Sumitomo Heavy Industries, Ltd.

CONSOLIDATED FINANCIAL RESULTS

For the Full Year Ended March 31, 2006

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.

May 10, 2006

CONSOLIDATED FINANCIAL RESULTS
For the Full Year Ended March 31, 2006

Sumitomo Heavy Industries, Ltd.

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Date of the Board of Directors meeting concerning consolidated accounts	May 10, 2006
U.S. GAAP accounting principles	Not adopted

1. Consolidated Results for FY 2005 (April 1, 2005 to March 31, 2006)

(1) Business Results

(Units: millions of yen)

	Current Fiscal Year		Previous Fiscal Year	
	April 1, 2005 to March 31, 2006		April 1, 2004 to March 31, 2005	
		% change		% change
Net Sales	551,339	5.8	521,310	8.0
Operating Income	47,505	(2.6)	48,773	21.2
Ordinary Income	47,585	(0.6)	47,853	49.8
Net Income	29,742	30.5	22,792	40.2
Net Income per Share (yen)	49.45		37.80	
Fully Diluted Net Income per Share	--		--	
Return on Equity (ROE, %)	19.5		18.1	
Return on Assets (ROA, %)	8.3		8.3	
Ordinary Income to Net Sales (%)	8.6		9.2	

*Notes: (1) Equity in earnings of unconsolidated subsidiaries and affiliated companies:
March 2006: 4,303 million yen
March 2005: 4,080 million yen
(2) Average number of outstanding shares for the term (consolidated):
As of March 2006: 601,406,863 shares
As of March 2005: 601,826,660 shares
(3) Changes to accounting procedures: Yes
(4) 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 Current Fiscal Year	End of Previous Fiscal Year
	As of March 31, 2006	As of March 31, 2005
Total Assets	579,233	569,771
Stockholders' Equity	167,740	137,156
Equity Ratio (%)	29.0	24.1
Stockholders' Equity per Share (yen)	279.02	227.90

*Notes: Number of shares outstanding at the end of the period (consolidated):

As of March 31, 2006: 601,185,726 shares

As of March 31, 2005: 601,644,571 shares

(3) Cash Flows

(Units: millions of yen)

	Current Fiscal Year	Previous Fiscal Year
	April 1, 2005 to March 31, 2006	April 1, 2004 to March 31, 2005
Cash Flows from Operating Activities	50,023	45,451
Cash Flows from Investing Activities	(7,024)	(6,087)
Cash Flows from Financing Activities	(48,812)	(46,490)
Cash and Cash Equivalents at the end of year	43,644	49,108

(4) Scope of Consolidation and Application of equity method:

Number of consolidated subsidiaries:	88
Number of non-consolidated subsidiaries accounted for by the equity method:	2
Number of affiliates accounted for by the equity method:	7

(5) Changes in the scope of consolidation and Application of equity method:

Consolidated subsidiaries:	(New)	1	(Removed)	4
Equity method:	(New)	0	(Removed)	1

2. Consolidated Forecasts for FY 2006 (April 1, 2006 to March 31, 2007)

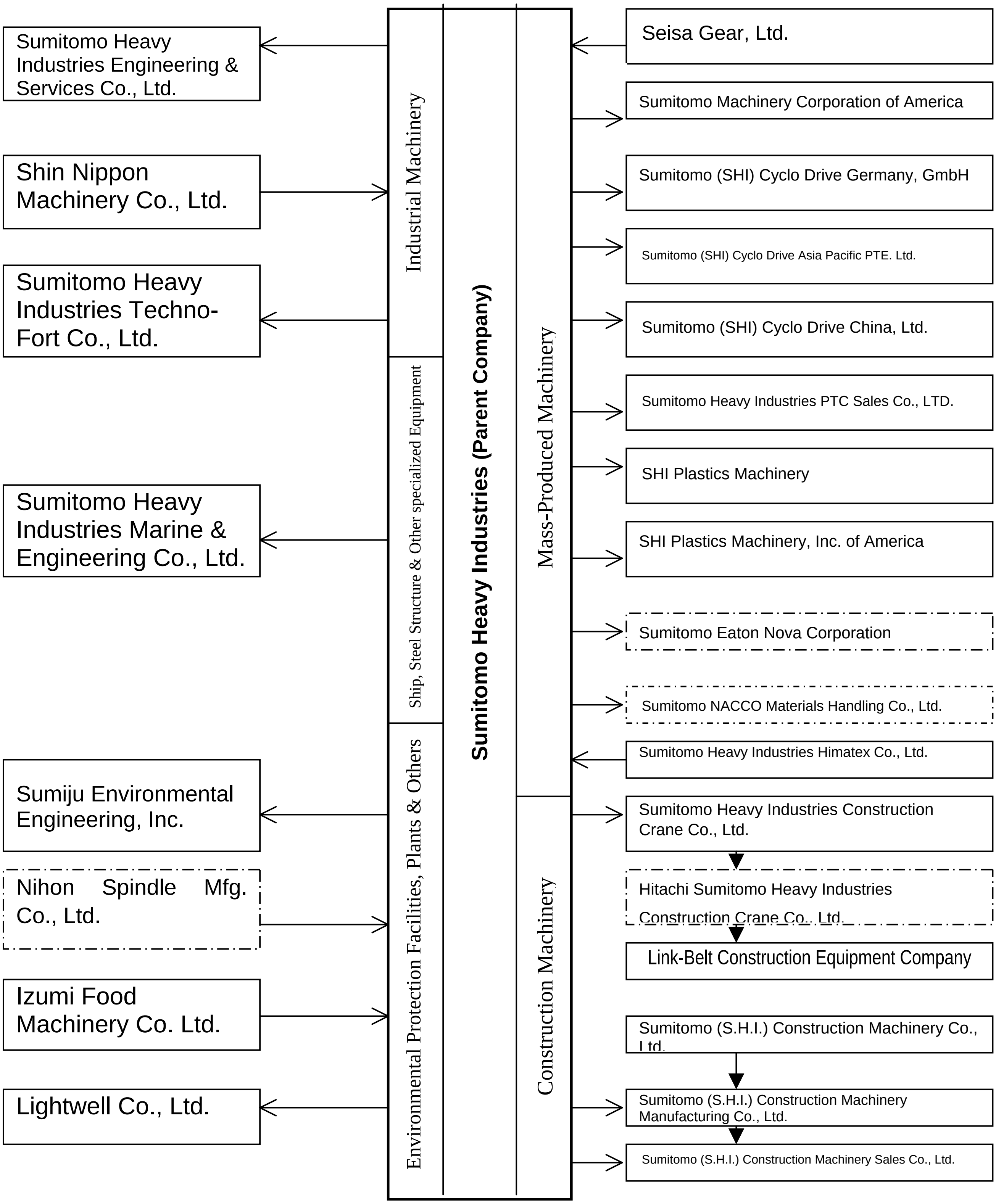
(Units: millions of yen)

	Interim	Full Year
	April 1, 2006 to September 30, 2006	April 1, 2006 to March 31, 2007
Net Sales	260,000	570,000
Ordinary Income	19,500	53,000
Net Income	12,500	31,000

Notes: (1) Projected net income per share for FY2006 (ending March 31, 2007): .... 51.56 yen

(2) Please consult page 7 of 2. Outlook for the Next Fiscal Year in III. Business Results section for further information concerning the projections.

I. State of the Group



II. Management Policies

1. Basic Management Policies

The Group believes that securing long term customer trust through continuously "building value for consumer" is interconnected with the Group's efforts to maintain sustained development and increase business worth, and reflects the desires of stockholders, employees, and the local community.

In order to realize high, stable growth on a global level, the Group intends to be an "organized, knowledge-building-type company" that provides quality products to customers. Then, the Group will strengthen marketing, research and development, and production, and focus even more closely on the product itself.

2. Basic Policies Relating to Profit Distribution

The Company's basic policy is to pay shareholder dividends according to periodic income and to continue to increase these dividends, while replenishing internal reserves necessary for stable, long-term business development.

3. Rationale behind lowering minimum share purchase and basic policy

The Company feels that lowering the minimum number of shares that must be purchased will encourage a broad range of investors to participate in the buying and selling of stock, and thus would be effective in raising the liquidity of shares. The Company will continue to review the effect that lowering the minimum unit has on the liquidity of the company's stock and keep a watchful eye on market trends, but at this point the specific measures and the timing for implementing them have not been determined.

4. Medium- and long-term business strategy and target management indicators

Under "Leap to Excellence '07," the medium-term, three-year management plan that began in FY2005, the company is aiming for sustainable growth and development built on the three core features outlined below.

(1) The Group will strive to become an organized knowledge-creating company launching first-class products in the market.
(2) The Group's businesses will be vertically integrated to pursue synergy.
(3) The Key Component business will be expanded and reinforced.

"Leap to Excellence '07" calls for the following quantitative indicators to be met by the end of FY2007:
Operating income: Over 60 billion yen
Interest-bearing debt: Less than 100 billion yen

The plan further calls for keeping ROIC* (Return on Invested Capital), a Group management indicator, above WACC (Weighted Average Cost of Capital) and above 10%.

* The Group uses the equation below to calculate ROIC after taxes.

$$\text{ROIC} = \frac{\text{(Operating income + Interest earned, dividends) x 55\% (= 1 – Effective tax rate)}}{\text{(Average stockholders' equity at start and end of fiscal period + average interest-bearing debt at start and end of fiscal period)}}$$

5. Issues to Be Addressed

Since FY 2006 is the midway point in the Company's medium-term management plan, "Leap to Excellence '07," the Company will address the following issues to ensure its objectives are achieved.

(1) Enhancing competitive edge of products

The Group believes that continuing to create first-class products boasting global competitiveness is essential in ensuring its sustainable growth. Accordingly, the Company plans to strengthen products' competitive edge through aggressive marketing and investment in product development.

(2) Strengthening collaboration between businesses and expanding component business

Building on the lateral links between the components, equipment, systems and other businesses, the Group will clarify the roles of each of its businesses and reinforce collaborations between them. In particular, it will give priority to the components business in allocating resources. Expanding and strengthening the components business and stepping up collaboration with the machinery business will bolster the competitiveness of both the components and the machinery businesses. These measures will include the launch of a new organization consolidating the mechatronics business and the power transmission and control business from FY2006 and efforts to reinforce the motion control drive business.

(3) Sustaining strong performance of Industrial Machinery segment

Businesses in the Industrial Machinery segment with true competitive strength will overcome changes in the industrial structure and prop up the Group's strong performance. These businesses will ensure the continuity of stable revenue, and the Company will continue to invest in accordance with customer needs.

(4) Making structural transition from public demand to private demand

In FY2006, the Company will move forward more aggressively in adjusting the structure of its Environmental Protection Facilities, Plants & Others segment and the Ship, Steel Structure & Other Specialized Equipment segment to one geared for private demand.

(5) Stepping up overseas sales expansion

The Group aims to be a company that continues to grow on the world stage. It will step up the expansion of its business in growth markets, particularly in China and other regions in Asia. Accordingly, the Company will aggressively invest in building and expanding sales bases and channels as well as building up networks between bases and creating a human resource management system.

(6) Production innovations

The Company will maintain the competitive edge of its products with production innovations based on the concepts of unsurpassed quality and the creation of a healthy cost structure. To achieve this, the system for promoting such production innovations will be reinforced across the entire Group, and production will be optimized by spreading examples of success into other businesses and developing a global supply chain with a network of international and domestic production centers.

(7) Augmenting human resource training

The Company has adopted an innovative human resource management style to raise the organizational capability of the entire Group. In addition to its previous program for management and future leaders and aimed at strengthening strategic thinking, the Company is starting an educational program to develop personnel with a high degree of expertise and, in particular, personnel capable of making significant contributions to the creation of first-class products.

(8) Efforts to prevent global warming

The Company is working to prevent global warming by targeting a 10% reduction in electricity use in all offices. In addition, all employees are working together to promote an electricity reduction campaign.

(9) Developing internal control system

The Group has been involved in internal control activities for some time now, but these efforts are being given new energy in FY2006 with the appointment of an executive officer whose role is focused exclusively on internal control and the upgrading of the division responsible for promoting internal control, from the Internal Control Dept. to the Internal Control Group. The entire Group will work to set up an internal control system and to ensure thorough compliance.

The Company faces criminal prosecution on charges of violating the antitrust law in its steel bridge construction. It consequently received an injunction from the Japan Fair Trade Commission (JFTC) to desist and was ordered to pay a fine. Additionally, the JFTC carried out an on-site inspection to investigate alleged bid rigging in water treatment facility and floodgate construction. The Company views this situation very seriously, and intends to restore its credibility by practicing absolute compliance.

6. Items Relating the Parent Company, etc.

Not applicable as the company has no parent company.

III. Business Results

1. Overview

Japan's economy has continued to expand during the current period as growth in private capital investment continues on the back of improvements in corporate income and consumer spending increases. This has caused expansion in domestic demand, despite the impact suffered from sustained high prices for raw materials such as crude oil and other resources. Overseas, the U.S. economy is expanding and the Chinese market continues to sustain high growth. Promising markets such as S.E. Asia and India are also growing, and the world economy is showing signs of expansion in general, as the European economy gradually recovers as well.

The Company made steady progress toward achieving its goals this year, the initial year of its *Leap to Excellence '07* medium-term plan; this progress resulted from management focusing on the following five key measures:

The first measure is to further strengthen promising key businesses. The Company continues to maintain its high share domestically in both its power transmission and control business and plastics machinery business as it works to strengthen ties with customers through the introduction of new products that meet customer needs and other measures. Operating results for Group companies also showed steady growth in construction equipment and industrial machinery with differentiating technology. The Company will continue to develop measures directed at sustaining growth in the future as well.

The second measure is to restructure its businesses. The Company has re-organized its businesses into three categories: Key Components, Appliances and Total Systems. It has put a structure into place that promotes mutual growth among these divisions while simultaneously manifesting the strengths of each. The Company has also accelerated efforts to achieve further growth in its environmental and plant business and steel structure and process equipment business by adapting these businesses to meet private sector demand rather than maintaining their previously high degree of dependence on demand from the public sector, and undertaking such measures as the reallocation of management resources from these divisions to growth business areas in order to address changes in the market structure.

The third measure is to enhance the infrastructure for the Company's internal controls system. The Company has improved the organizational structure, enabling internal controls to function efficiently by redoubling its efforts in compliance education while working simultaneously to lateralize the headquarter business system.

The fourth measure is improving financial condition. The Company has continued its efforts of last period to diligently control cash flow across the Group and has worked hard to reduce interest-bearing debt.

The fifth measure is to improve human resources development. The Company continues to offer training in such areas as management strategy and Six Sigma to improve employee skills, and has worked to strengthen Group integrative capabilities and competitiveness.

These measures enabled it to achieve growth in Group orders for the current period of 8% over the previous period to a historical high of 603 billion yen, and sales of 551.3 billion yen, a 6% increase year-on-year.

On the profit front, net income for the current period rose 30% compared with last period, to 29.7 billion yen, due to a decrease in extraordinary losses as the Company finished processing a retirement benefit reserve shortage and writing off significant affiliate losses. This marks an historical high for the third consecutive year.

The Company has set dividends for the current period at 5.0 yen per share, including an interim dividend of 2.5 yen per share, an increase of 2.0 yen per share year-on-year.

Results for each division are as follows.

Mass-Produced Machinery Segment

The Company achieved steady growth in operating results for the power transmission and control business both domestically and overseas due to its efforts to expand the business by introducing new products and strengthening of sales channels and marketing divisions for each country.

The plastics machinery business showed steady growth domestically as a robust automotive industry sustained it, but declined overall under the influence of slack demand from the overseas IT sector, which was robust last year.

The Company expanded orders for cryocoolers and precision forged components in the precision control machinery and components business by improving product quality and productivity, thereby increasing the value to customers.

As a result, orders for the division as a whole rose 2% year-on-year to 217.0 billion yen, and sales rose 7% to 218.8 billion yen. Operating income decreased by 4% year-on-year to 29.3 billion yen due to increased materials expenses.

Environmental Protection Facilities, Plants, and Others Segment

The Company was able to sustain its energy plant business at nearly the same level as the last period by improving its ability to address increasingly stricter client specifications and by increasing sales activities.

The water treatment plant business sustained declines in orders and sales in conjunction with the progressive switch from primarily public demand to primarily private demand.

As a result, orders for the division as a whole declined 16% year-on-year to 84.3 billion yen, and sales declined 6% to 82.7 billion yen. Operating income declined 40% year-on-year to 4.3 billion yen.

Ship, Steel Structure and Other Specialized Equipment Segment

Improved marketing through promotion of sales proposals integrating sales and technology led to orders for 11 Aframax tankers for its shipbuilding business, an increase of 3 tankers over last period. The Company booked sales on 9 tankers delivered.

The steel structure and other process equipment business sustained declines in orders and sales in conjunction with the progressive switch from primarily public demand to primarily private demand.

As a result, orders for the division as a whole rose 28% year-on-year to 96.7 billion yen, and sales rose 3% to 67.4 billion yen. Operating income was 500 million yen in the red due to price hikes for steel stock.

Industrial Machinery Segment

The initiation of a marketing strategy of researching the market in depth and initiating proposal-based sales that encompass client needs resulted in an increase in orders for the material handling system.

The Company increased sales for the turbine and pump business, both domestically and overseas, by upgrading its marketing strategy by client segment, market segment and machinery type, and by stepping up its ability to propose solutions for client concerns.

As a result, orders for the division as a whole rose 14% year-on-year to 68.7 billion yen, and sales rose 4% to 56.1 billion yen. Operating income rose 21% year-on-year to 5.8 billion yen.

Construction Machinery Segment

Both orders and sales for the North American market rose substantially for the Company's hydraulic excavator business. This resulted from strengthening its marketing power through technological differentiation and progress in concluding tie-ups with partner companies and Group companies in the U.S.

The Company's sales efforts unearthed demand for its mobile crane business through successive introductions of new models that met customers needs, resulting in increases in both orders and sales, primarily to the U.S.

As a result, orders for the division as a whole rose 22% year-on-year to 136.4 billion yen and sales rose 16% to 126.4 billion yen. Operating income rose 43% year-on-year to 8.5 billion yen.

2. Outlook for the Next Fiscal Year

The Company expects the favorable environment for the Group to continue in the next period despite concerns over a deceleration in the U.S. economy, which has been heretofore expanding. The Company expects domestic capital spending to remain firm and expects stable growth in the world economy, led by China and Asia. The Group sees this favorable business environment as a perfect opportunity and will continue management efforts to make great strides in achieving the goals of its medium-term management plan, “Leap to Excellence '07”.

(Units: billions of yen)

Consolidated	Amount	Non-consolidated	Amount
Net sales	570.0	Net sales	265.0
Operating income	53.0	Operating income	20.0
Ordinary income	53.0	Ordinary income	20.0
Net income	31.0	Net income	10.0

* The assumed exchange rate is 1 dollar = 110 yen.

Note: Expectations and outlooks for future performance are rational judgments made based on the information currently available. Therefore, actual results may vary from written expectations and outlooks due to changes in various factors. Please see Business Risks section for detailed information about those factors.

IV. Financial Position

Total assets rose by 9.5 billion yen year-on-year to 579.2 billion yen, with growth in notes receivable and trade accounts receivable resulting from steady growth in sales and an increase in market valuation for securities held for long-term investment. Interest-bearing debt decreased by 43.7 billion yen year-on-year to 125.5 billion yen, due to diligent efforts to repay loans. The shareholder's equity-to-total assets ratio also showed improvement at 21.7%. Shareholder's equity rose 30.6 billion yen year-on-year to 167.7 billion yen, due to strong operating results for the current period.

Cash inflows from operating activities increased by 4.6 billion yen year-on-year to 50.0 billion yen. This increase was mainly due to an increase in net income before taxes and other adjustments for the current period and to a decline in trade receivables.

Cash outflows from investment activities increased by 900 million yen year-on-year to 7.0 billion yen, due to factors such as increased capital spending.

Cash outflows from financing activities increased by 2.3 billion yen year-on-year to 48.8 billion yen, due to loan repayment efforts.

Cash Flows Indicators

	2005	2004	2003	2002	2001
Stockholders' equity ratio	29.0	24.1	19.7	15.2	13.8
Stockholders' equity ratio at market value	117.4	44.6	30.7	7.6	8.4
Years to debt redemption	2.5	3.7	2.8	9.3	7.6
Interest coverage ratio	21.0	15.0	19.5	6.3	7.8

Notes:

1. Indicators calculated using the following formulae.
   Stockholders' equity ratio: Stockholders' equity/ Total assets
   Stockholders' equity ratio at market value: Market capitalization/ Total assets
   Years to debt redemption: Interest-bearing debt/ Operating cash flow
   Interest coverage ratio: Operating cash flows/ Interest payments
2. All are calculated based on consolidated financial figures.
3. Interest-bearing debt indicates all liabilities posted in the balance sheets on which the Company pays interest.

V. Business Risks

The Group's operating results and financial position could be influenced by any of items enumerated below.

Items from the text that concern the future are based on the Group's judgments made at the end of the current consolidated fiscal year.

(1) Economic conditions

Demand for the capital goods, which comprise the majority of the Group's net sales, is influenced by economic conditions of the areas within Japan and overseas where the Group conducts its sales.

Therefore, recessions in Japan, Asia, North America, Europe, and other major markets, and the subsequent reduction in demand for the Group's products, may affect the Group's performance and financial position.

(2) Exchange rate fluctuation

The Group's business activities include production and sales of its products in many countries around the world.

Transactions, including sales, expenses, assets, and liabilities, that are carried out in the local currency of each country are converted to yen in order to prepare consolidated financial statements.

Values of these items in the local currency may not change, however it is possible that the value after conversion to yen will be affected by the exchange rate at the time of conversion.

Moreover, as of March 31, 2006, dollar denominated back orders, centered on the shipbuilding business, were about 1.2 billion dollars.

To minimize the affects of fluctuations in the exchange rate on results, risk hedges such as forward exchange contracts are used, but it is difficult to remove risk entirely in this way.

As a result, the Group's performance results may be influenced by fluctuations in the exchange rate.

(3) Rise in raw materials prices

Increases in prices of raw materials such as iron, copper, and petroleum that accompanied worldwide business recovery have become pronounced, and the Company is concerned about the subsequent rise in the costs of raw materials necessary for its products.

The Group has endeavored to reduce costs through VE and similar activities, and has attempted to capture rising raw materials prices in the estimated costs of its products, but it is possible that not all cost increases can be absorbed, and results may be affected.

(4) Overseas business

The Group works to develop global businesses, particularly in the Mass-Produced Machinery segment and the Construction Machinery segment, and focuses on markets in North America, Asia, and Europe. In order to increase overseas demand, it must enhance overseas sales networks, services and production facilities.

However, depending on the country, there are times when political changes and unforeseeable changes in laws and regulations may influence the market for a particular product. Especially in China, where the market can overheat due to sudden economic growth, financial regulation may be imposed as part of the application of investment control measures.

As a result, it is possible that the results of the Group's overseas business activities may be affected.

(5) Product quality

All of the Group's products are manufactured according to an exacting quality standard. None the less, not every product produced by the Group can be free of defects, and there is no guarantee that situations will not arise in which the Group will have to bear the burden of guarantee construction.

In addition, the Group carries product liability compensation insurance, but there is no guarantee that this insurance will cover all compensation amounts.

If the sums involved in guarantee construction and product liability compensation obligations borne by the Group as a result of problems with product quality are large, then they could have an adverse influence on the Group's performance results and financial position.

(6) Effects of impairment accounting

On March 31, 2002, the Company revaluated its land used for business purposes in accordance with Japan's Law Concerning Land Revaluation (Law No. 34, dated March 31, 1998) and Law Amending the Law Concerning Land Revaluation (Law No. 19, dated March 31, 2001) on the basis.

The difference between the book value of land at the end of the current fiscal year and its value after the revaluation was 21.7 billion yen, a decrease of 21%. If the value of the land further depreciates in the future, there is a possibility it will register as a depreciation of fixed assets.

When the decrease is registered, it may be reflected in the Group's performance results.

(7) Environmental protection

The Group, in accordance with its Group Environmental Policy, devotes itself to the reduction of environmental impact, such as by avoiding environmental risks and minimizing waste.

Although the group has an exhaustive system in place to prevent environmental pollution, there is always the possibility that environmental pollution could occur due to unexpected circumstances.

If environmental pollution were to occur, the large costs involved might affect the Group's performance results.

(8) Disasters

In order to prevent or reduce to the smallest extent possible damages arising from disasters such as fire, earthquake, typhoon, and storms and flooding, the Group carries out inspections and training and has installed a communications system.

Nonetheless, physical damages and injuries resulting from disasters may impact the Group's activities.

Moreover, there is no insurance that can provide complete coverage of damages from disasters.

VI. Consolidated Income Statements

(Units: millions of yen)

	Current Fiscal Year April 1, 2005 to March 31, 2006		Previous Fiscal Year April 1, 2004 to March 31, 2005		Y/Y Change
	Amount	%	Amount	%	Amount
Net sales	551,339		521,310		30,029
Cost of sales	434,904	78.9	407,512	78.2	27,392
Gross profit	116,435	21.1	113,798	21.8	2,636
Selling, general & administrative expenses	68,930		65,025		3,905
Operating income	47,505	8.6	48,773	9.4	(1,269)
Non-operating income					
Interest income	220		172		48
Dividend income	367		289		78
Equity in earnings of unconsolidated subsidiaries and affiliated companies	4,303		4,080		223
Other-net	3,305		3,361		(56)
Total Non-operating income	8,195		7,903		292
Non-operating expenses					
Interest expense	2,384		2,995		(611)
Loss on disposal of property, plant, equipment and other assets	836		1,074		(238)
Other	4,894		4,753		141
Total Non-operating expenses	8,114		8,823		(708)
Non-operating income/loss	81		(920)		1,001
Ordinary income	47,585	8.6	47,853	9.2	(268)
Extraordinary gains					
Gain on sale of securities - net	906		506		400
Amortization of prior service cost	--		2,515		(2,515)
Gain on sale of property, plant and equipment - net	--		1,575		(1,575)
Extraordinary gains	906		4,597		(3,691)

(Units: millions of yen)

	Current Fiscal Year April 1, 2005 to March 31, 2006		Previous Fiscal Year April 1, 2004 to March 31, 2005		Y/Y Change
	Amount	%	Amount	%	Amount
Extraordinary losses					
Loss on breach of antitrust law	705		--		705
Loss on sale of property, plant and equipment - net	686		--		686
Loss on valuation of investment securities	471		--		471
Provision for retirement benefits to directors, corporate auditors and executive officers	257		488		(232)
Impairment losses	229		--		229
Loss on liquidation of subsidiaries	70		3,053		(2,983)
Loss on valuation of shares of affiliated companies	7		--		7
Amortization of discrepancies from change in standards for retirement allowance accounting	--		5,584		(5,584)
Loss from business reorganization	--		2,810		(2,810)
Loss on sales of property, plant and equipment	--		1,925		(1,925)
Extraordinary losses	2,425		13,862		7,478
Income before income taxes	46,066	8.4	38,588	7.4	7,478
Corporate income tax current	15,735		13,415		2,320
Corporate income tax deferred	135		2,406		(2,271)
Minority interests in consolidated subsidiaries	(454)		26		(479)
Net income	29,742	5.4	22,792	4.4	6,949

VII. Consolidated Statements of Stockholders' Equity

(Units: millions of yen)

Item \ Term	Current Fiscal Year April 1, 2005 to March 31, 2006	Previous Fiscal Year April 1, 2004 to March 31, 2005
Capital Surplus		
Capital surplus at the beginning of term	16,803	16,800
Increase in capital surplus	5	2
Gain on disposition of treasury stock	5	2
Capital surplus at the end of term	16,808	16,803
Retained earnings		
Retained earnings at the beginning of term	42,677	19,848
Increase in retained earnings	30,419	23,027
Net income	29,742	22,792
Increase owing to merger	278	--
Increase from transfer from revaluation reserve for land, net of income taxes to retained earnings	399	235
Decrease in retained earnings	4,248	198
Dividends	3,308	--
Bonuses for directors	42	13
Decrease attributable to application of UK subsidiary's standards for retirement allowance accounting	839	--
Decrease due to increase in numbers of consolidated subsidiaries	12	--
Decrease due to decrease in numbers of consolidated subsidiaries	--	149
Decrease due to increase in numbers of consolidated subsidiaries and companies accounted for by the equity method	--	35
Decrease due to decrease in numbers of consolidated subsidiaries and companies accounted for by the equity method	43	--
Other	4	--
Retained earnings at the end of term	68,848	42,677

VIII. Consolidated Balance Sheets for the Full Year FY 2006

(Units: millions of yen)

	End of Fiscal Year As of March 31, 2006	End of Fiscal Year As of March 31, 2005	Y/Y Change
	Amount	Amount	Amount
Assets			
Cash and deposits	43,917	49,636	(5,719)
Notes and account receivable	158,893	151,618	7,275
Inventories	92,981	88,859	4,122
Deferred income taxes	7,844	7,838	6
Other	14,971	20,151	(5,180)
Allowance for doubtful accounts	(794)	(1,937)	1,143
Current assets	**317,813**	**316,166**	**1,647**
Buildings and yards	40,918	42,046	(1,128)
Machinery and equipment	18,881	18,362	519
Land	114,115	115,536	(1,421)
Construction in progress	3,525	1,462	2,063
Other	4,041	3,583	458
Tangible assets	181,480	180,990	491
Intangible assets	4,789	3,995	794
Rights to facilities, etc.	4,789	3,995	794
Investment securities	54,972	41,544	13,428
Long-term loans receivable	97	391	(294)
Deferred income taxes	7,400	11,498	(4,098)
Other	14,985	20,052	(5,066)
Allowance for doubtful accounts	(2,302)	(4,864)	2,562
Investments, long-term loans and other assets	75,152	68,621	6,531
Fixed assets	**261,421**	**253,605**	**7,816**
Total assets	**579,233**	**569,771**	**9,463**

(Units: millions of yen)

	End of Fiscal Year As of March 31, 2006	End of Fiscal Year As of March 31, 2005	Y/Y change
	Amount	Change	Amount
Liabilities			
Notes and accounts payable	142,778	134,439	8,339
Bank loans	28,188	44,883	(16,696)
Commercial paper	20,000	11,500	8,500
Long-term debt within one year	30,529	52,471	(21,943)
Bond redemption within one year	--	1,000	(1.000)
Accrued income taxes	9,129	10,720	(1,591)
Advance payments received on contracts	31,976	27,417	4,558
Allowance for guaranteed construction	3,410	2,940	470
Allowance for loss on ordered construction	45	--	45
Other	33,493	24,984	8,509
Current liabilities	**299,547**	**310,356**	**(10,809)**
Bond	10,000	10,000	--
Long-term debt due after one year	36,787	49,373	(12,587)
Employees' severance and retirement benefits	22,578	20,049	2,529
Allowance for retirement benefits to directors, corporate auditors and executive officers	921	629	292
Allowance for loss on liquidation of subsidiaries	--	1,881	(1,881)
Deferred income taxes on revaluation reserve for land	33,505	31,055	2,450
Other	4,405	5,444	(1,039)
Long-term liabilities	**108,195**	**118,430**	**(10,236)**
Total liabilities	**407,742**	**428,786**	**(21,044)**
Minority interests	3,752	3,829	(77)
Stockholders' equity			
Common stock:			
Paid in capital	30,872	30,872	--
Capital surplus	16,808	16,803	5
Retained earnings	68,848	42,677	26,171
Revaluation reserve for land, net income taxes	42,142	45,265	(3,123)
Unrealized gains on securities, net income taxes	10,269	4,476	5,794
Foreign currency translation adjustments	(654)	(2,741)	2,087
Treasury stock	(544)	(195)	(349)
Total stockholders' equity	**167,740**	**137,156**	**30,584**
Liabilities, minority interest, and stockholders' equity	**579,233**	**569,771**	**9,463**

IX. Consolidated Cash Flow Statements

(Units: millions of yen)

	Current Fiscal Year April 1, 2005 to March 31, 2006	Previous Fiscal Year April 1, 2004 to March 31, 2005
Cash flows from operating activities		
Income before income taxes	46,066	38,588
Depreciation	9,072	9,282
Impairment losses	229	--
Gain on sale of property, plant and equipment - net	(89)	(1,575)
Loss on sale of property, plant and equipment - net	686	214
Loss on disposal of property, plant and equipment	836	1,074
Loss on disposal of property, plant, equipment and other assets	--	1,925
Gain on sale of securities	(906)	(506)
Loss on sale of securities	1	4
Loss on valuation of securities	471	85
Loss from liquidation of subsidiaries	70	3,053
Loss on valuation of subsidiaries' securities	7	--
Loss from reorganization of business	--	2,810
Increase in employees' severance and retirement benefits	1,315	3,826
Increase in provision for retirement benefits to directors, corporate auditors and executive officers	292	629
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(4,303)	(4,080)
Decrease in allowances	(5,227)	(790)
Interest and dividend income	(587)	(461)
Interest expense	2,384	2,995
(Increase) decrease in notes and accounts receivable	3,028	(9,483)
(Increase) decrease in accrued revenue	6,941	(3,497)
(Increase) decrease in inventories	(1,634)	4,126
Increase in notes and accounts payable	6,533	4,421
Other-net	3,263	3,279
Sub-total	68,451	55,921
Interest and dividend received	679	481
Payments for interest	(2,258)	(3,023)
Payments for income taxes	(16,848)	(7,928)
Net cash provided by operating activities	50,023	45,451

(Units: millions of yen)

	Current Fiscal Year April 1, 2005 to March 31, 2006	Previous Fiscal Year April 1, 2004 to March 31, 2005
Cash flows from investing activities		
Decrease in time deposits	278	256
Purchase of securities	(1,295)	(2,338)
Proceeds from sale of securities	1,280	2,758
Disbursements for investment in affiliates	(1,080)	(494)
Proceeds from liquidation of subsidiaries	1,528	65
Payments for purchases of property, plant and equipment	(11,497)	(10,178)
Proceeds from sale of property, plant and equipment	2,202	3,257
Proceeds from refund of investment	1,462	--
Payments for long-term loans receivables	(44)	(344)
Collection of long-term loans receivables	332	936
Other-net	(190)	(5)
Net cash used in investing activities	(7,024)	(6,087)
Cash flows from financing activities		
Decrease in short-term loans	(18,074)	(25,355)
Increase in commercial paper	8,500	1,500
Proceeds from long-term debt	17,990	2,930
Repayments for long-term debt	(52,540)	(31,916)
Proceeds from issue of bonds	--	10,000
Payment for redemption of bonds	(1,000)	(3,521)
Proceeds from sale of treasury stock	8	4
Disbursement for acquisition of treasury stock	(352)	(124)
Dividends paid	(3,308)	--
Payment of dividends for minority stockholders	(36)	(8)
Net cash used in financing activities	(48,812)	(46,490)
Effect of exchange rate changes on cash and cash equivalents	343	1
Decrease in cash and cash equivalents	(5,470)	(7,125)
Cash and cash equivalents at beginning of year	49,108	57,678
Increase due to new consolidation	3	--
Increase due to merger and acquisition	215	--
Net decrease from the change in consolidated companies	(212)	(1,446)
Cash and cash equivalents at the end of year	43,644	49,108

Significant Items Forming the Basis for Preparation of Consolidated Financial Statements

1. Items concerning scope of consolidation

Number of subsidiaries: 88 companies
Names of major consolidated subsidiaries

Sumitomo (S.H.I.) Construction Machinery Co., Ltd., Shin Nippon Machinery Co., Ltd., Seisa Gear, Ltd., Sumitomo Heavy Industries Marine & Engineering Co., Ltd., Sumitomo Heavy Industries PTC Sales Co., Ltd. Sumiju Environmental Engineering, Inc., Link-Belt Construction Equipment Company, Sumitomo Machinery Corporation of America, and Sumitomo (SHI) Cyclo Drive Germany, GmbH

Non-consolidated subsidiaries (Shin Nichizo Engineering Co., Ltd. etc.) are small companies, and their combined total assets, sales, net income (amount corresponding to equity holding) and retained earnings (amount corresponding to equity holding) all have no important impact on consolidated financial statements.

2. Application of equity method

Number of non-consolidated subsidiaries accounted for by equity method: 2 companies
Number of affiliated companies accounted for by the equity method: 7 companies
Names of major companies accounted for by equity method.
Sumitomo Eaton Nova Corporation (Changed its name to SEN Corporation, an SHI and Axcelis Company), and Nihon Spindle Mfg. Co., Ltd.

Subsidiaries (Shin Nichizo Engineering Co., Ltd. etc.) and affiliated companies (Toa Koki Co., Ltd. etc.) that are not accounted for by the equity method have been excluded from the application of the equity method because they have minimal impact on consolidated net income and consolidated retained earnings, and have little importance in terms of overall group.

3. Changes in scope of consolidation and application of equity method

During this consolidated fiscal year, in addition to adding SM-Cyclo De Argentina S.A., a company that increased in importance, to the scope of consolidation, Ohtsuka Machinery Works, Ltd., which was completely liquidated, and two other companies were removed from the scope of consolidation.

Tatung SM-Cyclo Co., Ltd. was excluded from the application of the equity method because it became a non-affiliated company after partly selling its shares in this fiscal year.

4. Fiscal years of consolidated subsidiaries

The consolidated overseas companies, Sumitomo Machinery Corporation of America, Link-Belt Construction Equipment Company, Sumitomo (SHI) Cyclo Drive Germany, GmbH, etc. have a full year consolidated account settlement date of December 31. In the case of important transactions, necessary adjustments were made on a consolidated basis.

5. Accounting standards

(1) Valuation criteria and valuation methods for major assets

1) Securities
Bonds held to maturity
Amortized cost method

Other marketable securities
With fair market value ･･･Market value method based on quoted market price on full year consolidated account settlement date
(Appraisal differences are dealt with by means of the direct capital influx method, with cost of securities sold calculated with the moving average method.)

Without fair market value ･･･Stated at cost determined by the moving average method

2) Derivatives
Market value method

3) Inventories

Work in process: Principally stated at cost based on specific cost method

Finished products, semi-finished products, raw materials and supplies: Principally stated at cost based on the total average method
As for products in Construction Machinery segment are principally stated at cost or market, whichever is lower based on specific cost method.

(2) Methods of depreciation for major depreciable assets

1) Property, plant and equipment

The Company computes depreciation by the declining balance method. Furthermore, as for useful life and residual value, the standard used is principally the same as the method stipulated in the income tax code.

However, the Company and some consolidated subsidiaries apply the straight-line method to buildings acquired after April 1, 1998 (excluding equipment belonging to buildings).

2) Intangible fixed assets

Depreciation is computed by the straight-line method. Furthermore, as for useful life and residual value, the standard used is principally the same as the method stipulated in the income tax code.
However, in the case of software used by the Company itself, the straight-line method based on the period of possible use within the Company (5 years) is adopted.

(3) Criteria for appropriation of important allowance

1) Allowance for doubtful accounts

To prepare s against credit losses, the Company makes additions to this allowance on the basis of loan loss ratios for standard loans, and on an individual basis for loans considered unlikely to be repaid in full, recording an amount equivalent to that thought to be irretrievable.

2) Allowance for guaranteed construction

In preparation for disbursements for expenses for gratuitous repair made after product delivery, allowances for guarantee construction are recorded based on historical results and the like.

3) Allowance for losses on ordered construction

As for undelivered construction orders for which it is estimated, at the end of the consolidated fiscal year, that extensive losses are likely to occur after the consolidated fiscal year, and for which a rational estimate of the amount of said losses is possible, the estimated amount of losses that are expected to occur after this full year are recorded.

4) Employees' severance and retirement benefits

To provide for employees' accrued retirement benefits, the Company charged to income the amount recognized as having been incurred at the end of the consolidated financial period based on the projected amounts of the liability for accrued retirement benefit liabilities and pension assets at the end of the consolidated fiscal year.

Additionally, the Company accounts for past service liability as expenses in the consolidated fiscal year in which they occurred. Consolidated subsidiaries account for past service liability as expenses calculated by the straight line method, based on a fixed number of years (mainly 12 years) within the average remaining employee service time when they occurred.

Actuarial differences are amortized on a straight-line basis over a period which falls within the average estimated remaining years of service (12 years) of the participants commencing the year following.

5) Allowance for retirement benefits to directors, corporate auditors and executive officers

As for accrued retirement benefits to directors and executive officers, the retirement benefits system has been abolished within the Company and some of its consolidated subsidiaries: the amount recorded as an allowance for retirement benefits is determined on the basis of compensation commensurate with work performance during the term of duty.

(4) Procedure of important lease transaction

For financial lease where ownership of leased properties is not recognized to transfer to borrower, an accounting procedure pursuant to common methods for lease transaction is adopted.

(5) Derivatives and hedging activities

1) Hedge accounting methods

The Company uses deferral hedge accounting. In the case of Interest-rate swaps, if conditions for a special application are met, the special application is adopted. In addition, as for foreign currency futures contract, if conditions for appropriation are fulfilled, appropriation treatment is adopted.

2) Hedging measures and hedged items

Hedging instruments	Hedged items
Forward foreign exchange contracts	Foreign currency-denominated liabilities and planned transactions
Interest-rate swaps	Loans

3) Hedging policy

Based on the “Market Risk Management Rule” provided for by the board of directors, the Company aims to decrease risks stemming from exchange rate and interest rate fluctuations, and therefore does not engage in any speculative transactions.

4) Method of evaluating effectiveness of hedging

The fluctuations in the total sum and the quotation for fair value hedging and the fluctuation in the total sum and quotation for cash flows hedging are compared every 6 months, and hedge effectiveness is evaluated based on the amount of the fluctuation for each.

The Company does not evaluate the effectiveness of hedging interest-rate swaps by special applications.

(6) Other important items forming the basis for preparation of consolidated financial statements

1) Method of accounting for consumption tax, etc.

The Company adopts the tax exclusion method for consumption and regional consumption tax.

2) Adoption of a consolidated tax payment system

The Company and some of its consolidated subsidiaries have adopted a consolidated tax payment system.

6. Items related to asset and liability valuation of consolidated subsidiaries

The Company uses market value accounting to assess the value of its consolidated subsidiaries' assets and liabilities.

7. Items related to amortization of consolidation adjustment

Consolidation adjustment is amortized in proportional amounts over a five-year period.
However, smaller amounts are amortized in full when incurred.

8. Items related to treatment of profit appropriation

Consolidated statements of stockholders' equity are prepared based on the consolidated company's profit appropriation determined during the consolidated fiscal year.

9. Fund range in the consolidated statement of cash flows

Cash (cash and cash equivalents) comprise cash in hand, deposits withdrawable at any time, and easily cashable short -term investment with little risk and maturity date coming within three months from the acquisition date.

Changes in Accounting Method

Allowances for losses on ordered construction

The recording method has changed: from this consolidated financial period, if there are undelivered construction orders for which it is estimated, at the end of the consolidated financial period, that extensive losses are likely to occur after the consolidated financial period, and for which a rational estimate of the amount of the losses is possible, then the estimated amount of the losses which are expected to occur in the next consolidated fiscal year and beyond will be recorded under allowances for losses on construction orders.

This change is believed to firmly establish said allowances as accounting practices. It was made in order to improve financial reporting and to further improve the balancing of period profits and losses.

As a result, in comparison with previous methods, the cost of sales increased by 45 million yen, while operating income, ordinary income, and net income before taxes and other adjustments were all decreased by the same amount.

Allowance for retirement benefits to directors, corporate auditors and executive officers

The recording method has changed: previously, retirement benefits for directors at some domestic consolidated subsidiaries were recorded at the time of retirement. However, this consolidated financial period, the retirement benefit system is abolished, and the amount recorded for directors' retirement benefit allowances is determined on the basis of compensation commensurate with work performance during the term of duty, in the hopes of further improving financial health.

The sum of 29 million yen incurred this consolidated financial period as a result of this change is recorded under selling, general, and administrative expenses, and the corresponding sum of 257 million yen from previous fiscal year is recorded under extraordinary losses.

As a result of the above, in comparison with former methods, operating income and ordinary income each decreased by 29 million yen, and net income before taxes decreased by 286 million yen.

Accounting standard for losses on fixed assets

Starting this consolidated financial period, the "Accounting Standards for Losses on Fixed Assets" ("Opinion Concerning the Establishment of Accounting Standards for Losses on Fixed Assets" (Business Accounting Council, August 9, 2002) and "Guidelines for Adopting Accounting Standards for Losses on Fixed Assets" (Guidelines for Adopting Business Accounting Standards No. 6, October 31, 2003)) was adopted.

As a result of the above, net income before taxes and other adjustments posted a decrease of 229 million yen.

Notes to the Consolidated Balance Sheet

(Units: millions of yen)

Current Fiscal Year		Previous Fiscal Year	
1. Total depreciation on tangible fixed assets	166,854	1. Total depreciation on tangible fixed assets	164,541
2. Pledged assets and secured obligations		2. Pledged assets and secured obligations	
Pledged assets	39,742	Pledged assets	40,101
Secured obligations	5,364	Secured obligations	7,940
3. Discount on notes receivable	90	3. Discount on notes receivable	338

4. Notes on revaluation of land

The Company revaluated its land for business use on March 31, 2002, in accordance with the Law on Land Revaluation (Public Law No. 34; March 31, 1998) and the law revising part of the Law on Land Revaluation (Public Law No. 19; March 31, 2001).

The taxable amount on the difference arising from revaluation is recorded under liabilities as “deferred tax liability for revaluation” in accordance with law partially revising the Law on Land Revaluation (Public Law No. 24; March 31, 1999). The amount netting this out is recorded under capital as “discrepancy from land revaluation.”

Revaluation method:

Land values are calculated by rationally adjusting the tax valuation on fixed assets as stipulated in Clause 2, No. 3 of the Law on Land Revaluation (Public Law No. 119; March 31, 1998). However, some land values are calculated in accordance with an appraisal performed by a real estate appraiser as stipulated in No. 5 of the same law.

Revaluation carried out on March 31, 2002

Difference between market value of reassessed land at end of current fiscal year and book value after revaluation.

Current Fiscal Year	Previous Fiscal Year
(21,692) million yen	(19,152) million yen

5. Guaranteed obligations

	Current Fiscal Year	Previous Fiscal Year
Guaranteed obligations	5,922 million yen	6,970 million yen
Commitment to guarantee	-- million yen	194 million yen
Total	5,922 million yen	7,164 million yen
(of which, Group’s obligation)	5,822 million yen	7,042 million yen

6. Consolidation adjustments included in other fixed liabilities

Current Fiscal Year	Previous Fiscal Year
1,120 million yen	1,615 million yen

Notes to the Consolidated Statement of Income

R&D costs included in SG&A and net manufacturing costs

Current Fiscal Year	Previous Fiscal Year
7,441 million yen	6,317 million yen

The Company recorded the following impairment loss in the current consolidated period.

Application	Category	Location	Amount
Idle	Land	Kurashiki-shi, Okayama prefecture	229 million yen

The above-mentioned land was previously held as company housing for employees, but the housing has since been dismantled, and it has become an idle asset.

There was no utilization plan, and, due to depreciation of the value of the land, it has been recorded as an impairment loss.

To make the impairment loss decision, business segments are as the basis, and, as idle property for which future use is not anticipated, it is grouped as an individual real estate unit.

Furthermore, the collectable amount is calculated using the net sales worth, while the value of idle assets is calculated based on the real estate appraisal report.

X. Marketable Securities

Current Fiscal Year

1) Other marketable securities with market value (As of March 31, 2006)

(Units: millions of yen)

	Acquisition Price	Value on the Balance Sheets	Difference
Items on the consolidated balance sheet that exceed the acquisition cost			
Stock	8,500	25,674	17,174
Items on the consolidated balance sheet that do not exceed the acquisition cost			
Stock	203	191	(11)
Total	8,703	25,865	17,162

2) Other marketable securities that were sold in the fiscal year (April 1, 2005 to March 31, 2006)

(Units: millions of yen)

Amount sold	Total proceeds from sale of securities	Total loss on sale of securities
1,251	906	1

3) Other marketable securities without market value (As of March 31, 2006)

(Units: millions of yen)

	Value on the Consolidated Balance Sheets
Bonds held to maturity	
Unlisted bond	10
Total	10
Other marketable securities	
Unlisted stock	4,266
Other	1,011
Total	5,277

4) Redemption schedule for other marketable securities held to maturity (As of March 31, 2006)

(Units: millions of yen)

Category	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Bonds				
Corporate bonds	--	10	--	--
Total	--	10	--	--

Previous Fiscal Year

1) Other marketable securities with market value (As of March 31, 2005)

(Units: millions of yen)

	Acquisition Price	Value on the Balance Sheets	Difference
Items on the consolidated balance sheet that exceed the acquisition cost			
Stock	8,218	15,705	7,487
Items on the consolidated balance sheet that do not exceed the acquisition cost			
Stock	14	13	(2)
Total	8,232	15,717	7,486

2) Other marketable securities that was sold in the fiscal year (As of March 31, 2005)

(Units: millions of yen)

Amount sold	Total proceeds from sale of securities	Total loss on sale of securities
2,059	506	4

3) Other Marketable Securities without market value (As of March 31, 2005)

(Units: millions of yen)

	Value on the Consolidated Balance Sheets
Bonds held to maturity	
Unlisted bond	10
Total	10
Other marketable securities	
Unlisted stock	4,775
Other	1,024
Total	5,800

4) Redemption schedule for other marketable securities held to maturity (As of March 31, 2005)

(Units: millions of yen)

Category	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Bonds				
Corporate bonds	--	10	--	--
Total	--	10	--	--

XI. Items Related to Retirement Benefits

1. Outline of Retirement Benefit Accounting System

The Company uses concurrently a one-time severance pay system and a defined benefit pension system. Domestic consolidated subsidiaries and some overseas consolidated subsidiaries have established qualified pension systems and one-time severance pay systems as their defined benefit systems.

2. Retirement Benefit Liabilities

(Unit: millions of yen)

	Current Fiscal Year (Ended March 31, 2006)	Previous Fiscal Year (Ended March 31, 2005)
(1) Retirement benefit liabilities	(66,830)	(61,494)
(2) Pension assets	50,352	32,167
(3) Subtotal (1+2)	(16,478)	(29,327)
(4) Variances due to unrecognized calculations	(6,051)	9,187
(5) Unrecognized past service liabilities	4	161
(6) Total (3+4+5)	(22,525)	(19,979)
(7) Prepaid pension expenses	53	70
(8) Accrued retirement benefits (6-7)	(22,578)	(20,049)

3. Retirement Benefit Expenses

(Unit: millions of yen)

	Current Fiscal Year (Ended March 31, 2006)	Previous Fiscal Year (Ended March 31, 2005)
(1) Work-related expenses*	3,152	3,898
(2) Interest expenses	1,439	1,412
(3) Expected return on investments	(410)	(316)
(4) Expenses incurred through change in accounting standards	--	5,584
(5) Expenses incurred through actuarial differences	1,558	1,364
(6) Expenses incurred through past service liabilities	8	(2,444)
(7) Retirement benefit expenses (1+2+3+4+5+6)	5,747	9,499

* Note: The retirement benefit expenses of consolidated subsidiaries using the simplified method are included in (1) Work-related expenses.

4. Basis of Calculations Pertaining to Retirement Benefit Liabilities

	Current Fiscal Year (Ended March 31, 2006)	Previous Fiscal Year (Ended March 31, 2005)
(1) Retirement benefit predictions made with the allocation method	Term fixed amount basis	Term fixed amount basis
(2) Discount ratio	Approximately 2.0%	Approximately 2.0%
(3) Expected rate of return on investments	Approximately 1.5%	Approximately 1.5%
(4) Number of years to amortize accounting standards	Approximately 5 years	Approximately 5 years
(5) Number of years to amortize actuarial differences	Approximately 12 years	Approximately 12 years
(6) Amortized period of past service liabilities	Approximately 12 years	SHI: Approximately 1 year Consolidated subsidiaries: Approximately 12 years

XII. Items Related to Tax Effective Accounting

(Unit: millions of yen)

Current period (Ended March 31, 2006)		Previous period (Ended March 31, 2005)	
1. Breakdown of deferred tax assets and deferred tax liabilities by principal cause of accrual		**1. Breakdown of deferred tax assets and deferred tax liabilities by principal cause of accrual**	
Deferred tax assets		Deferred tax assets	
Excess over provision limit for bonus allowance	3,058	Excess over provision limit for bonus allowance	2,895
Excess over provision limit for default allowance	1,442	Excess over provision limit for default allowance	3,763
Excess over provision limit for guaranteed construction allowance	1,339	Excess over provision limit for guaranteed construction allowance	1,199
Disapproved retirement benefit allowances	14,041	Disapproved retirement benefit allowances	13,323
Disapproved inventory asset valuation losses	756	Disapproved inventory asset valuation losses	771
Unrealized inventory asset profit	1,077	Unrealized inventory asset profit	961
Disapproved valuation losses on investment securities and stock of affiliates	2,880	Disapproved valuation losses on investment securities and stock of affiliates	2,660
Disapproved depreciation excess	676	Disapproved depreciation excess	658
Loss carried forward	3,532	Loss carried forward	3,746
Other	3,396	Other	3,146
Deferred tax assets subtotal	32,196	Deferred tax assets subtotal	33,123
Valuation allowance	(6,930)	Valuation allowance	(9,621)
Total deferred tax assets	25,266	Total deferred tax assets	23,502
Deferred tax liabilities		Deferred tax liabilities	
Condensed book entry reserve funds	(147)	Condensed book entry reserve funds	(206)
Other securities valuation differential	(6,980)	Other securities valuation differential	(2,926)
Valuation differential on market price valuation of all consolidated subsidiaries	(1,849)	Valuation differential on market price valuation of all consolidated subsidiaries	(1,391)
Retained earnings of overseas subsidiaries	(1,851)	Retained earnings of overseas subsidiaries	(508)
Overseas subsidiary premium amortization expense	(527)	Overseas subsidiary premium amortization expense	(415)
Other	(38)	Other	(97)
Total deferred tax liabilities	(11,392)	Total deferred tax liabilities	(5,544)
Net deferred tax assets	13,874	**Net deferred tax assets**	17,958

2. Breakdown of principal causes of corporate tax and other liabilities ratio after application of legal effective tax rate and tax effect accounting

Legal effective tax rate (adjusted)	40.69%
Entertainment expenses and other items not included in losses	1.56%
Per capital inhabitance tax	0.46%
Dividends received and other items not included under permanent revenue	(1.64)%
Consolidated eliminations of dividends received	0.47%
Equity method investment profit/ loss	(2.69)%
Amortization of consolidated adjustment accounts	(0.51)%
Retained earnings of overseas subsidiaries	2.92%
Decrease of valuation allowance	(5.82)%
Other	(0.97)%
Corporate tax and other liability ratio after application of tax effect accounting	34.45%

2. Breakdown of principal causes of corporate tax and other liabilities ratio after application of legal effective tax rate and tax effect accounting

Because the difference between the corporate tax and other liability ratio (after application of the legal effective tax rate and tax effect accounting) and the legal effective tax rate is less than 5% of the latter, the entry has been omitted.

XIII. Segment Information

1. Segment Information by Business

Current Fiscal Year (April 1, 2005 to March 31, 2006)

(Units: millions of yen)

Item \ Segment	A	B	C	D	E	Total	F	Consolidation
I. Net sales and operating income/loss								
Net sales								
(1) Sales to external customers	218,798	82,740	67,372	56,054	126,375	551,339	--	551,339
(2) Internal sales between segments or exchanges	2,059	2,902	421	335	56	5,774	(5,774)	--
Total	220,857	85,642	67,794	56,389	126,431	557,113	(5,774)	551,339
Operating expenses	191,519	81,365	68,273	50,542	117,898	509,598	(5,763)	503,834
Operating income/loss	29,338	4,277	(479)	5,847	8,533	47,515	(10)	47,505
II. Assets, depreciation and capital expenditure								
Assets	217,048	78,417	89,549	44,328	106,618	535,961	43,273	579,233
Depreciation	4,722	975	1,355	609	1,411	9,072	--	9,072
Capital expenditure	5,316	1,458	1,206	1,010	1,295	10,285	--	10,285

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 Fiscal Year (April 1, 2004 to March 31, 2005)

(Units: millions of yen)

Segment / Item	A	B	C	D	E	Total	F	Consolidation
I. Net sales and operating income/loss								
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
II. Assets, depreciation and capital expenditure								
Assets	220,286	83,428	91,635	48,134	100,585	544,067	25,704	569,771
Depreciation	4,896	935	1,397	597	1,458	9,282	--	9,282
Capital expenditure	4,126	842	1,174	375	1,658	8,175	--	8,175

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

3. The amount of total assets included in “Cancellation or general” was 63,785 million yen for the current consolidated fiscal year and 65,355 million yen for the previous consolidated fiscal year. Principal items are those related to operating funds (cash and deposits) and long-term investment funds (investment securities).

4. Changes in Accounting Method

Allowances for losses on ordered construction

The recording method has changed: from this consolidated fiscal year, if there are undelivered construction orders for which it is estimated, at the end of the consolidated fiscal year, that extensive losses are likely to occur after the consolidated financial period, and for which a rational estimate of the amount of the losses is possible, then the estimated amount of the losses which are expected to occur in the next consolidated fiscal year and beyond will be recorded under allowances for losses on construction orders.

As a result, in comparison with former method, "Industrial Machinery segment" operating expenses and operating losses each increased by 45 million yen.

Accrued retirement benefits to directors and executive officers

The recording method has changed: previously, retirement benefits for company officers at some domestic consolidated subsidiaries were recorded at the time of retirement. However, this consolidated financial period, the retirement benefit system is abolished, and the amount recorded for company officer retirement benefit allowances is determined on the basis of compensation commensurate with work performance during the term of duty, in the hopes of further improving financial health.

As a result of the above, in comparison with former method, operating expenses increased by 29 million yen, and operating income decreased by the same amount.

Effect by segment is as follows.

(Units: millions of yen)

Segment / Item	Mass-Produced Machinery	Environmental Protection Facilities, Plants & Others	Ship, Steel Structure & Other Specialized Equipment	Industrial Machinery	Construction Machinery	Total
Increase in operating income or	9	5	3	3	9	29
Decrease in operating loss	9	5	3	3	9	29

2. Segment Information by Geographical Area

Current Fiscal Year (April 1, 2005 to March 31, 2006)

(Units: millions of yen)

Item \ Segment	Japan	North America	Others	Total	Cancellation or general	Consolidation
Net sales						
(1) Sales to external customers	465,769	56,672	28,898	551,339	--	551,339
(2) Internal sales between segments or exchanges	28,053	856	2,894	31,803	(31,803)	--
Total	493,822	57,528	31,792	583,142	(31,803)	551,339
Operating expenses	452,275	53,176	29,984	535,436	(31,601)	503,834
Operating income	41,547	4,352	1,808	47,706	(202)	47,505
Assets	471,752	37,707	21,763	531,223	48,011	579,233

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

(Units: millions of yen)

Item \ Segment	Japan	North America	Others	Total	Cancellation or general	Consolidation
Net sales						
(1) Sales to external customers	458,947	39,535	22,829	521,310	--	521,310
(2) Internal sales between segments or exchanges	23,920	872	2,894	27,685	(27,685)	--
Total	482,867	40,406	25,723	548,996	(27,685)	521,310
Operating expenses	437,675	38,390	23,963	500,027	(27,490)	472,537
Operating income	45,192	2,017	1,760	48,968	(195)	48,773
Assets	470,361	31,925	18,509	520,796	48,975	569,771

Notes:
1. Countries and regions classified by geographical proximity.

2. Countries and regions belonging to each classification:
North America: USA, and Canada
Others: UK, Germany, Singapore, and China

3. The amount and principal items of "Cancellation or general" are identical to those in 1. Segment Information by Business, Note 3.

4. Changes in Accounting Method

Allowances for losses on ordered construction

The recording method has changed: after this consolidated financial period, if there are undelivered construction orders for which it is estimated, at the end of the consolidated financial period, that extensive losses are likely to occur after the consolidated financial period, and for which a rational estimate of the amount of the losses is possible, then the estimated amount of the losses which are expected to occur after the first half will be recorded under allowances for losses on construction orders.

As a result, in comparison with former method, operating expenses for "Japan" increased by 45 million yen, and operating income decreased by the same amount.

Accrued retirement benefits to directors and corporate officers

The recording method has changed: previously, retirement benefits for company officers at some domestic consolidated subsidiaries were recorded at the time of retirement. However, this consolidated financial period, the retirement benefit system is abolished, and the amount recorded for company officer retirement benefit allowances is determined on the basis of compensation commensurate with work performance during the term of duty, in the hopes of further improving financial health.

As a result of the above, in comparison with former method, operating expenses for "Japan" increased by 29 million yen, and operating income decreased by the same amount.

3. Overseas Sales

Current Fiscal Year (April 1, 2005 to March 31, 2006)

(Units: millions of yen)

	North America	Asia	Others	Total
I. Overseas sales	94,903	73,514	61,889	230,306
II. Consolidated sales				551,339
III. Overseas sales ratio （%）	17.2	13.3	11.2	41.8

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

(Units: millions of yen)

	North America	Asia	Others	Total
I. Overseas sales	78,471	63,126	56,211	197,807
II. Consolidated sales				521,310
III. Overseas sales ratio （%）	15.1	12.1	10.8	37.9

Notes:
1. Countries and regions classified by geographical proximity.

2. Countries and regions belonging to each classification:
   North America: USA, and Canada
   Asia: Singapore, and China
   Others: UK, and Germany

3. Sales are from the Company and subsidiaries' countries and regions other than Japan.

XIV. Transactions with Related Parties

Not applicable as there were no transactions with related parties in either the current or previous fiscal year.

XV. Orders, Sales and Balance of Orders by Segment

Orders received

(Units: millions of yen)

Businesses	April 1, 2005 to March 31, 2006		April 1, 2004 to March 31, 2005		Y/Y Change	
	Amount	%	Amount	%	Amount	%
Mass-Produced Machinery	216,974	36.0	213,123	38.0	3,851	1.8
Environmental Protection Facilities, Plants & Others	84,283	14.0	100,343	17.9	(16,060)	(16.0)
Ship, Steel Structure & Other Specialized Equipment	96,660	16.0	75,725	13.5	20,935	27.6
Industrial Machinery	68,693	11.4	60,012	10.7	8,681	14.5
Construction Machinery	136,385	22.6	111,529	19.9	24,857	22.3
Total	602,995	100.0	560,731	100.0	42,264	7.5

Sales

(Units: millions of yen)

Businesses	April 1, 2005 to March 31, 2006		April 1, 2004 to March 31, 2005		Y/Y Change	
	Amount	%	Amount	%	Amount	%
Mass-Produced Machinery	218,798	39.7	205,091	39.3	13,706	6.7
Environmental Protection Facilities, Plants & Others	82,740	15.0	87,937	16.9	(5,197)	(5.9)
Ship, Steel Structure & Other Specialized Equipment	67,372	12.2	65,288	12.5	2,084	3.2
Industrial Machinery	56,054	10.2	54,008	10.4	2,045	3.8
Construction Machinery	126,375	22.9	108,985	20.9	17,390	16.0
Total	551,339	100.0	521,310	100.0	30,029	5.8

Balance of orders received

(Units: millions of yen)

Businesses	April 1, 2005 to March 31, 2006		April 1, 2004 to March 31, 2005		Y/Y Change	
	Amount	%	Amount	%	Amount	%
Mass-Produced Machinery	66,332	18.0	67,787	21.4	(1,455)	(2.1)
Environmental Protection Facilities, Plants & Others	73,536	19.9	71,994	22.7	1,543	2.1
Ship, Steel Structure & Other Specialized Equipment	151,936	41.2	122,648	38.7	29,288	23.9
Industrial Machinery	55,704	15.1	43,064	13.6	12,639	29.4
Construction Machinery	21,518	5.8	11,507	3.6	10,010	87.0
Total	369,025	100.0	317,000	100.0	52,025	16.4

Important Subsequent Events

The Company and its consolidated subsidiary SEISA Gear, Ltd. decided at a board of directors meeting held by both companies on May 10, 2006, that Seisa would become the Company's wholly-owned subsidiary. Accordingly, the two companies agreed on an equity swap contract. This equity swap will be carried out through a simple equity swap in accordance with Clause 796, No. 3 of the Company Act.

The equity swap can be summarized as follows:

1. Name of company to be acquired

(1) Name of company to be acquired
SEISA Gear, Ltd.

(2) Business of company to be acquired
Manufacture and sale of gears, speed change gears, speed reducers and couplings

(3) Primary reasons for equity swap
Seisa manufactures and sells gears, speed change gears, worm speed reducers, planetary speed reducers and couplings. The Company is currently concerned with reinforcing the competitiveness of its products to meet diverse customer needs, and must invest in capital, develop technology and utilize its global sales network to expand its sales on a global basis. Accordingly, the Company has determined that it must develop a system that can constructively use the Group' s technology, personnel and other resources.

(4) Date equity swap takes place: October 1, 2006 (provisional)

(5) Legal form of corporate consolidation: Stock swap

(6) Company name after consolidation: Sumitomo Heavy Industries, Ltd.

(7) Ratio of voting rights to be acquired: 51.2％ (of which, 4.8% are held indirectly)

2. Swap ratio by type of stock

(1) Swap ratio by type of stock and method for calculating
The Company has entrusted calculation of the stock swap ratio to Daiwa Securities SMBC Co., Ltd., and Seisa has entrusted this role to Nomura Securities Co., Ltd. The two companies have discussed the results of these calculations and agreed on the method as shown below.

	Sumitomo Heavy Industries, Ltd.	Seisa Gear, Ltd.
Stock swap ratio	1	0.36

Note:
1) Ratio of stock allocation
For every common share in Seisa, 0.36 common shares in the Company are allocated.
However, the common shares that the company holds in Seisa (8,200,000) will not be allocated.

2) Calculation method and calculation basis by third party
Daiwa Securities SMBC analyzed the Company and Seisa using the market share price method and the discounted cash flow method and considered the results of both of these methods in calculating the equity swap ratio.

Nomura Securities used the market share price method to assess the Company and the market share price average method, the analogous corporation comparison method and the discounted cash flow method for Seisa. Nomura Securities then considered the results of all of these methods to calculate the equity swap ratio.

(2) Number of shares to be granted and valuation amount
Number of shares to be granted: 3,100,809 common shares

The valuation amount will be the issuance price calculated based on the average share price during a logical period prior to the day on which the main requirements agreed on for the equity swap multiplied by the aforementioned number of shares.