

Sumitomo Heavy Industries, Ltd.

3Q CONSOLIDATED FINANCIAL REPORT

for the Nine-Month Period from April 1 to December 31, 2005

Note: All financial information has been prepared in accordance with generally accepted accounting principles in Japan. This document has been translated from the Japanese original as a guide to non-Japanese investors and contains forward-looking statements that are based on managements' estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. Amounts shown in this financial statement have been rounded down to the nearest million yen.

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

Third Quarter of the Financial Year ending March 31, 2006

Presented January 31, 2006

Sumitomo Heavy Industries, Ltd.

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1. Matters related to preparation of quarterly financial information

(1) Adoption of simple accounting treatment methods

Based on standards for preparation of interim term consolidated financial statements, the Company uses fixed simple procedures to the extent that they do not cause substantial errors in the judgment of investors and other interested persons.

(2) Changes in accounting treatment methods since the most recent consolidated accounting period

a) Of construction not transferred over, in regard to those seen at the end of the period as having a high probability of generating large losses and the amount of such losses can be rationally estimated, the method of posting has been changed to allowances for estimated losses on construction orders in the following period.

b) Retirement bonuses for officers of some domestic consolidated subsidiaries have heretofore been posted upon departure. But in this third quarter the retirement bonus system has been abolished and the decision made to pay their equivalent as the value of work performed during the period of employment. With the objective of greater all-around financial soundness, the method has been changed to posting of the relevant amounts as officer retirement bonus allowances.

(3) Changes in the scope of consolidation and application of equity method:

Consolidated subsidiaries:	New	1	Removed	2
Equity method:	New	--	Removed	--

2. FY 2005 3Q Consolidated Results (April 1, 2005 to December 31, 2005)

(1) Business Results

(Units: millions of yen)

	Nine Months		Previous Nine Months		Previous Full Term
	April 1 to Dec. 31, 2005		April 1 to Dec. 31, 2004		April 1, 2004 to March 31, 2005
		% change		% change	
Net Sales	368,782	5.9	348,285	--	521,310
Operating Income	28,769	(3.5)	29,805	--	48,773
Ordinary Income	28,758	(3.7)	29,856	--	47,853
Net Income	18,487	17.9	15,684	--	22,792
Net Income per Share (yen)	30.74		26.06		37.80
Fully Diluted Net Income per Share	--		--		--

*Note: Percentages for net sales, operating income, ordinary income and net income represent year-on -year changes.

(2) Financial Position

(Units: millions of yen)

	End of Third Quarter	End of Previous Third Quarter	End of Previous Full Year
	As of Dec. 31, 2005	As of Dec. 31, 2004	As of March 31, 2005
Total Assets	565,984	566,648	569,771
Shareholders' Equity	155,074	130,948	137,156
Equity Ratio (%)	27.4	23.1	24.1
Shareholders' Equity per Share (yen)	257.90	217.62	227.90

3. FY 2005 Consolidated Forecasts (April 1, 2005 to March 31, 2006)

(Units: millions of yen)

	Full Year
	April 1, 2005 to March 31, 2006
Net Sales	540,000
Ordinary Income	41,000
Net Income	23,500

*Note: (1) Projected net income per share for FY2005 (ending March 31, 2006): 39.08yen

Consolidated Forecasts for the Full Year

There is no change in the forecasts announced November 10, 2005

*Note: Forecasts of future operating results represent the Company's rational judgment based on information available as of the release date. Consequently, actual results may differ from the forecasts because of changes in various factors, such as variations in the economic environment of the principal markets and product demand, currency exchange rate variations and domestic and overseas regulation.

Consolidated Business Results

Japan's economy in the third quarter was characterized by recovery, including increases in personal consumption and progress in inventory reduction in digital home appliance-related industries, as well as good growth in private sector capital investment. Overseas, there were such causes for concern as crude oil price rises halting at high levels and financial tightening in China, but broadly strong trends were seen.

In this environment, the new "Leap to Excellence '07" medium term management plan that started in the current term saw implementation of various management policies that resulted in overall orders being secured at 431.1 billion yen, close to the year-earlier level. Orders declined year-on-year for ships, steel structures and Other Specialized equipment, but rose in the industrial machinery and construction machinery divisions. Other than the environment and plant segment, sales were higher for all segments and gained by 6% year-on-year to 368.8 billion yen.

Regarding profit & loss, the third quarter had no high margin large real estate sale like those posted a year ago, so operating income declined by 3% to 28.8 billion yen and ordinary income declined by 4% to 28.8 billion yen. But extraordinary gain/loss turned for the better, resulting in a quarterly net income of 18.5 billion yen, a year-on-year increase of 18%.

Results for each segment are as follows.

Mass Produced Machinery

At 159.3 billion yen, orders were about the same year-on-year, while sales rose by 3% to 153.0 billion yen and operating income declined by 15% to 19.2 billion yen. The power transmission machinery business maintained good results on strong domestic and overseas capital investment. In the plastic processing machinery business good growth was seen domestically centering on the automotive industry, but overseas-destined disk specialized machinery declined. The precision control machinery and component business saw satisfactory increases in ultra-low temperature freezers and others.

Environmental Protection Facilities, Plants, and Others

Although the energy plant field saw increases, a decline in public works sent orders down by 3% to 63.4 billion yen. In the same period a year ago, the real estate segment was higher due to partial sale of Tanashi Works land, a factor absent in the quarter under review, so sales, at 48.2 billion yen, were about the same year-on-year while operating income fell by 66% to 700 million yen.

Ship, Steel Structure and Other Specialized Equipment

The fall-off in public works impacted orders in the steel structure and other specialized equipment business, while shipbuilding orders declined by two bottoms to six. Overall segment orders thus fell by 18% to 57.7 billion yen. Shipbuilding sales were unchanged year-on-year, but those of steel structures and Other Specialized equipment gained on increases in overseas-centered reactive containers, sending segment sales up by 9% to 37.6 billion yen. Higher raw materials prices resulted in an operating loss of 1.3 billion yen, a deterioration of 200 million yen.

Industrial Machinery

Orders were 53.6 billion yen, a year-on-year increase of 17%, with sales of 39.9 billion yen, a year-on-year increase of 12% and operating income of 4.1 billion yen, a year-on-year increase of 63%. As in the interim term, forging presses and conveyor machinery both benefited from ongoing active domestic-centered capital investment. Overseas-bound turbines and pumps maintained strength.

Construction Machinery

The hydraulic shovel business continued to fare well domestically and overseas, with orders and sales both higher year-on-year. The same was true of mobile cranes, supported by strong North American markets. Overall segment orders were 97.1 billion yen, a year-on-year increase of 16%, with sales of 90 billion yen, a year-on-year increase of 11% and operating income of 6 billion yen, a year-on-year increase of 62%.

Consolidated Financial Position

Relative to the end of the previous period, total assets declined by 3.8 billion yen to 566 billion yen. Although inventory assets rose by 26.3 billion, falloffs of 15.6 billion yen were seen in cash and deposits and 19.4 billion yen in notes and accounts receivable. On the same comparison, the balance of interest bearing debt shrank by 28.6 billion yen to 140.7 billion, with a ratio to total assets of 24.9%, representing a 4.8-point improvement. The good earnings resulted in shareholders equity of 155.1 billion and a 3.3-point improvement in the equity capital ratio, to 27.4%.

I. Quarterly Consolidated Income Statements (Summary)

(Units: Millions of Yen)

	Nine Months		Previous Nine Months		Change	Previous Fiscal Year	
	April 1, 2005 to December 31, 2005		April 1, 2004 to December 31, 2004			April 1, 2004 to March 31, 2005	
	Amount	%	Amount	%	Amount	Amount	%
Net sales	368,782	100.0	348,285	100.0	20,497	521,310	100.0
Cost of goods sold	289,451	78.5	269,462	77.4	19,989	407,512	78.2
Gross profit	79,330	21.5	78,823	22.6	508	113,798	21.8
Selling, general & administrative expenses	50,562		49,017		1,544	65,025	
Operating income	28,769	7.8	29,805	8.6	(1,037)	48,773	9.4
Non-operating Income:							
Interest income	366		368		(1)	461	
Other	4,726		5,046		(319)	7,442	
Total Non-operating income	5,093		5,413		(321)	7,903	
Non-operating Expenses:							
Interest expenses	1,820		2,359		(539)	2,995	
Other	3,283		3,004		279	5,828	
Total Non-operating expenses	5,103		5,363		(260)	8,823	
Non-operating income/loss	(10)		50		(61)	(920)	
Ordinary income	28,758	7.8	29,856	8.6	(1,097)	47,853	9.2
Extraordinary gains	701		4,179		(3,478)	4,597	
Extraordinary losses	1,255		7,937		(6,682)	13,862	
Income before tax and adjustments	28,205	7.6	26,097	7.5	2,107	38,588	7.4
Corporate income taxes	9,416		10,287		(872)	15,822	
Loss (Gain) of minority shareholders	(302)		(126)		(176)	26	
Net income	18,487	5.0	15,684	4.5	2,803	22,792	4.4

II. Quarterly Consolidated Balance Sheets (Summary)

(Units: millions of yen)

	End of Third Quarter	End of Previous Consolidated Fiscal Year	Y/Y change	End of Previous Third Quarter
	As of Dec. 31, 2005	As of March 31, 2005	Change	As of Dec. 31, 2004
	Amount	Amount		Amount
Assets				
Cash and deposits	34,007	49,636	(15,629)	37,747
Notes and account receivable	132,205	151,618	(19,413)	126,462
Inventories	115,128	88,859	26,269	120,413
Other	26,562	27,990	(1,427)	30,664
Allowance for doubtful accounts	(1,632)	(1,937)	305	(2,129)
Current assets	306,271	316,166	(9,895)	313,157
Tangible assets	180,121	180,990	(869)	184,155
Intangible assets	4,375	3,995	380	3,705
Investments and other assets	75,217	68,621	6,596	65,632
Fixed assets	259,713	253,605	6,108	253,491
Total assets	565,984	569,771	(3,787)	566,648
Liabilities				
Notes and accounts payable	129,893	134,439	(4,546)	126,955
Short-term debt payable	26,690	44,883	(18,194)	49,828
Commercial paper	20,000	11,500	8,500	15,000
Long-term debt within one year	40,626	52,471	(11,846)	46,665
Bond redemption within one year	--	1,000	(1,000)	4,000
Other	75,993	66,062	9,931	69,936
Current liabilities	293,201	310,356	(17,154)	312,384
Bond	10,000	10,000	--	--
Long-term debt due after one year	43,347	49,373	(6,026)	65,005
Other	60,824	59,057	1,767	54,289
Long-term liabilities	114,171	118,430	(4,259)	119,294
Total liabilities	407,372	428,786	(21,414)	431,678
Minority interests	3,537	3,829	(292)	4,022
Stockholders' equity				
Common stock:				
Paid in capital	30,872	30,872	--	30,872
Capital surplus	16,805	16,803	3	16,802
Retained earnings	57,403	42,677	14,726	35,555
Revaluation reserve for land	42,215	45,265	(3,051)	45,280
Unrealized gains on securities	9,512	4,476	5,037	4,642
Foreign currency translation adjustments	(1,293)	(2,741)	1,448	(2,041)
Treasury stock	(439)	(195)	(244)	(161)
Total stockholders' equity	155,074	137,156	17,918	130,948
Liabilities minority interest, and stockholders' equity	565,984	569,771	(3,787)	566,648

III. Segment Information

1. Segment Information by Business

Current Nine Months (April 1, 2005 to December 31, 2005)

(Units: millions of yen)

Segment Item	A	B	C	D	E	Total	F	Consolidation
Net sales								
(1) Sales to external customers	153,016	48,234	37,590	39,914	90,027	368,782	--	368,782
(2) Internal sales between segments or exchanges	1,444	1,920	328	244	44	3,981	3,981	--
Total	154,460	50,154	37,918	40,158	90,071	372,762	3,981	368,782
Operating expenses	135,287	49,410	39,190	36,065	84,022	343,974	3,961	340,013
Operating income/loss	19,174	743	(1,272)	4,094	6,050	28,789	20	28,769

Segments:

A: Mass-Produced Machinery

B: Environmental Protection Facilities, Plants & Others

C: Ship, Steel Structure & Other Specialized Equipment

D: Industrial Machinery

E: Construction Machinery

F: Cancellation or general

Previous Nine Months (April 1, 2004 to December 31, 2004)

(Units: millions of yen)

Segment Item	A	B	C	D	E	Total	F	Consolidation
Net sales								
(1) Sales to external customers	148,622	48,586	34,560	35,691	80,825	348,285	--	348,285
(2) Internal sales between segments or exchanges	750	1,814	412	258	48	3,282	3,282	--
Total	149,373	50,400	34,972	35,949	80,873	351,567	3,282	348,285
Operating expenses	126,908	48,220	36,056	33,432	77,133	321,748	3,268	318,479
Operating income/loss	22,465	2,180	(1,084)	2,517	3,740	29,819	14	29,805

Segments:

A: Mass-Produced Machinery

B: Environmental Protection Facilities, Plants & Others

C: Ship, Steel Structure & Other Specialized Equipment

D: Industrial Machinery

E: Construction Machinery

F: Cancellation or general

Previous Full Year (April 1, 2004 to March 31, 2005)

(Units: millions of yen)

Segment Item	A	B	C	D	E	Total	F	Consolidation
Net sales								
(1) Sales to external customers	205,091	87,937	65,288	54,008	108,985	521,310	--	521,310
(2) Internal sales between segments or exchanges	1,253	2,653	553	397	69	4,926	4,926	--
Total	206,345	90,591	65,842	54,405	109,054	526,236	4,926	521,310
Operating expenses	175,930	83,497	65,364	49,571	103,093	477,454	4,917	472,537
Operating income/loss	30,415	7,094	478	4,834	5,961	48,782	9	48,773

Segments:

- A: Mass-Produced Machinery
- B: Environmental Protection Facilities, Plants & Others
- C: Ship, Steel Structure & Other Specialized Equipment
- D: Industrial Machinery
- E: Construction Machinery
- F: Cancellation or general

Notes:

1. Business segment depends on sales total segment.
2. Main products of each business segment:

Businesses	Main Products
Mass-Produced Machinery	Power Transmission Equipment, Plastic Injection Molding Machines, Laser Processing Systems, Defense Equipment, Cryogenic Equipment, Precision XY Stages, Cyclotrons for Medical Use
Environmental Protection Facilities, Plants & Others	Water and Sewage Treatment Systems, Industrial Waste Treatment Facilities, Chemical Process Equipment & Plants, Software, Real Estate
Ship, Steel Structure & Other Specialized Equipment	Ships, Bridge & Steel Structures
Industrial Machinery	Forging Machines, Material Handling Systems, Turbines, Pumps
Construction Machinery	Hydraulic Excavators, Mobile Cranes

IV. Orders, Sales and Balance of Orders by Segment

Orders received

(Units: millions of yen)

Businesses	April 1, 2005 to December 31, 2005		April 1, 2004 to December 31, 2004		YY Change	April 1, 2004 to March 31, 2005	
	Amount	%	Amount	%		Amount	%
Mass-Produced Machinery	159,323	37.0	158,966	37.4	0.2	213,123	38.0
Environmental Protection Facilities, Plants & Others	63,376	14.7	65,655	15.5	(3.5)	100,343	17.9
Ship, Steel Structure & Other Specialized Equipment	57,729	13.4	70,308	16.5	(17.9)	75,725	13.5
Industrial Machinery	53,580	12.4	45,880	10.8	16.8	60,012	10.7
Construction Machinery	97,077	22.5	83,961	19.8	15.6	111,529	19.9
Total	431,085	100.0	424,771	100.0	1.5	560,731	100.0

Sales

(Units: millions of yen)

Businesses	April 1, 2005 to December 31, 2005		April 1, 2004 to December 31, 2004		YY Change	April 1, 2004 to March 31, 2005	
	Amount	%	Amount	%		Amount	%
Mass-Produced Machinery	153,016	41.5	148,622	42.7	3.0	205,091	39.3
Environmental Protection Facilities, Plants & Others	48,234	13.1	48,586	14.0	(0.7)	87,937	16.9
Ship, Steel Structure & Other Specialized Equipment	37,590	10.2	34,560	9.9	8.8	65,288	12.5
Industrial Machinery	39,914	10.8	35,691	10.2	11.8	54,008	10.4
Construction Machinery	90,027	24.4	80,825	23.2	11.4	108,985	20.9
Total	368,782	100.0	348,285	100.0	5.9	521,310	100.0

Balance of Orders received

(Units: millions of yen)

Businesses	April 1, 2005 to December 31, 2005		April 1, 2004 to March 31, 2005		YY Change	April 1, 2004 to December 31, 2004	
	Amount	%	Amount	%		Amount	%
Mass-Produced Machinery	74,363	19.6	67,787	21.4	9.7	70,321	19.9
Environmental Protection Facilities, Plants & Others	87,136	23.0	71,994	22.7	21.0	76,657	21.6
Ship, Steel Structure & Other Specialized Equipment	142,786	37.6	122,648	38.7	16.4	147,959	41.8
Industrial Machinery	56,730	14.9	43,064	13.6	31.7	47,250	13.3
Construction Machinery	18,557	4.9	11,507	3.6	61.3	12,099	3.4
Total	379,573	100.0	317,000	100.0	19.7	354,287	100.0