

# Sumitomo Heavy Industries, Ltd.

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## 1Q CONSOLIDATED FINANCIAL REPORT

For the First Quarter ended June 30, 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.*

## SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

**For the First Quarter ended June 30, 2006**

Presented July 28, 2006

### Sumitomo Heavy Industries, Ltd.

Listed Exchanges	Tokyo Stock Exchange, Osaka Securities Exchange
Stock Code	6302
Head Office	Tokyo
President	Yoshio Hinoh
URL	<a href="http://www.shi.co.jp">www.shi.co.jp</a>
Inquiries	Hideo Ohshima, General Manager, Corporate Communications Dept.
Telephone	+81 3 5488 8219

### 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 policy since the most recent consolidated accounting period

None

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

Consolidated subsidiaries:	New	2	Removed	1
Equity method:	New	0	Removed	0

## 2. FY 2006 - 1Q Consolidated Results (April 1, 2006 to June 30, 2006)

### (1) Business Results

(Units: millions of yen)

	Three Months		Previous Three Months		Previous Full Term
	April 1 to June 30, 2006		April 1 to June 30, 2005		April 1, 2005 to March 31, 2006
		% change		% change	
Net Sales	125,827	21.1	103,867	(5.1)	551,339
Operating Income	9,583	54.5	6,202	(20.8)	47,505
Ordinary Income	9,831	53.0	6,425	(19.7)	47,585
Net Income	6,597	48.6	4,441	5.2	29,742
Net Income per Share (yen)	10.97		7.38		49.45
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 First Quarter	End of Previous First Quarter	End of Previous Full Year
	As of June 30, 2006	As of June 30, 2005	As of March 31, 2006
Total Assets	561,526	555,129	579,233
Net Assets	174,406	137,771	167,740
Equity Ratio (%)	30.5	24.8	29.0
Net Assets per Share (yen)	290.14	229.01	279.02

\*Note: Net assets in the previous first quarter ended June 30 2005 and the fiscal year ended March 2006 do not include profit/loss on deferred hedge and minority interests.

## 3. FY 2006 Consolidated Forecasts (April 1, 2006 to March 31, 2007)

(Units: millions of yen)

	Half Year	Full Year
	April 1, 2006 to Sept. 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

\*Note: (1) Projected net income per share for FY2006 (ending March 31, 2007): .....51.57 yen

### Consolidated Forecasts for the Full Year

There is no change in the forecasts announced May 10, 2006

\*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 continued to expand steadily during the first quarter, despite concerns over the sustained high level of crude oil and raw material prices. The trend of economic expansion overseas also remained firm without any significant change, particularly for the U.S. and China.

The Company is targeting sustained growth in "Leap to Excellence '07", the Company's medium-term plan launched last fiscal year, based on this economic environment. The Company has achieved operating results virtually according to plan this quarter and were able to sustain the steady business operations of last period.

Although orders for the ship, steel structure and other specialized equipment businesses were sluggish, growth in orders for material handling systems, turbines, and pumps in the industrial machinery segment and strong exports for the construction machinery segment, primarily to North America, resulted in an 18% year-on-year increase to 169.6 billion yen.

Sales rose for all segments, rising 21% overall compared with the same period last year to 125.8 billion yen, due in part to strong growth in orders for the industrial machinery segment, which increased 55% year-on-year.

Income rose in line with sales. Operating income rose 55% year-on-year to 9.6 billion yen, ordinary income rose 53% year-on-year to 9.8 billion yen, and net income rose 49% year-on-year to 6.6 billion yen.

Results for each segment are as follows.

### Mass - Produced Machinery

The power transmission and controls business posted strong results, primarily for overseas markets. The precision control equipment and component business was strong both domestically and overseas, recording year-on-year growth in both orders and sales.

This resulted in 13% year-on-year growth in orders for the entire division to 58.8 billion yen and sales of 50.1 billion yen, a 6% year-on-year increase. Operating income was 5.5 billion yen.

### Environmental Protection Facilities, Plants, and Others

Business for environmental protection facilities and plants remained solid with orders for two CFB boiler generators developed by the Company. Overall orders for the division consequently rose 20% year-on-year to 30.2 billion yen and sales rose 19% year-on-year to 14.1 billion. An operating loss of 0.4 billion yen was posted due to the impact of rising prices for raw materials, among other factors.

### Ship, Steel Structure and Other Specialized Equipment

Orders for the shipbuilding business declined with orders for two Aframax tankers, a decrease of one tanker from the same period last year. Sales likewise recorded a year-on-year decline with the transfer of one tanker.

Further cost reductions achieved for steel structures and other specialized equipment contributed to improved income.

Orders for the entire division consequently declined 10% year-on-year to 22.6 billion yen, sales rose by 33% year-on-year to 11.0 billion yen, and an operating income of 0.1 billion yen was posted.

#### **Industrial Machinery**

This period launched with a strong start as the Company secured higher than expected orders for both the material handling systems and turbine and pump businesses. The Company also improved profitability as the Company continued to enhance the Company's cost competitiveness.

Orders for the entire division consequently rose 63% year-on-year to 20.9 billion yen, sales rose 55% year-on-year to 15.1 billion yen, and operating income was 1.7 billion yen.

#### **Construction Machinery**

Overseas sales continued to record strong growth in addition to strong growth in the Company's domestic market share for the hydraulic excavator business. Both sales and income for construction cranes recorded robust growth over the same period last year as the North American market remained strong.

Orders for the entire division consequently rose 31% year-on-year to 37.1 billion yen, sales rose 33% year-on-year to 35.5 billion yen and operating income was 2.6 billion yen.

### **Consolidated Financial Position**

Total assets were 561.5 billion yen, representing a decline of 17.7 billion yen over the end of last period. This resulted from a 12.6 billion yen increase in inventory and declines of 25.5 billion yen for notes and accounts receivable, and 4.6 billion yen in cash and deposits. The balance of interest-bearing debt declined by 20.7 billion yen over the end of last period to 104.8 billion yen, representing a 3.0% improvement in the debt-to-asset ratio over the end of last period to 18.7%. Shareholders' equity to total assets was 30.5%.

## I. Quarterly Consolidated Income Statements (Summary)

(Units: Millions of Yen)

	Three Months		Previous Three Months		Change	Previous Fiscal Year	
	April 1, 2006 to June 30, 2006		April 1, 2005 to June 30, 2005			April 1, 2005 to March 31, 2006	
	Amount	%	Amount	%	Amount	Amount	%
<b>Net sales</b>	<b>125,827</b>	<b>100.0</b>	<b>103,867</b>	<b>100.0</b>	<b>21,960</b>	<b>551,339</b>	<b>100.0</b>
Cost of Sales	98,514	78.3	81,347	78.3	17,167	434,904	78.9
<b>Gross profit</b>	<b>27,313</b>	<b>21.7</b>	<b>22,520</b>	<b>21.7</b>	<b>4,793</b>	<b>116,435</b>	<b>21.1</b>
Selling, general & administrative expenses	17,730		16,318		1,412	68,930	
<b>Operating income</b>	<b>9,583</b>	<b>7.6</b>	<b>6,202</b>	<b>6.0</b>	<b>3,381</b>	<b>47,505</b>	<b>8.6</b>
Non-operating Income:							
Interest income and dividend income	299		214		85	587	
Other	1,353		1,438		(85)	7,608	
Total non-operating Income	1,652		1,652		(0)	8,195	
Non-operating expenses:							
Interest expenses	438		652		(215)	2,384	
Other	967		777		190	5,730	
Total Non-operating expenses	1,404		1,429		(25)	8,114	
<b>Non-operating income/loss</b>	<b>247</b>		<b>223</b>		<b>24</b>	<b>81</b>	
<b>Ordinary income</b>	<b>9,831</b>	<b>7.8</b>	<b>6,425</b>	<b>6.2</b>	<b>3,406</b>	<b>47,585</b>	<b>8.6</b>
Extraordinary gains	294		--		294	906	
Extraordinary losses	--		227		(227)	2,425	
Income before tax and adjustments	10,125	8.0	6,198	6.0	3,927	46,066	8.4
Corporate income taxes	3,368		1,664		1,704	15,871	
Loss (Gain) of minority shareholders	(160)		(93)		(67)	(454)	
<b>Net income</b>	<b>6,597</b>	<b>5.2</b>	<b>4,441</b>	<b>4.3</b>	<b>2,156</b>	<b>29,742</b>	<b>5.4</b>

## II. Quarterly Consolidated Balance Sheets (Summary)

(Units: Millions of Yen)

	End of First Quarter As of June 30, 2006	End of Previous Fiscal Year As of March 31, 2006	Y/Y change	End of Previous First Quarter As of June 30, 2005
<b>Assets</b>				
Cash and deposits	39,309	43,917	(4,608)	44,835
Notes and account receivable	133,383	158,893	(25,510)	124,248
Inventories	105,564	92,981	12,583	105,738
Other	22,531	22,815	(284)	29,831
Allowance for doubtful accounts	(820)	(794)	(26)	(1,822)
<b>Current assets</b>	<b>299,968</b>	<b>317,813</b>	<b>(17,844)</b>	<b>302,830</b>
Tangible assets	184,065	181,480	2,584	180,951
Intangible assets	5,042	4,789	253	3,825
Investments and other assets	72,451	75,152	(2,701)	67,523
<b>Fixed assets</b>	<b>261,558</b>	<b>261,421</b>	<b>137</b>	<b>252,299</b>
<b>Total assets</b>	<b>561,526</b>	<b>579,233</b>	<b>(17,707)</b>	<b>555,129</b>
<b>Liabilities</b>				
Notes and accounts payable	140,155	142,778	(2,623)	127,825
Short-term debt payable	22,100	28,188	(6,087)	44,901
Commercial paper	8,000	20,000	(12,000)	--
Long-term debt within one year	28,784	30,529	(1,745)	52,380
Bond redemption within one year	--	--	--	1,000
Other	80,669	78,052	2,616	73,261
<b>Current liabilities</b>	<b>279,708</b>	<b>299,547</b>	<b>(19,839)</b>	<b>299,367</b>
Bond	10,000	10,000	--	10,000
Long-term debt due after one year	35,917	36,787	(870)	43,714
Other	61,495	61,408	87	60,977
<b>Long-term liabilities</b>	<b>107,412</b>	<b>108,195</b>	<b>(783)</b>	<b>114,691</b>
<b>Total liabilities</b>	<b>387,120</b>	<b>407,742</b>	<b>(20,622)</b>	<b>414,058</b>
<b>Minority interests</b>	<b>--</b>	<b>3,752</b>	<b>--</b>	<b>3,300</b>
<b>Shareholders' equity</b>				
Paid in capital	--	30,872	--	30,872
Capital surplus	--	16,808	--	16,803
Retained earnings	--	68,848	--	45,511
Revaluation reserve for land	--	42,142	--	42,329
Unrealized gains on securities	--	10,269	--	4,682
Foreign currency translation adjustments	--	(654)	--	(2,199)
Treasury stock	--	(544)	--	(227)
<b>Total shareholders' equity</b>	<b>--</b>	<b>167,740</b>	<b>--</b>	<b>137,771</b>
<b>Liabilities, minority interests, and shareholders' equity</b>	<b>--</b>	<b>579,233</b>	<b>--</b>	<b>555,129</b>

	End of First Quarter	End of Previous Fiscal Year	Y/Y change	End of Previous First Quarter
	As of June 30, 2006	As of March 31, 2006		As of June 30, 2005
<b>Net Assets</b>				
Common stock	30,872	--	--	--
Capital surplus	16,817	--	--	--
Retained earnings	74,815	--	--	--
Treasury stock	(625)	--	--	--
<b>Shareholders' equity</b>	<b>121,879</b>			
Unrealized gains on securities	8,461	--	--	--
Profit/loss on deferred hedge	(650)	--	--	--
Revaluation reserve for land	41,898	--	--	--
Foreign currency translation adjustments	(499)	--	--	--
<b>Appraisal and Translation Differences</b>	<b>49,211</b>			
<b>Minority interests</b>	<b>3,316</b>	--	--	--
<b>Total net assets</b>	<b>174,406</b>	--	--	--
<b>Liabilities and net assets</b>	<b>561,526</b>	--	--	--



## II. Segment Information

### 1. Segment Information by Business

#### Current Three Months (April 1, 2006 to June 30, 2006)

(Units: millions of yen)

Segment Item	A	B	C	D	E	Total	F	Consolidation
Net sales								
(1) Sales to external customers	50,138	14,127	10,963	15,127	35,472	125,827	--	125,827
(2) Internal sales between segments or exchanges	529	643	55	68	7	1,303	(1,303)	--
Total	50,667	14,770	11,018	15,195	35,480	127,130	(1,303)	125,827
Operating expenses	45,171	15,177	10,933	13,491	32,861	117,633	(1,389)	116,244
Operating income/loss	5,496	(407)	85	1,704	2,618	9,497	86	9,583

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 Three Months (April 1, 2005 to June 30, 2005)

(Units: millions of yen)

Segment Item	A	B	C	D	E	Total	F	Consolidation
Net sales								
(1) Sales to external customers	46,890	12,036	8,546	9,757	26,638	103,867	--	103,867
(2) Internal sales between segments or exchanges	313	565	144	56	18	1,096	(1,096)	--
Total	47,203	12,601	8,690	9,814	26,656	104,963	(1,096)	103,867
Operating expenses	41,729	12,985	9,935	8,890	25,194	98,734	(1,069)	97,665
Operating income/loss	5,473	(384)	(1,245)	923	1,462	6,229	(27)	6,202

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, 2005 to March 31, 2006)**

(Units: millions of yen)

Segment Item	Segment					Total	F	Consoli- dation
	A	B	C	D	E			
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

**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. Change in the segment during the first quarter:**

S. H. I. Examination & Inspection, Ltd. that had been included in the Ship, Steel Structure & Other Specialized Equipment Segment and Japan Electron Beam Irradiation Service Co., Ltd. that had been included in the Environmental Protection Facilities, Plants & Others segment have been included in the Mass-Produced Machinery segment from this first quarter.

Information on business segments after the change in the previous first quarter and the previous fiscal year has been omitted.

### III. Orders, Sales and Balance of Orders by Segment

#### Orders received

(Units: millions of yen)

Businesses	April 1, 2006 to June 30, 2006		April 1, 2005 to June 30, 2005		YY Change	April 1, 2005 to March 31, 2006	
	Amount	%	Amount	%	%	Amount	%
Mass-Produced Machinery	58,814	34.7	52,066	36.2	13.0	219,141	36.3
Environmental Protection Facilities, Plants & Others	30,239	17.8	25,273	17.6	19.6	83,605	13.9
Ship, Steel Structure & Other Specialized Equipment	22,622	13.3	25,158	17.5	(10.1)	95,171	15.8
Industrial Machinery	20,877	12.3	12,809	9.0	63.0	68,693	11.4
Construction Machinery	37,083	21.9	28,353	19.7	30.8	136,385	22.6
<b>Total</b>	<b>169,634</b>	<b>100.0</b>	<b>143,659</b>	<b>100.0</b>	<b>18.1</b>	<b>602,995</b>	<b>100.0</b>

#### Sales

(Units: millions of yen)

Businesses	April 1, 2006 to June 30, 2006		April 1, 2005 to June 30, 2005		YY Change	April 1, 2005 to March 31, 2006	
	Amount	%	Amount	%	%	Amount	%
Mass-Produced Machinery	50,138	39.9	47,383	45.6	5.8	220,989	40.1
Environmental Protection Facilities, Plants & Others	14,127	11.2	11,868	11.4	19.0	82,062	14.9
Ship, Steel Structure & Other Specialized Equipment	10,963	8.7	8,222	7.9	33.3	65,859	11.9
Industrial Machinery	15,127	12.0	9,757	9.4	55.0	56,054	10.2
Construction Machinery	35,472	28.2	26,638	25.7	33.2	126,375	22.9
<b>Total</b>	<b>125,827</b>	<b>100.0</b>	<b>103,867</b>	<b>100.0</b>	<b>21.1</b>	<b>551,339</b>	<b>100.0</b>

#### Balance of Orders received

(Units: millions of yen)

Businesses	As of June 30, 2006		As of March 31, 2006		Change	As of June 30, 2005	
	Amount	%	Amount	%	%	Amount	%
Mass-Produced Machinery	75,143	18.2	66,360	18.0	13.2	72,731	20.4
Environmental Protection Facilities, Plants & Others	89,649	21.7	73,536	19.9	21.9	85,399	23.9
Ship, Steel Structure & Other Specialized Equipment	163,566	39.6	151,907	41.2	7.7	139,531	39.1
Industrial Machinery	61,453	14.9	55,704	15.1	10.3	46,116	12.9
Construction Machinery	23,129	5.6	21,518	5.8	7.5	13,222	3.7
<b>Total</b>	<b>412,939</b>	<b>100.0</b>	<b>369,025</b>	<b>100.0</b>	<b>11.9</b>	<b>357,000</b>	<b>100.0</b>

\* Change in the segment:

S. H. I. Examination & Inspection, Ltd. that had been included in the Ship, Steel Structure & Other Specialized Equipment Segment and Japan Electron Beam Irradiation Service Co., Ltd. that had been included in the Environmental Protection Facilities, Plants & Others segment have been included in the Mass-Produced Machinery segment from this first quarter.

Therefore, in the previous first quarter and the previous fiscal year, information pertaining to business segmentation after the change has been presented.