies deal with international financial institutions with higher credit ratings as counter-parties of transactions to avoid credit risk exposure. Details of transactions are reviewed and approved by responsible officials of the Companies in accordance with the Companies' internal regulations, which include allowed transactions and maximum amounts thereof. Counter-parties of derivative transactions are creditworthy financial institutions, and the Companies believe that the risk of default by the counter-parties is minimal.

(A) Forward foreign exchange contracts

The aggregate amounts contracted to be paid/received and the fair values of forward foreign exchange contracts in Japanese yen of the Companies at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Contracted amount to be paid/received:			
To sell foreign currencies	¥7,478	¥4,962	\$63,372
To buy foreign exchange options	—	192	—
To sell foreign exchange options	—	—	—
Fair value:			
To sell foreign currencies	7,544	5,153	63,932
To buy foreign exchange options	—	(1)	—
To sell foreign exchange options	—	—	—
Net unrealized exchange gain (loss)	¥ (66)	¥ (192)	\$ (560)

(B) Interest rate swap contracts

There were no interest rate swap contracts of the Companies at March 31, 2007 and 2006.

13. Information regarding retirement benefits

(A) Projected benefit obligation on the balance sheet date consists of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
(1) Projected benefit obligation	¥(66,099)	¥(66,830)	\$(560,160)
(2) Fair value of employee retirement benefit trust	51,676	50,352	437,930
(3) Unfunded projected benefit obligation	(14,423)	(16,478)	(122,230)
(4) Unrecognized actuarial difference	(10,006)	(6,051)	(84,794)
(5) Unrecognized prior service cost	356	4	3,016
(6) Prepaid pension benefit expenses	(37)	(53)	(314)
(7) Allowance for severance and pension benefit	(24,110)	(22,578)	(204,322)

(B) Included in the statements of operation for the years ended March 31, 2007 and 2006 are the following severance and pension benefit expenses:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
(1) Service cost	¥3,440	¥3,152	\$29,157
(2) Interest cost on projected benefit obligation	1,522	1,439	12,898
(3) Expected return on plan assets	(557)	(410)	(4,723)
(4) Recognized actuarial difference	(96)	1,558	(810)
(5) Recognized prior service cost	35	8	293
(6) Severance and pension benefit expense	4,344	5,747	36,814

(C) Assumptions for calculating:

	2007	2006
(1) Allocation of the estimated amount of all retirement benefits to be paid at the future retirement date	Equally to each service year using the estimated number of total service years	
(2) Assumed discount rate	2.0%	2.0%
(3) Expected rate of return on plan assets	0.0%	1.5%
	(Trust assets for retirement benefits: 0.0%)	
(4) Amortization period of actuarial differences	12 years	12 years
(5) Amortization period of prior service cost	12 years	12 years

14. Subsequent events

(1) On June 28, 2007, the shareholders of the Company approved payment of year-end cash dividends to shareholders of record as of March 31, 2007 of ¥3.5 (\$0.030) per share or a total of ¥2,144 million (\$17,912 thousand).

(2) Stock exchange

At the meeting of the Board of Directors held on May 8, 2007, the Company resolved to consent that two 100% subsidiaries of the Company, Izumi Food Machinery Co., Ltd. ("Izumi Food Machinery") and SNM Fastener Co., Ltd. ("SNM Fastener"), become wholly owned subsidiaries of Nihon Spindle Manufacturing Co., Ltd. ("Nihon Spindle Manufacturing"), an affiliate company of the Company, through a stock exchange. As a result of this stock exchange, the Company will have more than 40% of the voting rights of Nihon Spindle Manufacturing. Also, as the substantial controlling relationship will be recognized, it is expected that Nihon Spindle Manufacturing will become a subsidiary of the Company.

Main reason for accepting stock exchange

The Company will exchange all of its shares in Izumi Food Machinery and SNM Fastener for shares in Nihon Spindle Manufacturing, and thereby the Company will have 40.6% of the voting rights in Nihon Spindle Manufacturing (including shares indirectly owned). Therefore, it is expected that, effective October 1, 2007, on which date the stock exchange will become effective, Nihon Spindle Manufacturing will become a subsidiary of the Company as the Company is considered to have the control due to the 40.6% ownership and existence of certain other conditions. It is considered that it will be beneficial for the Company Group to have Nihon Spindle Manufacturing as a subsidiary in pursuing the Company Group's strategy for growth and expansion.

By making Izumi Food Machinery and SNM Fastener 100% subsidiaries of Nihon Spindle Manufacturing, it is expected to facilitate Nihon Spindle Manufacturing in achieving its growth strategy earlier and expanding its business. At the same time, it is expected that Izumi Food Machinery and SNM Fastener will enjoy synergy effects.

The outline is as below:

Effective date of the stock exchange	October 1, 2007 (plan)
Legal form of business combination	Stock exchange implemented by Nihon Spindle Manufacturing
Rate of voting rights to be acquired	16.2% (of which -0.1% is indirectly owned)