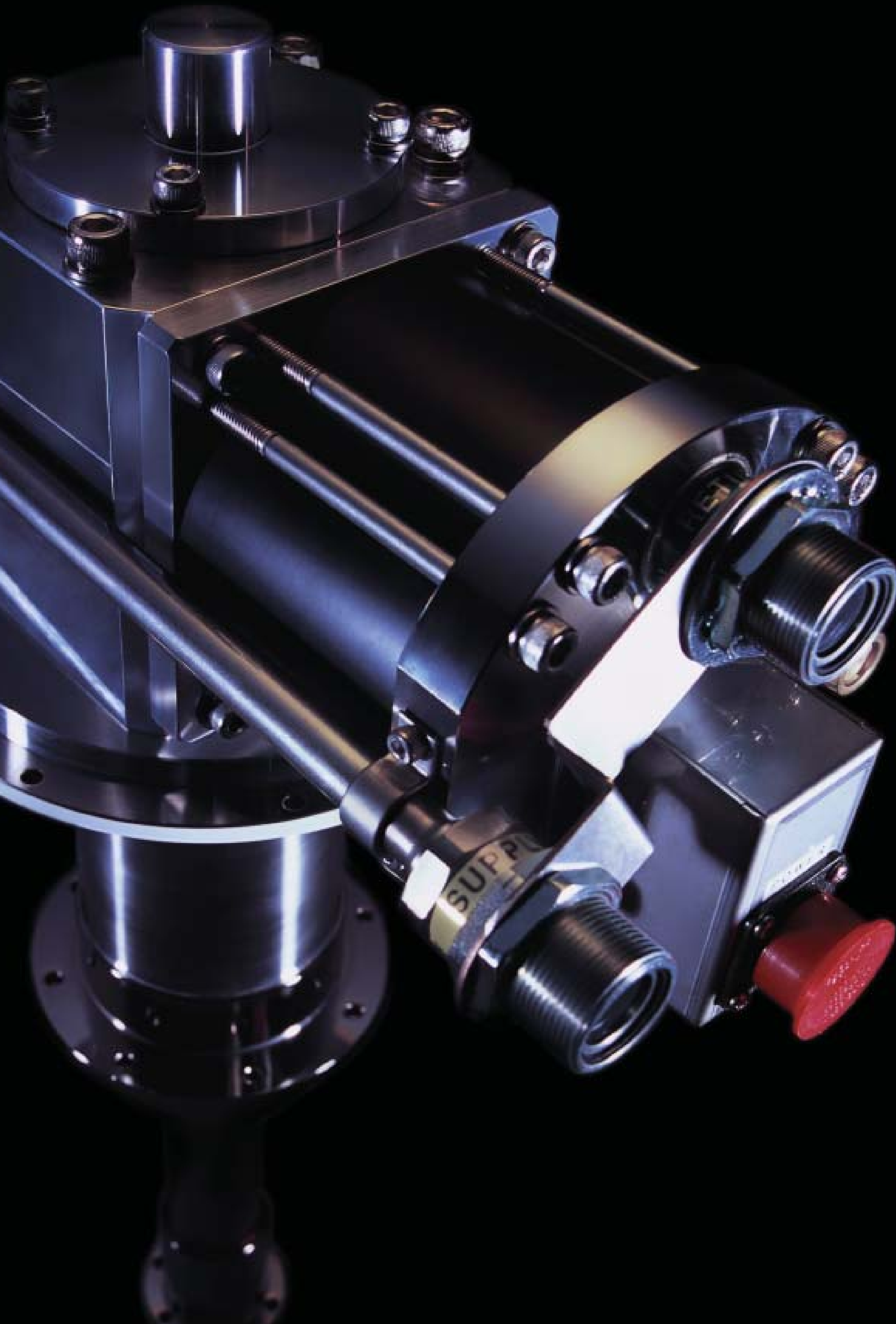
SHI
Sumitomo Heavy Industries

Annual Report 2006

Year ended March 31, 2006



Sumitomo Heavy Industries, Ltd.

A Quick Look at SHI

Financial Highlights

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In fiscal 2005 (from April 2005 to March 2006), sales and net income reached record levels for the third straight year. This is attributable largely to a favorable performance by speed reducers and other mainstay products. We also made progress in the implementation of our new medium-term management plan, "Leap to Excellence '07," which was launched in the term under review.

What we think

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• To Our Shareholders, Customers and Employees

Under "Leap to Excellence '07," which carries forward the initiatives begun under the previous three-year medium-term management plan, we are working to secure a high level of profits and are actively increasing investments in R&D. We are shifting our focus from earnings to sales growth, with the aims of achieving high-level, stable growth and becoming a major player in the global market.

• Medium-Term Management Plan "Leap to Excellence '07"

The three numerical targets of the "Leap to Excellence '07" three-year management plan have already been achieved in the first year. In particular, we have already exceeded our 2007 target for reducing the balance of interest-bearing debt.

Special Feature (Products) — Injection Molding Machines

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Cover photograph:

The photograph on the cover shows a 4KGM cryocooler in the Company's SRDK Series.
(The designation "4KGM" indicates a cryocooler using the Gifford-McMahon cycle at 4 degrees Kelvin.)

This cryocooler uses the helium gas expansion and contraction cycle method to reach the extremely low temperature of –269°C (4K). It is simple to operate (just flip one switch), and exhibits strong cooling power with orientation-free characteristics. It thus has great advantages over the products of other cryocooler manufacturers, and has won wide popularity for its performance in superconducting magnet applications (where liquid helium must be used) because of its effectiveness in maintaining the correct temperature.

Among superconducting magnet applications, our 4KGM cryocooler has captured the top share in the world market for medical-use MRI equipment. This is just one of our highly successful products.

How we're doing

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• Review of Operations

"Leap to Excellence '07"

As the guiding concept of our medium-term management plan "Leap to Excellence '07," we aim to build a company that provides knowledge-based services by systematic means. Using the training of employees and strengthening of ties with customers as our base, we will promote a vertical integration of business operations. Our four priority strategies are: 1) the development of operations overseas through enhanced marketing , 2) the development of first-class products, and 3) the redesigning of our manufacturing system and 4) the establishment of matchless product quality.

Why we're strong

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• Research and Development

Under "Leap to Excellence '07," we are committed to continuously creating first-class products in each of our business segments. In addition, we aim to promote the evolution of synergies between business segments to create value chains. To this end, we have identified the most promising products in each segment, and have been concentrating resources and efforts into expanding the scale of business for these products. We have also working on the development of the new technologies required for development of new products in select, promising growth fields.

• Intellectual Property

We are implementing measures companywide centering on the protection, management, and cultivation of the Group's intellectual assets. The principal focus of our efforts is directed at the four elements of intellectual property activity, namely: utilizing exclusive rights; respecting other companies' rights; ensuring that rights to intellectual property are secured; and ensuring that such rights are utilized with the optimum timing and all due speed.

How we behave

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• Corporate Governance and Compliance

We have endeavored to create an efficient and transparent management structure in order to maximize enterprise value and maintain a high level of trust from our shareholders and other stakeholders.

• Measures for Environmental Preservation

We at SHI recognize that a company's social responsibilities consist primarily of protecting the global environmental, preserving the local environment, and pursuing sustainable economic activities. To this end, we are making efforts group-wide to promote environment activities.

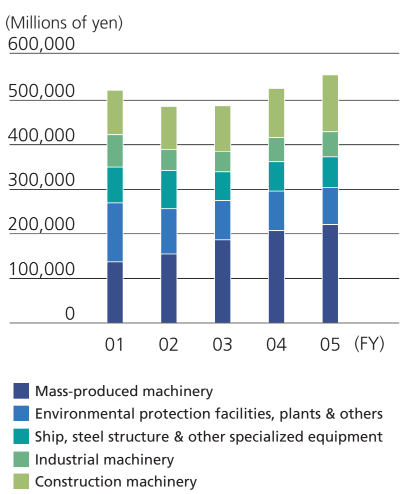
Financial Highlights

SUMITOMO HEAVY INDUSTRIES, LTD. and Consolidated Subsidiaries

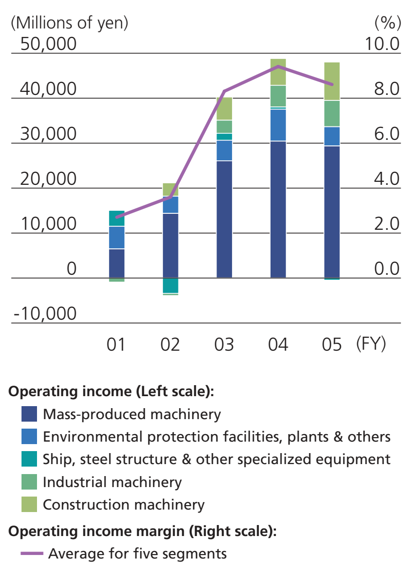
	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2001	FY2002	FY2003	FY2004	FY2005	FY2005
Summary of Income (For the year):						
Net sales	¥517,138	¥481,289	¥482,765	¥521,310	¥551,339	$4,712,300
Mass-produced machinery	135,602	153,228	184,489	205,091	218,798	1,870,066
Environmental protection facilities, plants & others	131,018	100,310	87,691	87,937	82,740	707,180
Ship, steel structure & other specialized equipment	79,714	85,598	63,438	65,288	67,372	575,833
Industrial machinery	72,161	46,758	45,988	54,008	56,054	479,093
Construction machinery	98,640	95,393	101,158	108,985	126,375	1,080,128
Operating income	14,175	17,213	40,231	48,773	47,505	406,022
Mass-produced machinery	6,463	14,358	26,046	30,415	29,338	250,750
Environmental protection facilities, plants & others	5,034	3,820	4,567	7,094	4,277	36,553
Ship, steel structure & other specialized equipment	3,538	(3,416)	1,547	478	(479)	(4,095)
Industrial machinery	(902)	(485)	2,908	4,834	5,847	49,971
Construction machinery	14	2,969	5,150	5,961	8,533	72,930
Elimination	28	(32)	13	(9)	(10)	(88)
EBITDA (Note 2)	26,078	29,322	50,344	58,055	56,577	483,562
Net income	1,650	2,688	16,262	22,792	29,742	254,201
Cash Flows (For the year):						
Cash flows from operating activities	¥38,808	¥29,499	¥75,775	¥45,451	¥50,023	$427,549
Cash flows from investing activities	(3,343)	(1,074)	(7,929)	(6,087)	(7,024)	(60,034)
Free cash flows (Note 3)	35,465	28,425	67,846	39,364	42,999	367,515
Cash flows from financing activities	(32,785)	(22,116)	(56,666)	(46,490)	(48,812)	(417,195)

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥117=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2006.
2. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization
3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities
4. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.
5. ROIC (Return on Invested Capital) = $\frac{\text{(Operating income + Interest and dividend received) x 55\% (= 1 – Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$

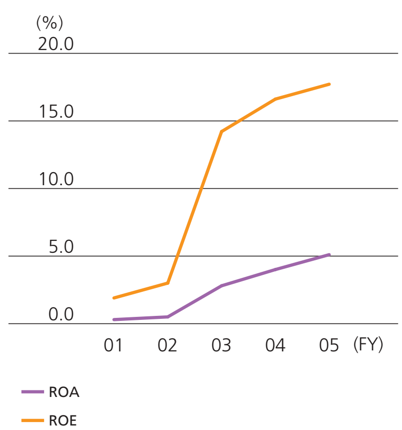
Net Sales



Operating Income, Operating Income Margin



ROA, ROE

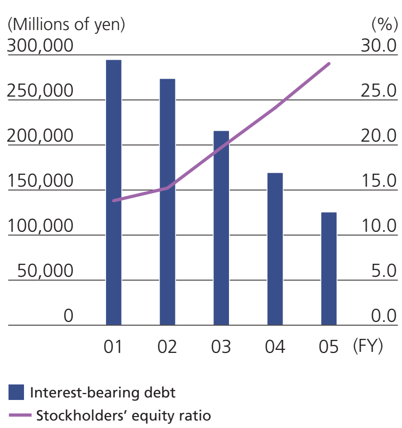


	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2001	FY2002	FY2003	FY2004	FY2005	FY2005
Financial Position (At year-end):						
Total assets	¥634,904	¥588,010	¥580,291	¥569,771	¥579,233	$4,950,714
Interest-bearing debt	294,552	273,544	215,807	169,228	125,504	1,072,676
Stockholders’ equity	87,494	89,331	114,526	137,157	167,740	1,433,676

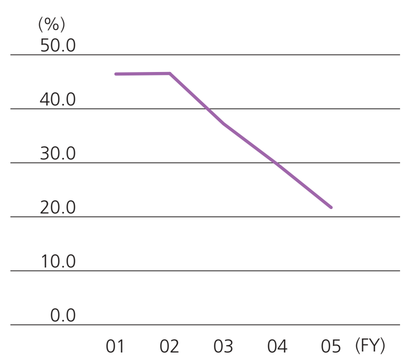
	Yen					U.S. dollars (Note 1)
Amounts Per Share:						
Net income (Note 4)	¥ 2.80	¥ 4.57	¥ 27.01	¥ 37.80	¥ 49.45	$0.42
Stockholders’ equity	148.63	151.86	190.25	227.90	279.02	2.38
Cash dividends	—	—	—	3.00	5.00	0.04

	%				
Financial Indexes:					
EBITDA margin	5.0	6.1	10.4	11.1	10.3
ROA (Return on assets)	0.3	0.5	2.8	4.0	5.1
ROE (Return on equity)	1.9	3.0	14.2	16.6	17.7
Stockholders’ equity ratio	13.8	15.2	19.7	24.1	29.0
Interest-bearing debt ratio	46.4	46.5	37.2	29.7	21.7
ROIC (Note 5)	2.3	2.6	6.5	8.5	8.8

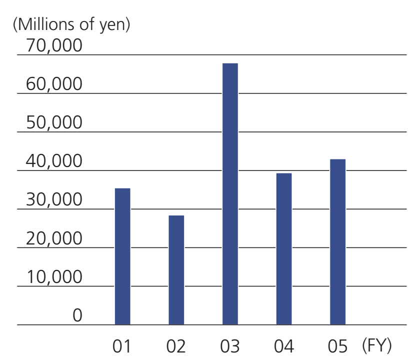
Stockholders’ Equity ratio, Interest-Bearing Debt



Interest-Bearing Debt Ratio



Free Cash Flows



To our Shareholders, Customers and Employees

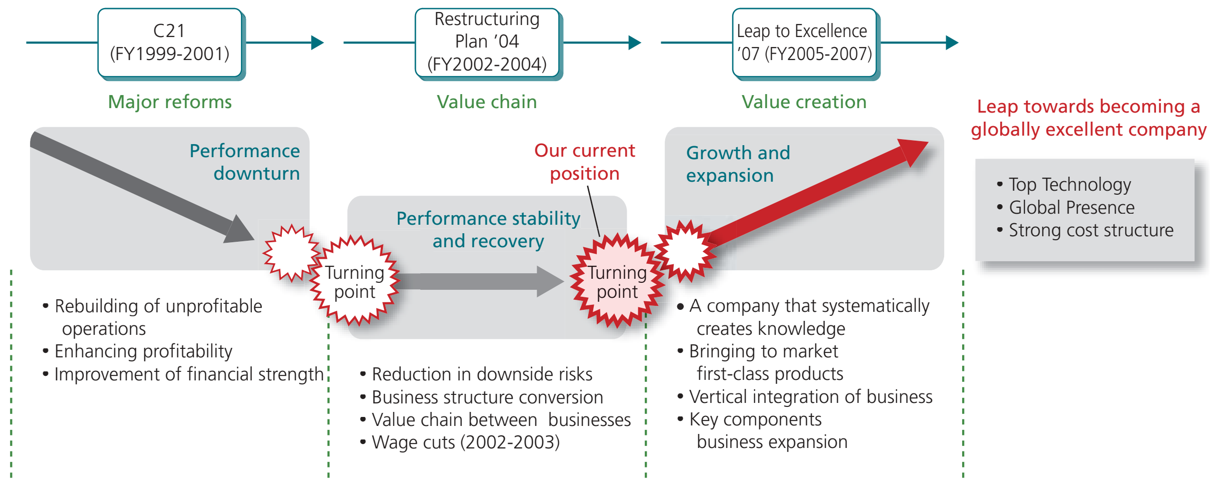
Yoshio Hinoh
President and CEO

Pursuing Top-Line Growth to Achieve the Medium-Term Management Plan "Leap to Excellence '07"

I am convinced that winning the long-term trust of customers through rigorous adherence to our philosophy of "creation of value for consumers" will spur sustained development of the SHI Group and raise corporate value, meeting the expectations of all our shareholders, employees, and host communities. For that reason, we will do all we can to build synergistic value chains between our businesses, while stepping up our focus on product manufacturing and quality through the Leap to Excellence '07 medium-term management plan.

During the period of the "C21" medium-term management plan beginning in fiscal 1999, all of our markets were in the doldrums and nearly all companies operating within them saw their earnings deteriorate. Our company was no different. We rigorously followed a bottom-line-focused management policy of bolstering our financial position through strengthened profitability and measures such as sales of real estate. We began to see signs of improvement in earnings during the previous "Restructuring '04" medium-term management plan beginning in fiscal 2002. Under the concept of the synergistic value chain, we honed our competitive strength in our markets by reforming all our businesses according to the circumstances faced by each one individually. By eliminating the culture of complacent interdependence between our businesses and committing ourselves fully to profitability, we were able to return nearly all of our businesses to a firm financial footing, enabling them to turn profitable. Under the Leap to Excellence '07 plan, we are consolidating these achievements to generate further growth and high profits, and are aggressively investing in product development. Through our shift from bottom-line management to pursuit of top-line growth, we have set our sights on stable, high-level growth and development on the global stage.

We continue to use ROIC (Return on Invested Capital) as a primary business indicator and have a fiscal 2007 target of at least 10%. Our fiscal 2007 targets for operating income and interest-bearing debt are ¥60 billion and under ¥100 billion respectively. In fiscal 2005, we easily exceeded initial targets. Building on this strong performance, we are determined to reach still higher.



Fiscal 2005 in Retrospect
(Summary of the fiscal period April 2005 to March 2006)

In fiscal 2005, the first year of the Leap to Excellence '07 plan, we succeeded in meeting the following targets.

- Orders received rose 8% year-on-year to ¥603.0 billion, a record for the third consecutive year, compared with our projection of ¥550.0 billion.
- Sales grew 6% year-on-year to ¥551.3 billion, compared with our projection of ¥540.0 billion.
- Net income rose 30%, to ¥29.7 billion, a record for the third consecutive year, compared with our projection of ¥23.5 billion.
- The balance of interest-bearing debt fell 8% year-on-year to ¥125.5 billion, compared with our projection of ¥140.0 billion.
- ROIC (after tax) increased 0.3% year-on-year to 8.8%, compared with our projection of 8.2%.

Despite lower demand for certain devices in the IT sector due to curbed investment and the impact of a drop-off in public sector infrastructure projects, these achievements have generated a sense of confidence at Group businesses. In fiscal 2005, we carried out the following priority policies and made good progress in meeting their targets, while keeping an eye on the final numerical targets in the medium-term management plan.

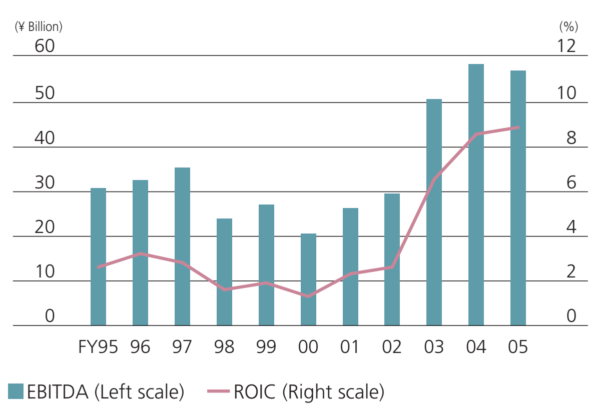
Further Strengthening of Mainstay Businesses
We maintained high market shares for mainstay products such as speed reducers and injection molding machines, by strengthening our bonds with our customers through measures such as launch of new products more closely tailored to market needs. We also saw steady growth in earnings in industrial and construction machinery, by offering distinctive technologies. We aim to continue supplying products of high quality that meet increasingly diversified and sophisticated customer needs, by further honing our competitive edge supported by our strength in technologies.

Firmly Rooted Internal Control Systems
While redoubling our efforts in compliance education, we overhauled our organizational structures to enable our internal controls to function more efficiently by creating a flatter landscape of business departments.

Improving our Financial Position
We continued efforts begun in the previous fiscal period to inject more rigor into our management of cash flow across the Group, and aggressively reduced interest-bearing debt.

Better Human Resources Training
We continue to raise the ability level of our employees, through means such as raising awareness of our management strategy and carrying out the Six Sygma program, to build up our collective capabilities and further strengthen our competitiveness.

EBITDA/ROIC



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

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

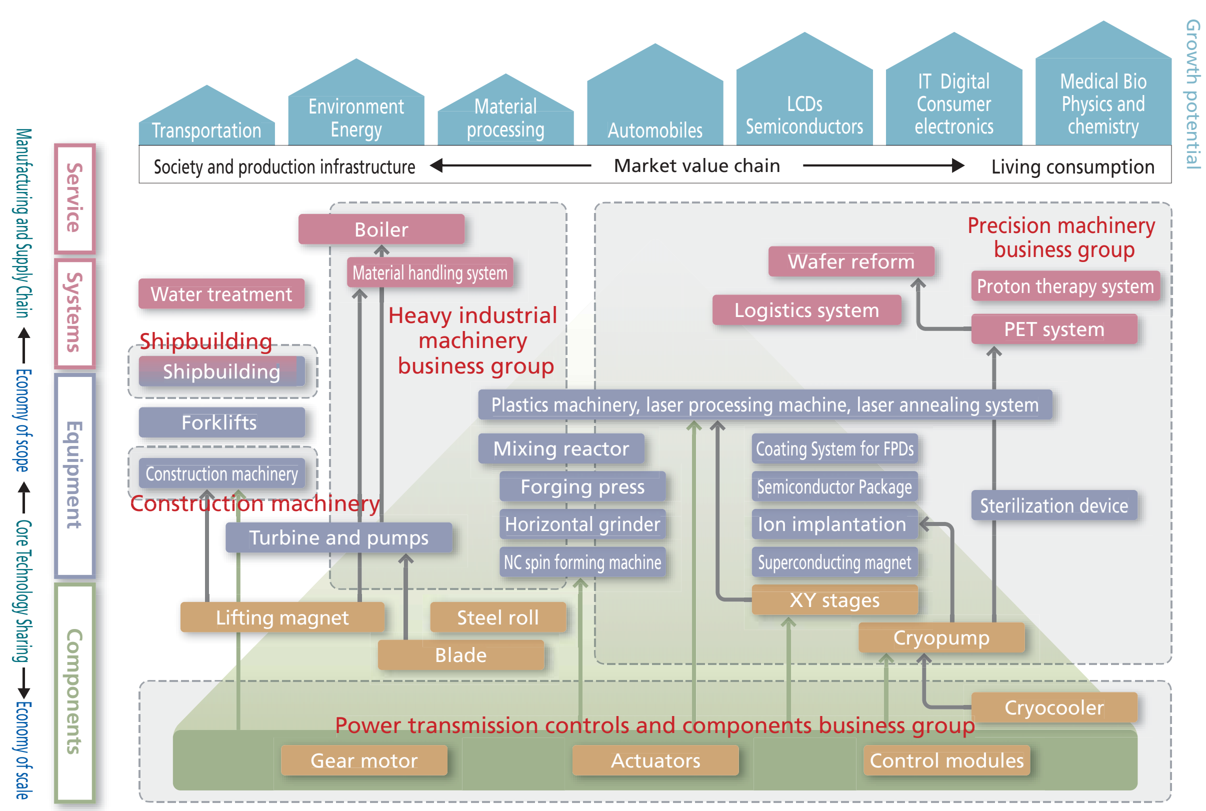
Progress in the Leap to Excellence '07 Medium-Term Management Plan

The Leap to Excellence '07 medium-term management plan (April 2005 to March 2007)

Fiscal 2005 was a watershed year in terms of creating pathways to expansion and growth for the SHI Group. The words "Leap to Excellence" refer to our products; we will achieve that leap by supplying our markets with first-class products. This will be achieved not by the outstanding ability of individual employees, but by the collective expertise of the organization. We call this process becoming a "knowledge-intensive company that systematically provides its customers with first-class products." We will pursue our goal while developing the concept of the synergistic value chain. Then we will redouble our efforts to expand and strengthen our Key Components businesses. We have many excellent Key Component products. While strengthening these lineups, we will create our own proprietary business model by drawing on our other businesses and creating a vertical business paradigm. Up to now, we have stepped up efforts to reduce interest-bearing debt to strengthen our financial position, but given that such debt is under the ¥100 billion level, we plan to carry out some aggressive capital investments and further increase sales going forward.

Strengthening our Core Product Lineups

Each of our businesses has nominated Core Products and invested proactively in their development. Examples of such products in the speed reducers business are strengthened lineups of compact, high-efficiency, low-noise, high-output torque systems. In injection molding machines, we have launched a new series of medium-sized systems tailored to the needs of the automotive and container/medical products industries, and we have marketed a small cyclotron for PET (Positron Emission Tomography) systems, which is also aimed at overseas markets. In construction machinery, we are developing products that can meet next-generation Tier 3 emission standards. In technological developments, we have focused resources on achieving vertical integration of our business based on components where we have competitive advantages. If a product is to become a strong seller, it must achieve worldwide acceptance. By enhancing products in terms of performance, quality, and cost, we have created our own proprietary business model. We have many businesses and products, but many of them, such as our power transmission equipment, are used in other products, and have contributed to product differentiation. So we are not only dealing with stand-alone items, but products that can be built into devices and systems to create strong chains of products. This is what we mean by "One-SHI" vertical integration. In fiscal 2005, we launched our



motion control and drive products business, and merged our speed reducers and drive systems operations. We aim to further expand these chains of businesses going forward.

In the Leap to Excellence '07 plan, we have divided our wide-ranging products into three categories: Components, Devices, and Systems and Services, to further develop the synergistic value chains between businesses set up under our previous medium-term management plan. This figure, with these three categories forming the vertical axis and market value chains shown in the horizontal axis, shows what we mean by vertical integration, with products mapped out between the axes.

In fiscal 2006, we continued to pursue the initiatives undertaken in the previous fiscal year. We have created three additional product-based business clusters: speed reducers and components, precision equipment, and heavy industrial machinery, and have also regrouped our construction machinery and shipbuilding businesses. We are mapping out directions for strategy in each of these business clusters. With these measures, we believe we have built up a firm basis for future growth for the Group.

Strengthening Overseas Businesses and Alliances

We are strengthening our networks of overseas sales and service centers, and ramping up production capacity in China, Vietnam, and the Philippines. In Vietnam, we began operations in May at our PTC motor plant, and are now positioned to provide stable supplies to all our production bases around the world. We also turned our marketing bases for injection molding machines into consolidated subsidiaries, and expect to make further advances in overseas markets.

Priority Investments in Growth Businesses

We have made priority capital investments in the area of precision control equipment and components, and aim to both increase the scale of sales and raise ROIC. Investments were focused principally on production lines, with the aim of improving efficiency. We took measures to improve efficiency also in the construction and industrial machinery segments, to strengthen profitability. In shipbuilding, we have adopted a strategy of specializing in medium-sized tankers and we are now emphasizing profitability rather than expanded scale of operations.

Building on Our Momentum and Aiming Still Higher

Plan for fiscal 2006 (April 2006 to March 2007)

An enterprise never stops growing or expanding. At the SHI Group, we are setting ever-higher targets in an effort to transform ourselves into a company known globally for excellence, while creating peerless technologies and a resilient cost structure. Having surpassed initial performance projections in fiscal 2005, we already have in sight our numerical targets for the end of fiscal 2007. With our markets set to remain buoyant, we will develop our businesses with renewed zest while hammering out new growth strategies.

To enable the Group to meet its social responsibilities, we continue to strengthen our risk management and ensure that all employees in all of our operations are fully aware of compliance requirements. With regard to environmental activities, we have begun work to reduce electricity consumption across the Group as a measure to retard global warming. In line with the Group's environmental policy, we are taking care to minimize the impact of our activities on the areas around our plants, and are aggressively taking measures to promote prevention of environmental pollution, reduction of generation of waste, and more widespread energy-saving, resource-saving and recycling.

We have posted record consolidated earnings for three consecutive fiscal years since fiscal 2003. The market environment in fiscal 2006 does not necessarily permit optimism, but, riding the momentum that we have built up, we have targeted a net income of ¥31.0 billion, which would be a fourth consecutive record-high profit. The Group will work as one to realize this target.

We plan to pay a dividend of ¥7 per share in fiscal 2006, subject to our earnings performance and financial position, compared with ¥5 per share paid out in fiscal 2005, a ¥2 increase year-on-year. I thank our shareholders for their continued support.

Finally, I regret to say the Company was penalized with a cease and desist order and a fine by the Fair Trade Commission of Japan, after being sued on suspicion of breach of the Antimonopoly Act in relation to a steel-girder bridge project. We have also faced similar legal action in relation to a municipal organic waste treatment recycling plant, and the Commission is investigating related sluice works. We take such incidents very seriously, and will work together as a Group to ensure still stricter legal compliance.

Yoshio Hinoh

Yoshio Hinoh
President and CEO

Medium-Term Management Plan "Leap to Excellence '07"

The Sumitomo Heavy Industries Group is working to achieve the objectives of the three-year medium-term management plan introduced in fiscal 2005. Under the previous medium-term management plan, "Powerful Sumitomo Heavy Industries Group," the Company was able to change its business structure and improve its financial position. Based on "Leap to Excellence '07," we shifted our focus from bottom-line management to top-line growth, with the goal of becoming a truly excellent company by global standards.

Plan Targets
(1) To be a knowledge-based company that supplies markets with first-class products through systematic means
(2) To integrate our businesses vertically and pursue synergies
(3) To achieve the following three numerical targets, for which active investment will be undertaken
① Fiscal 2007 ROIC above 10% ROIC > WACC
② Fiscal 2007 consolidated operating income: More than ¥60 billion
③ Fiscal 2007 year-end interest-bearing debt: Less than ¥150 billion
(4) To strengthen and expand key component businesses

To achieve these targets, we have undertaken organizational restructuring and are implementing measures to strengthen our capabilities for managing the group as a whole. In fiscal 2005, we achieved the following figures, which are in excess of the initial targets:
① ROIC: 8.8%
② Operating income: ¥47.5 billion
③ Balance of interest-bearing debt: ¥125.5 billion
Regarding interest-bearing debt, because we had already achieved our target, we have set a new one of less than ¥100 billion.

Operating income and net income

As a result of the impact of higher material costs in fiscal 2005, the Ship, Steel Structure & Other Specialized Equipment segment reported an operating loss. However, our restructuring efforts resulted in improvements in the profitability of all our business segments and boosted the Company's overall profitability. Although operating income fell below the previous year's level, the previous year's figure included a one-time gain on the sale of land. Had this one-time gain not been included in the previous year's figure, we would have posted a rise in earnings for the term. Net income registered a record high for the third straight term.

Interest-bearing debt

We were able to reduce our balance of interest-bearing debt by an amount that far exceeded our target. This is attributable to the accelerated repayment of our outstanding loans, taking advantage of our improved earnings performance and stricter cash flow management.

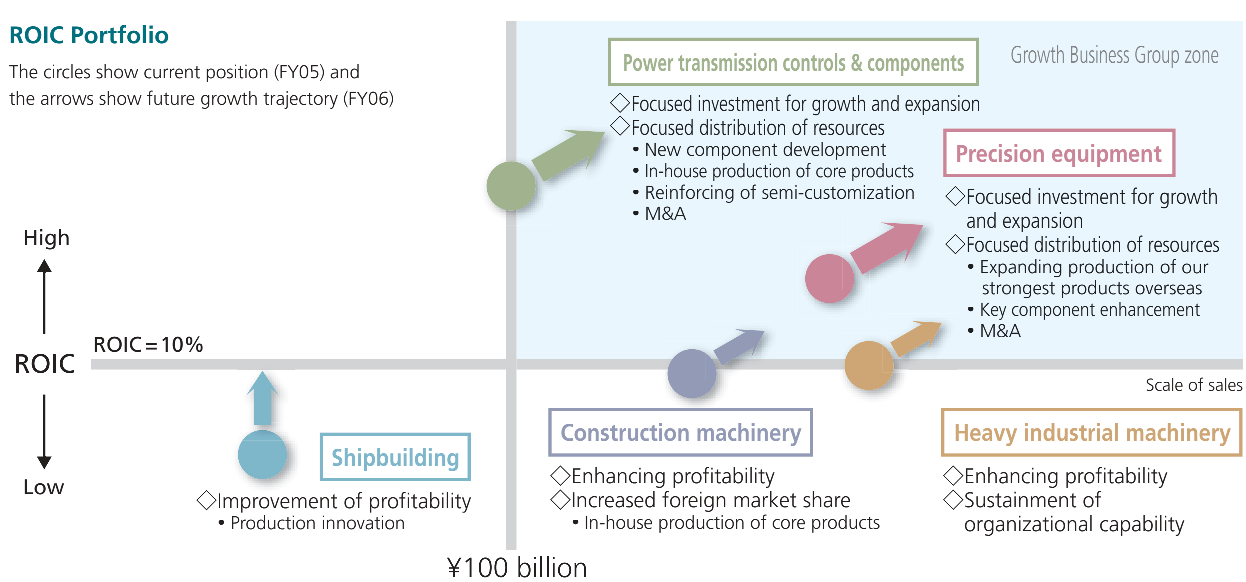
Business Portfolio and Growth Strategies

The following diagram outlines the growth strategies for our strategic business categories. The categories in this diagram appear under a different categorization than that used in the financial statements. Taken into consideration are each category's target markets and business strategies, and product groups that adopt a similar approach are grouped together. Such categorization allows for the clarification of targets and enables a more specific presentation of business strategies.

We are undertaking priority investment in key components, such as power transmission controls and other precision control equipment, and are expanding the scale of sales and ROIC. We are working to increase production efficiency in construction equipment and industrial machinery, which will lead to enhanced profitability. In shipbuilding, we have adopted a strategy of specializing in medium-sized tankers. Our emphasis is on improving profitability, rather than expanding sales.

Deepening Synergies, Strengthening Core Products

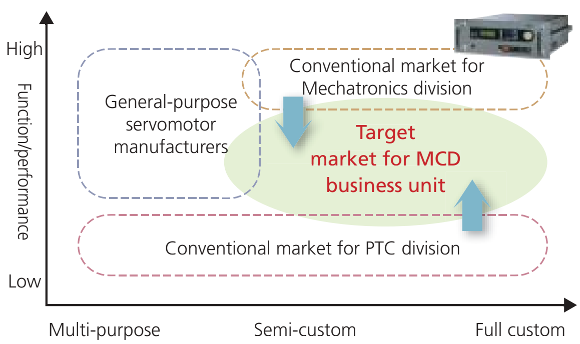
We launched the motion control drive business unit as one of the strategies implemented under our synergy model. Leveraging our power transmission controls, which enjoy an overwhelming competitive advantage in terms of performance, and our specialty



precision control technology, we aim to seize the No. 1 share in the actuator market.

Regarding individual products, each business unit nominates products to become the focus of development investments. For example, in power transmission & controls, we have expanded our line-up of compact gear motors featuring high efficiency, low noise and high-power output torque. We have also launched a new series of medium-sized injection molding machines that target the automotive industry, and also the container and medical equipment industries. In this way, we are working to implement commercialization strategies that are in line with the demands of the market. We are strengthening our product development capability, and fostering the selection and launch of core products.

Actuator Market



Gear Motor

Reinforcement of the compact equipment line-up

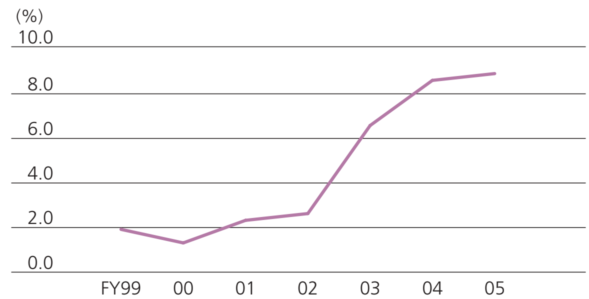
- New release of an orthogonal gear motor with separated motor and gears delivering high efficiency, low noise and high-power output torque
- Full model change for Altax series with low noise and increased reliability

Injection Molding Machines

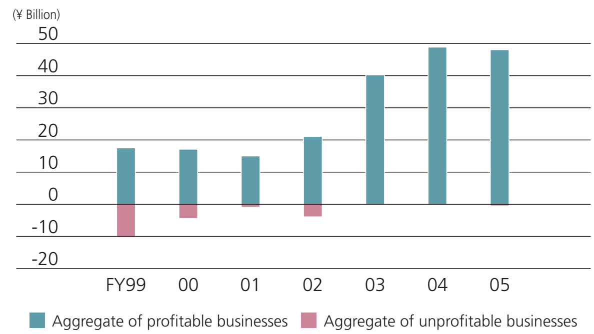
Implementation of commercialization strategies in line with market place

- 220-450 ton machine series released
- HD Series: Emphasis on high load → automotive industry
- HS Series: Emphasis on high speed → containers, medical sector
- Smooth sales since the switch of models from SE-S to SE-HD/HS from the latter half of 2005
- New customers being developed toward the achievement of a 25% market share in medium-sized equipment

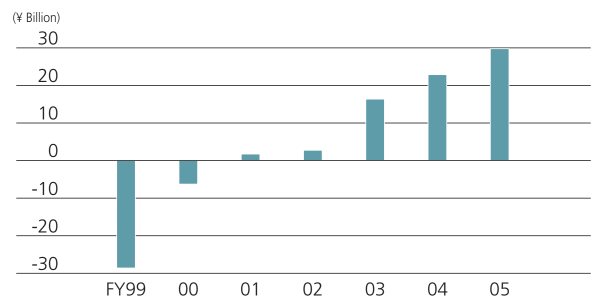
ROIC (After Tax)



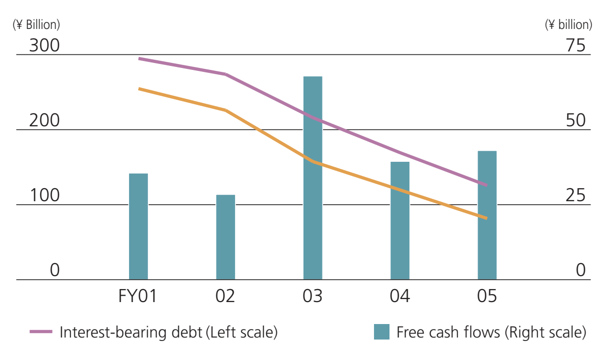
Operating Income



Net Income



Interest-Bearing Debt

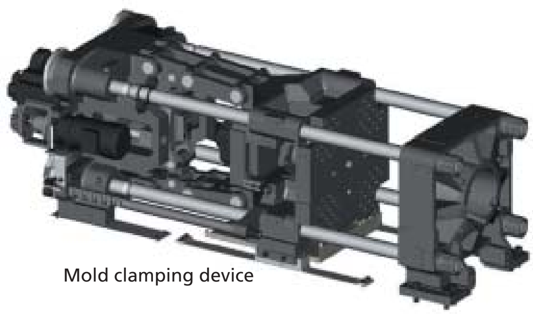


Injection Molding Machines

Our injection molding machines range from compact systems with clamping force of 69kN (7 tons) to large systems with clamping force of 5,390kN (550 tons), with drive mechanisms ranging from electric and hydraulic through to hybrid systems. We can meet a wide range of customer needs. We are particularly strong in precision and high-cycle molding and are active in the most advanced industrial sectors.

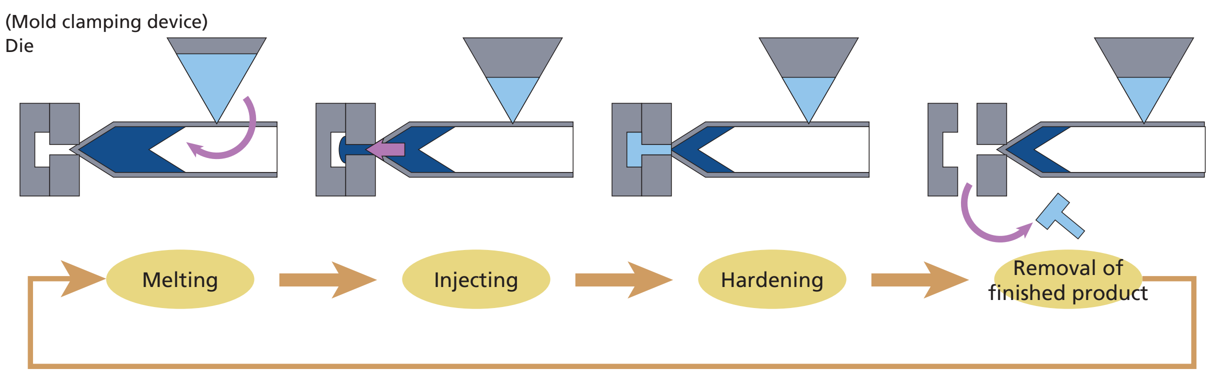
What is an injection molding machine?

Injection molding machines are processing systems that melt resin, the raw material for plastic, inject it into a die, hardened it into shape, and enable the product to be removed in finished form.



Mold clamping device

Injection device



Various plastic products can be produced with this method.

Products Made by our Injection Molding Systems

Thin-walled vessels, connectors and other electronics and cellphone components, and lens, automotive instrument panel switches, optical discs, syringes and other medical equipment, PET bottles, etc.

Plastics Machinery Division products

The Ultimate Solution for "Win & Win"

SE-DU series
Small-sized all-electric injection molding machine
18t/30t/50t/75t/100t/130t/180t

SE-HD series
Midsized all-electric injection molding machine
220t/280t/350t/450t

SE-HP series
Ultra-high-speed all-electric injection molding machine
SEDU-HP: 50t/75t/100t/130t/180t
SEHD-HP: 220t/280t/350t/450t

SE-HS series
Midsized high-speed all-electric injection molding machine
220t/280t/350t

SE7M
Ultra-compact all-electric injection molding machine
7t

SED-CI series
All-electric double-shot injection molding machine
75t/130t/200t

SR-D,SV series
Vertical all-electric injection molding machine
SR: 50t/75t SV: 18t/50t

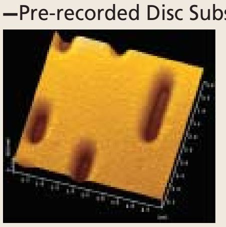
SD40E
All-electric injection molding machine for discs
40t

Excellent Control Technologies

To achieve high precision in molding it is necessary to control many variables, including the temperature of the resin for injection into the die, speed of injection and clamping pressure. For example, the warmer resin is, the more liquid it becomes and the easier it is to mold, but cooling takes time and production efficiency is lowered. On the other hand, if its temperature is low the resin can begin to harden before it fully enters the die and defective products may result. By controlling variables for optimal performance we can realize high-precision, high-cycle molding. In optical discs, we can mold at the level of pits for digital signals, but in DVDs pit sizes are at the submicron level and an extremely high degree of molding quality is required. Sumitomo Heavy Industries injection molding machines can assure precision products at this level in the shortest possible time with consistently stable performance.

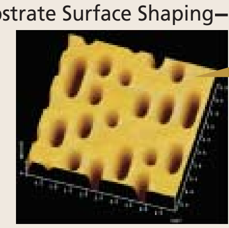
Disc Substrate Surface Shaping

—Pre-recorded Disc Substrate Surface Shaping—



CD-ROM

Track pitch:	1.60μm
Depth of pits:	0.10μm
Width of pits:	0.30μm
Smallest pit length:	0.83μm



Pitch narrowness makes copying difficult

DVD-ROM

Track pitch:	0.74μm
Depth of pits:	0.10μm
Width of pits:	0.30μm
Smallest pit length:	0.41μm

Recordable Disc

CD-R

Track pitch:	1.60μm
Depth of pits:	0.15~0.20μm
Width of pits:	0.40~0.50μm

Pitch narrowness makes copying difficult

DVD-R

Track pitch:	0.74μm
Depth of pits:	0.15~0.18μm
Width of pits:	0.30~0.40μm

Review of Operations

Mass-Produced Machinery

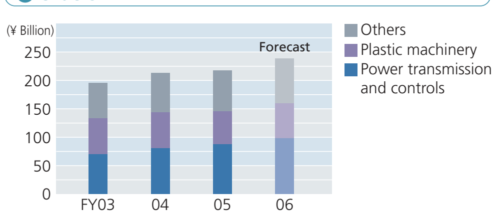
Main Products

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

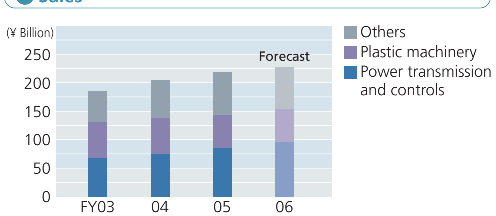
Major Units

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

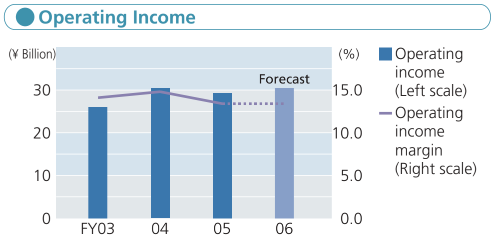
Orders



Sales



Operating Income



Segment Overview

Business Environment

Capital investment in industrial equipment is on the rise in Japan. Among other factors, booming capital investment in the automotive sector has helped drive this segment. In the IT sector, including LCDs and semiconductors, capital investment has in some cases been curtailed by fierce cost-competition, although the future direction is likely to be positive. Outside Japan, booming economies led by the United States and Southeast Asia extend broadly, centered on the digital consumer electronics market. As in the previous term, this segment enjoyed a favorable operating environment in both the domestic and overseas markets.

Review and Analysis of Results in Fiscal 2005

Backed by strong capital investment in the private sector, the Power Transmission and Controls business enjoyed a substantial increase in domestic shipments. In overseas markets too, it put in a strong performance, mainly in East Asia. The Plastic Machinery business attained growth in sales of electric injection molding machines, a mainstay of this business, chiefly to the automotive industry and many other sectors including precision equipment, vessels and medical applications. Given the curbs on capital investment by manufacturers of hard disk drives, total results declined. In the Precision Control and Components business, precision positioning stages for liquid crystal panels remained strong, supported by brisk investment. We also received increased orders for cryogenic equipment and precision forged products. As a result, total orders for this segment grew 2% from the previous year, to ¥217.0 billion, and sales were up 7%, at ¥218.8 billion. In contrast, operating income slipped 4%, to ¥29.3 billion.

Outlook for Fiscal 2006

In the field of industrial equipment, including the automotive sector, our sales are expected to remain robust. To expand our operations, we will launch new products to cultivate new markets. We expect a continued expansion in the market for advanced business, covering medical equipment and laser systems. This entire segment is forecast to generate more orders and sales than it did in fiscal 2005. Earnings, however, should remain roughly at the same level, partly due to the entry into new markets.

Overall Conditions in Major Units

Power Transmission and Controls

Business in Fiscal 2005

We have been receiving an increasing number of orders since fiscal 2003, benefiting from rising capital investment in Japan, especially in the automotive industry. We posted strong exports to China and Southeast Asia during this period, and in fiscal 2005 as well, we achieved significant year-on-year growth in orders. Among overseas markets, we enjoyed a massive rise in orders from the United States, Canada and Southeast Asia. Demand for our products was also robust in China.

In a product-by-product analysis, large and midsize gearboxes remained strong, especially for the steel, material handling machinery and systems, and automotive industries, reflecting strong growth in capital investment. Small gearmotors achieved growth across a broad spectrum of sectors, including factory automation and materials handling machines for the distribution & logistics industry. Precision speed reducer units drew a good number of orders for applications in industrial robots.

Strategies for Fiscal 2006

Continued economic growth is predicted for Japan, China, Southeast Asia and the United States. We will actively launch new products while bolstering our sales bases, sales channels and marketing capabilities in each country. We plan to put particular emphasis on entering new sectors, and on offering products and services that support our customers in raising their value-added.

Our technical expertise in precision speed reducer units will be further upgraded to satisfy increasingly challenging demands from customers. In the previous fiscal year, we released a new-model gearmotor featuring greater compactness and quieter operation. We are increasing our throughput capacity to further reduce delivery times and secure a larger share in the small gearmotor market. For large and midsize gearmotors and gearboxes, we will reinforce the sales force so that we can provide customers with proposals on more advanced solutions when new models are released.

In addition, we will put more emphasis on increasing our production capacity, including at a new motor factory constructed in Vietnam, to establish a structure that ensures a constant product supply.

ALTAX® NEO Gear Motor

RHYTAX® Drive

Plastics Machinery

Business in Fiscal 2005

Total demand for plastics machinery in japan was approximately 19,000 units in fiscal 2005, supported by continuing robustness in the Company's markets since fiscal 2003. The main underlying factors for this performance were stronger demand in East Asia for cell phones, printers and office equipment, and from Japanese automakers.

In this operating environment, the Group launched the SE-DU, SE-HD and SE-HS series of small to medium-sized fully electric injection molding machines, which were displayed at International Plastics Fair 2005 (IPF2005*).

The SE-DU Series of general-use, small, fully electric injection molding machines was very well-received. Attendees were impressed by its distinctive technologies that meet the needs of increasingly diversified and complex markets. Our medium-sized SE-HD and SE-HS series of fully electric injection molding machines likewise won praise for their distinctive technologies for the automotive and container/medical sectors.

The introduction of these new series in fiscal 2005 enabled the Group to maintain its position at the top of the Japanese injection molding equipment sector for the third straight fiscal year in terms of units sold.

We believe our distinctive technologies have made major contributions towards enhanced productivity and lower costs at our customers.

*IPS2005:
International Plastic Fair 2005. The largest trade show for plastic and rubber in Asia.

Strategies and Policies for Fiscal 2006

In addition to enhancing lineups in small and medium-sized fully electric injection molding machines, to ensure that all our products exactly meet customers' needs, the Group in fiscal 2006 will aim to consolidate its position as a technology and solution leader, while expanding sales networks in the key BRICs markets. We will harness our capabilities across the Group to promptly satisfy increasingly diverse and complex customer demands in plastic processing technologies. While creating synergistic value chains to develop together with our customers, we are steadily achieving our aim of becoming a global leader in integrated plastic injection molding machinery manufacture.

Fully Electric Controlled Injection Molding Machine "SE-DU"

Quantum Equipment

Business in Fiscal 2005

In fiscal 2005, the Quantum Equipment Division achieved record sales and operating income. The number of deliveries of small cyclotrons for positron emission tomography (PET) examinations remained at high levels, comparable with the figure for the preceding year, in spite of a decline in the number of facilities ordering small cyclotrons resulting from the authorization of delivery of FDG* (a radiopharmaceutical employed in medical examinations).

The Company's coating machines were delivered to five manufacturers of organic electroluminescence (EL) related devices. Among others, it is hoped that the delivery to the U.K. firm CDT*, licensor of the high polymer model, will serve to boost the market penetration of organic EL devices. The division has also received a growing number of inquiries from manufacturers of solar cell panels. They are expected to evolve into orders for the division in fiscal 2006.

The lifting magnet business again achieved strong results on the strength of models for construction machinery for scrap selection, which have enjoyed robust demand thanks to Chinese economic growth. This business also registered impressive growth with models for handling products, thanks to the jump in investment in crane equipment in the buoyant Japanese steel and shipbuilding industries.

In the aerospace sector, our cryogenic system is working well within the satellite that was successfully launched. We have received high marks for our technological excellence.

*FDG: Fluorodeoxyglucose
Used for PET (Positron Emission Tomography) in the monitoring of tumors and heart functions.
*CDT:
Cambridge Display Technology Ltd.

Strategies for Fiscal 2006

In fiscal 2006, the Quantum Equipment Division will be promoting entirely new radiopharmaceutical synthesis equipment, which obtained approval under the Pharmaceutical Affairs Law in fiscal 2005. The array of small cyclotrons for PET will be broadened to meet more diverse needs, encouraging more hospitals to conduct PET examinations and helping to build social infrastructure that further encourages early cancer detection. In the field of cell phone screens, moving images need to be displayed at higher resolutions following the launch of the one-segment broadcasting service. This raises expectations that organic EL devices will be adopted. The division will endeavor to receive more orders for coating systems for mass-production lines. In the bullish magnet business, we plan to add management resources to achieve further sales growth.

PET RADIO-TRACER PRODUCTION SYSTEM "HM-7"

Laser Systems

Business in Fiscal 2005

Despite the tepid capital spending and orders in the mobile LCD domain, as in the preceding fiscal year we made a number of deliveries of laser annealing systems to leading LCD manufacturers.

A basic SEMI*-compliant model of laser annealing systems for the semiconductor sector was completed. (SEMI stands for Semiconductor Equipment and Materials International, an industrial standards body.) It was delivered to a major semiconductor manufacturer and we successfully geared up to accept increased orders in the future.

In the printed circuit board industry, a reversal of the relationship between demand and supply occurred, mainly in the cell phone market. We also witnessed an improvement in the capacity utilization ratio. In Taiwan and China in particular, momentum is growing for fresh investment. Having made good progress in developing new high-speed laser drilling machines, we are now ready to accept more orders.

Our efforts were also directed to other equipment for electronics and electrical equipment industries and laser processing systems for the automotive industry. Orders were robust, particularly in the automotive field.

*SEMI (Standards for Semiconductor Equipment and Materials International):
Standards for the semiconductor industry drafted by the Semiconductor Equipment and Materials International (SEMI)
(The international industry association SEMI publishes technical standards for semiconductor manufacturers and suppliers in Japan, the U.S. and Europe. The SEMI Standards program covers all aspects of semiconductor process equipment and materials).

Strategies for Fiscal 2006

Having made strategic investment in LCD panels for flat panel TVs, LCD manufacturers are increasingly eager to invest in high-performance mobile LCDs. We will continue to work to win orders for laser annealing systems designed for the LCD industry.

With respect to laser annealing systems for the field of semiconductors, we have been exclusively receiving orders for application to power transistors, and will continue with the development of other applications in a bid to establish the laser method in the semiconductor process and expand the market.

In the field of printed circuit boards, active capital investment since the second half of the previous fiscal year looks set to continue. We are expecting a significant increase in orders following the completion of the highest-speed laser drilling machine.

In other electronics and machinery sectors, we will endeavor to cultivate new applications. Meanwhile, for the automotive industry, which is enjoying sustained growth, we will further broaden our array of products.

DPSS Laser Annealing System [SWA-90GD]

Cryogenics

Business in Fiscal 2005

In fiscal 2005, this business achieved consolidated sales of ¥13 billion. We achieved double-digit growth in order volume and sales, thanks to the strengthening of our global network through strategic acquisitions and improved technical development capabilities.

The growth was particularly remarkable in products associated with semiconductor production, such as cryocoolers for cryopumps and chiller units for inspection processes, following the brisk markets for mobile phones and digital consumer electronics. With respect to our mainstay 4KGM cryocooler, we built closer relationships with customers by stressing our large market share in the MRI* market and the strength of our global network, to achieve successful expansion into domains around coolers and refrigerators.

*MRI:
Diagnostic imaging equipment that uses magnetic resonance imaging technologies.

Strategies for Fiscal 2006

Fiscal 2006 is the midway point of our current medium-term management plan, which sets a goal of consolidated sales of ¥15 billion in fiscal 2007. We will take steps to establish overwhelming competitive superiority in cryocooler components, and to expand the cryopump business.

Specific planned efforts include the reinforcement of the quality and manufacturing systems, functional enhancement and upgrades of existing products, the unfailing release of new products and the full utilization of our global operation capacity for sales and services. Carrying out these measures with the aim of enhancing the value-added of our customers' businesses, we aim to provide products and services in a timely manner to best respond to user needs.

Mechatronics

Business in Fiscal 2005

In April 2005, SHI's Stage System Center merged with SHI Control System, Ltd. (a SHI subsidiary) to create the Mechatronics Division. The new Division mainly deals with XY stages, web controls (controls for printing or coating on paper and film lines), robot controls, motion components (air actuators, drivers and controllers, linear motors, etc.) and other related products.

With its extensive product knowledge and experience in equipment and machinery, this division will combine its control technology with mechanical, measurement and drive technologies to develop a solutions business. The Mechatronics Division is primarily focused on the FPD (Flat Panel Display) and semiconductor markets. Despite an earlier forecast of a correction phase after the record results of fiscal 2004, this market benefited from bullish capital investments following growing demand for flat large-screen TVs and notebook PCs in fiscal 2005. The division increased orders and achieved year-on-year sales growth in fiscal 2005.

The missions of the division include strengthening the differentiation and competitiveness in the SHI Group's appliances business. It began in fiscal 2005 to provide other divisions and SHI Group companies with control components to create a vertically integrated value chain within the Group.

Strategies for Fiscal 2006

In fiscal 2006, the FPD and semiconductor markets are expected to continue to grow, supported by consistent expansion in demand for flat large-screen TVs, personal computers and mobile phones.

In response, we expect robust capital investment in process reform involving finer design rules for semiconductor devices, use of larger LCD substrates and cost cutting.

In April 2006, the division established a new sales base in the Kansai area, as part of an initiative to bolster its sales force. Further, to create distinct business models, it has divided systems into four different business units: stage systems, drive systems and robot systems ("sub-systems") as well as motion components. The division will seek to harness the synergies of mechatronics technology, combining machines with electric control systems to further develop and expand market and make advances in product development. In doing so, the division expects to be able to expand its business.

Cryopump

Stages

Environmental Protection Facilities, Plants & Others

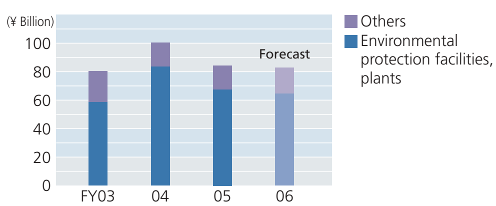
Main Products

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

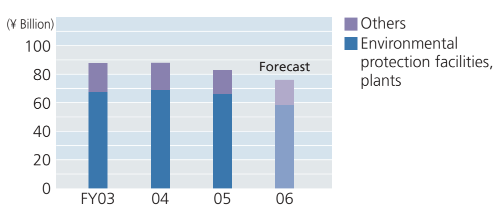
Major Units

Nihon Spindle Mfg. Co., Ltd.
Izumi Food Machinery Co., Ltd.
Lightwell Co., Ltd.
Sumiju Environmental Engineering, Inc.
Sumiju Plant Engineering Co., Ltd.

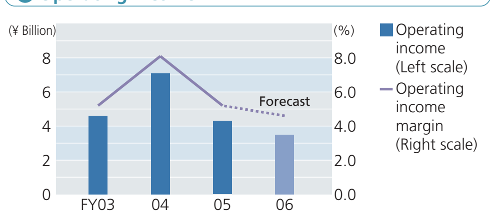
Orders



Sales



Operating Income



Segment Overview

Business Environment

The Environmental Protection Facilities, Plants & Others segment caters to both the public and private sectors, but we are now shifting our principal focus to private-sector market. In the private sector, there is growing demand linked with the encouraged use of new energy and recycling for compliance with the Kyoto Protocol and protection of the global environment. In particular, the move to reduce carbon dioxide emissions is gathering momentum not only in Japan but also in Southeast Asia. This trend is buoying our energy-related plant business, notably biomass boilers.

Review and Analysis of Results in Fiscal 2005

The water treatment plant business suffered a drop in both orders and sales as a result of structural change to shift the focus to private-sector demand. In the energy-related plant business, marketing activities to win orders — centered on circulating fluidized-bed boilers — were carried out amid the trend towards higher demand for electric power in Japan and in East Asia. The result was that orders remained at the same level as in the preceding year. Total orders in this segment fell 16% from the previous year, to ¥84.3 billion, sales were down 6%, at ¥82.7 billion, and operating income declined 40%, to ¥4.3 billion.

Outlook for Fiscal 2006

We will continue to make steady progress with structural reform, to orient our operations to private-sector demand. We also use new products for technology proposals to strengthen our organization. In energy-related plants, we forecast a continued upward trend in the market. In this segment, we will concentrate on areas where the advantages of our products are clear, and we will be more selective with orders to stabilize the business and bolster profitability.

Overall Conditions in Major Units

Energy-Related Plants

Business in Fiscal 2005

Since the signing of the Kyoto Protocol, the rise in demand for biomass and renewable energy-fired power generation enabling private-sector companies to cut carbon dioxide emissions has been accelerated by surging crude oil prices. The main sector involved in this rapid shift away from oil to other fuels is paper and pulp. As a result, orders during the reporting period were buoyant.

After a period of restrained capital investment, the chemical industry appears once again to be recovering its motivation to invest, thanks to the resurgence of the overall economy. In this situation, we received an order for one of Japan's largest circulating fluidized-bed (CFB) boilers, with steam generation capacity of 300 tons an hour.

In Japan, two projects are in the final phase of trial operation. They consume low-grade fuel, chiefly wood biomass, to operate with high efficiency and high reliability. The success in power generation using recycled material such as used tires as fuel has demonstrated that our CFB boilers with steam generation capacity of 130 tons an hour broadly accept low-grade coal and fuels other than biomass. It has also convinced us that the CFB market is set to expand.

Outside Japan, we handed over completed projects in China and Vietnam, and these are now in operation. These projects use low-grade coal, and we have confirmed the high suitability of low-grade coal for our CFB boilers. The delivery of overseas projects marked the first step in the globalization of our CFB boiler business.

Strategies for Fiscal 2006

The Japanese paper and pulp industry is continuing to spend aggressively on fuel conversion and replacement, and, supported by brighter economic prospects, other business sectors too are now bullish on investment. We will expand our sales activities to other industries.

With crude oil prices stabilizing at high levels, robust investments to convert energy plant from oil to other fuels can be expected in all sectors in the future. However coal, a prominent candidate replacement fuel, faces an obstacle in terms of its carbon dioxide emissions.

Our CFB boilers enable utilization of various candidate fuel materials, including coal, wood biomass fuels and recycled fuels. These technologies are suitable for profit-oriented private corporations, and at the same time reduce environmentally damaging carbon dioxide emissions. Our boilers can be expected to meet future energy requirements and attract new customer segments.

To offer a tailor-made response to diverse specification requirements that can be expected in line with the broadening of applications and development of new customer groups, we are making full use of large-scale fuel-testing facilities for which construction work was completed in fiscal 2005. These facilities have been installed at the Niihama Factory in the Ehime Works, and can conduct inspections and tests on the performance of new plants using materials that can be used as fuels including recycled materials. We are building up our CFB boiler business in terms of both reliability and brand image to position it to respond better to increasingly sophisticated customer needs.

Overseas, demand is growing for CFB boilers after GDP growth in countries near China, stimulated by the robust Chinese economy, and the strong performance of the other BRICs countries. In particular, we are receiving a growing number of inquiries concerning low-grade coal and fuels. We will aggressively but steadily seek to advance our overseas operations.

Presently, a large number of negotiations are underway in Japan and overseas markets. We will endeavor to develop the energy-related plant business to achieve both improved customer satisfaction and profitability.

CFB Boiler

Biomass and Renewable Energy-Fired Power Generation

Ship, Steel Structure & Other Specialized Equipment

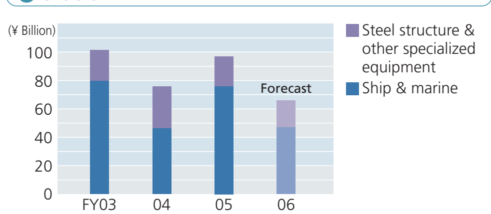
Main Products

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

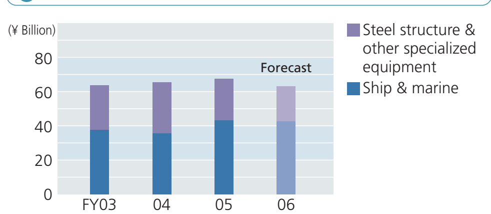
Major Units

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

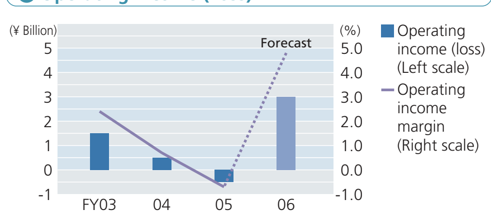
Orders



Sales



Operating Income (Loss)



Segment Overview

Business Environment

In the course of the transformation to a business structure that primarily targets demand from the private sector, this segment, particularly steel structures such as bridges, is confronting difficult circumstances. Even so, the reactor vessel business is buoyant given the sharp surge in oil prices. The shipbuilding business enjoyed an increase in orders, as in the previous year, thanks to strong growth in the marine transportation market with the acceleration of infrastructure construction in China and the growth of the world economy.

Review and Analysis of Results in Fiscal 2005

In steel structures and process equipment, reactor vessels produced a strong performance, mainly in the oil refining industry. Orders for steel structures decreased as a result of our structural transition to a focus on private-sector demand. In the area of shipbuilding, proposal-based sales activities that integrated our sales and engineering functions were stepped up to strengthen marketing capabilities. This initiative resulted in orders for 11 Aframax tankers, a year-on-year increase of three tankers. As a result of these developments, orders for this segment totaled ¥96.7 billion, representing a 28% slide from the previous fiscal year, while sales were up 3%, at ¥67.4 billion. The segment consequently made an operating loss of ¥0.5 billion, reflecting soaring steel material prices.

Outlook for Fiscal 2006

The reactor vessel market will remain robust. In shipbuilding, the marine transportation market is expected to remain strong, as long as there is no major change in the global economy. The implementation of selective acceptance of orders will improve profitability, because we will post sales of ships after ship prices have risen to a level favorable to us. We will place the highest priority on pursuing a strategy of ensuring profitability through cost-cutting measures and project management through production innovation.

Overall Conditions in Major Units

Reactor Vessels

Business in Fiscal 2005

While the robust health of the global economy is driving worldwide demand for oil, especially in the United States and China, there are still many regions that do not have the supply capabilities to satisfy their demand. A significant number of oil refineries have been built to redress the imbalance between demand and supply. The United States has moved to improve its oil refining facilities, especially following the aggravation in the oil product shortage with the contraction in oil supply capacity in the aftermath of the disastrous hurricane season last year. This environment created opportunities for the Company, which based its sales approach on its production track record, chiefly its strongest models such as coke drums, desulfurization reactors and reform reactors. Thanks to this approach, we attained record orders for pressure vessel models. For instance, we enjoyed a sharp increase in orders for coke drums from the Americas and Asia amid growing demand for gasoline and other light oil. The coke drum is a heavy oil treatment system that is the most efficient means of producing light oil from residual oil to eliminate the imbalance among different oil types, and we will be delivering a total of 18 units to respond to orders. Another notable trend has been the shift to larger equipment to upgrade treatment capacity.

Strategies for Fiscal 2006

Given the lack of U.S. refining capacity, soaring demand in China and India, the decline in excess supply capacity and the developments in the Middle East peace process, crude oil prices are likely to remain high. As a result, we anticipate that the building of new plants will continue, with work to expand the size of refineries and make them more efficient. We will seek to consistently win orders for our models in which we excel, led by coke drums. In fact, we are taking steps to improve the competitive appeal of our coke drums. In addition, we will introduce reforms to the sales process to ensure that we choose models that best match customer areas and growth markets. The market could see some destabilizing factors, such as climbing prices of steel, forged goods and other materials, longer delivery lead times for such materials and currency fluctuations. We will continue to institute our cost-cutting measures and endeavor to shorten production lead time, aiming to achieve simultaneous improvements in customer satisfaction and profitability.

Ships

Business in Fiscal 2005

As in the previous year, the marine transportation and shipbuilding markets were robust in fiscal 2005, thanks to the solid growth of the global economy, driven mainly by the United States and China. New shipbuilding orders worldwide were at nearly the same level as in the preceding year. Vessel prices once again reached record highs.

The healthy state of shipbuilding market conditions has been sustained by replacement demand brought forward by changes in regulations and strong demand from ship owners. We were selective in accepting orders, in light of soaring material prices and currency uncertainties. Nonetheless, we took orders for 11 Aframax tankers, beating our performance in the preceding year. In terms of sales, a total of nine vessels, consisting of four Aframax tankers and five Panamax tankers, were delivered. Meanwhile, to take results to the next level, we endeavored to raise our marketing performance by developing unique ships with higher customer value. We also tackled the improvement of our systems of order processing and production to build competitiveness, and carried out Six-Sigma activities to enhance product quality.

Strategies for Fiscal 2006

There are at present no signs suggesting any drastic change in the global economy or in the marine transportation market. We consequently expect the shipbuilding market to remain firm. Despite adverse circumstances surrounding procurement, we anticipate further improvement in the business as sales reflect better vessel prices on order acceptance dates.

Coke Drum for Oil Refining Unit

61,000MTDW Oil Tanker

Industrial Machinery

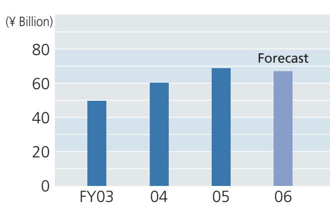
Main Products

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

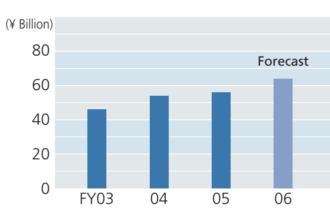
Major Units

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

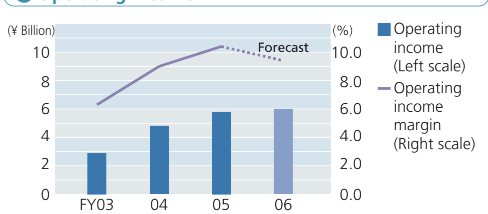
Orders



Sales



Operating Income



Segment Overview

Business Environment

In material handling machinery, the bustling marine transportation market is benefiting from sustained replacement demand from heavy manufacturing industries, such as steel manufacturers and shipbuilders. Demand for turbines and pumps has remained strong, following surge in energy demand overseas, particularly in India and China. In the market for forging machines, energized automotive and related industries are maintaining brisk capital investment.

Review and Analysis of Results in Fiscal 2005

The material handling machinery business enjoyed robust results on a par with the previous year's performance, aided by growing domestic capital investment. It accepted more orders for large cranes from shipbuilding yards and steelworks. The field of turbines and pumps achieved expansion in order received, due to an upswing in the biomass power generation and petrochemical plant businesses. In terms of forging machines, a good number of orders were received from Japanese and overseas automotive manufacturers. As a consequence, total orders in this segment rose 14% from the previous year, to ¥68.7 billion, sales were up 4%, at ¥56.1 billion, and operating income was also up 21% year-on-year, at ¥5.8 billion.

Outlook for Fiscal 2006

Material handling machinery will continue to enjoy favorable market conditions, comparable with those in the previous year. We will continue to seek further innovation in production methods as a means of increasing product marketability. For turbines and pumps, we will build a global network and achieve improvements in quality and quantity through our product development capabilities. For forging machines, we will focus on a model strategy that adapts to innovations in production methods in the automotive and related industries. In this segment we will further differentiate our technologies and streamline our manufacturing to maintain stable earnings and improve the operating income margin.

Overall Conditions in Major Units

Material Handling Machinery & Systems

Business Performance for Fiscal 2005

Many of our customers in the steel industry have expanded their material handling capabilities, replaced obsolete equipment and implemented equipment upgrades to step up production centered on high-grade and special steels. As a result, we have received orders for overhead cranes, ship-unloaders for unloading raw materials and bridge-type cranes for iron product shipments.

Shipbuilding companies now have a substantial order backlog and are striving to meet delivery requirements. We conducted sales proposal activities in response to customer needs for higher dock operation efficiency by employing larger construction blocks. We consequently received many orders for high-capacity Goliath cranes (GC) and jib cranes. Since the end of the previous fiscal year, we have built and delivered GCs in series, and these machines now play a central role in production activities at our customers' shipyards.

With respect to overseas markets, we were especially active sales in the East Asian market and successfully delivered jib cranes to China.

Strategies for Fiscal 2006

For the current business year, ending March 2007, capital investment is expected to remain strong in the domestic steel and shipbuilding sectors. Under our basic policy of providing lifecycle solutions to lead the industry in customer services, we will operate a business with a focus on providing value-added products and services that will contribute to more efficient operation for our customers in Japan and other East Asian countries. We will market our products and services aggressively, aiming for a steady and positive uptrend in orders.

At the same time, we will energetically promote production process innovation at our specialized crane factory, which serves as our business core. Further, we will upgrade and strengthen our supply chain to increase product marketability.

Turbines & Pumps (Shin Nippon Machinery Co., Ltd.)

Business in Fiscal 2005

Against the background of the trend in overseas markets, especially India, towards greater focus on environmental conservation, our turbines were in growing demand for biomass power generation. Other overseas operations targeting CO_2 emissions trading took off in Southeast Asia, while in the United States there was a rise in power generation using renewable energy. In Japan, it is anticipated that small-scale power generation businesses such as PPS*, ESCOs* and other energy saving businesses, will expand year by year.

In this operating environment, we identified large multistage turbines as a promising product category. In fact, the order volume for these turbines jumped 40% from the previous year, and they made a significant contribution to the increase in orders in the turbine business as a whole.

Turning to pumps, a growing number of oil, petrochemical and LNG plant construction projects are materializing in the Middle East and Southeast Asia, in response to strong economic growth in China and India as well as high crude oil prices. In Japan, some oil production and refining plants launched projects to upgrade the capacity of fluid catalytic cracking plants (FCCs). Thanks to these factors, order volumes for process pumps and vacuum pumps were higher. Notably, a couple of process pump core models recorded 35% year-on-year growth in order volume, which shows that we can successfully supply such models to the markets that are focused on and targeted in our medium-term business plan.

*PPS (Power producer and supplier business):
The business of selling electric power to the customers with the demand of a specified scale (for demand of more than 2,000 kW through transmission cables of 20,000 V and over)

*ESCO (Energy service company business):
The business of providing the customer with not only the comprehensive service as to how to realize energy-saving at the plants but the guarantee of the very effect of such savings to be resulted from the service.

Strategies for Fiscal 2006

By introducing segmented sales strategies designed for different customers, markets and models, and submitting quotations quickly, we will expand marketing of core models to high value-added markets, thereby boosting orders as a whole. We will also work on constructing a global network. We aim to achieve an increase in order volume by actively utilizing special roving marketing groups, including high-grade specialists, both inside and outside Japan, by locking in customers through local engineers, and by leveraging our overseas sales network.

To strengthen product competency, we will review the development of the final stage of turbine blades to meet the medium-term business plan, which calls for larger-sized turbines. In addition, we will further develop application technologies to respond to customers' needs for pumps.

We will continue to find innovative ways to expand production capacity while also pursuing a cost cutting program by restructuring of product architecture.

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

Business in Fiscal 2005

In fiscal 2005, the market showed strength as automobile production sustained its rise from the previous year, both in Japan and overseas. In overseas markets, in particular, all Japanese automakers rapidly increased output to achieve record production volumes. New plants were constructed, chiefly in North America and Asia, to upgrade production capacity. To respond to this increased automobile production, small and medium-sized forging companies began to undertake fresh investment to expand capacity. As a result, we received orders for a large number of forging presses centered on large crank-shaft lines for overseas factories.

In the steel industry, demand remained at high levels, especially from the automotive and shipbuilding sectors. Steel and nonferrous metal manufacturers invested in capacity expansion and energy saving, which is more positive for us than conventional investment to replace aged equipment or extend its lifespan. As a result, we enjoyed a brisk inflow of orders.

Strategies for Fiscal 2006

In fiscal 2006, we should continue to enjoy a robust operating environment, mainly driven by the automotive and steel sectors. In light of this projection, we have adopted a new slogan: "Leveraging our know-how and working with passion to be the winner!" Under this catchphrase, we will speed up reforms and ensure that the Company remains a stable enterprise far into the future.

Specifically, we will implement a model strategy for the forging press business in line with the major paradigm shift taking place in the automotive industry. Delivering a one-stop service encompassing design, manufacturing and after-sales support, we will endeavor to offer solutions that fulfill customer needs and ensure customer satisfaction. Secondly, while focusing on modifications and the servicing of delivered equipment in the industrial machinery business, we will expand the scope of our services to encompass peripheral equipment to cultivate the proposal-based after-sales support business.

Goliath Crane

Barrel Type Multistage Pump

Multistage Steam Turbine Rotor Assembly

6,500 Ton Forging Press Line

Construction Machinery

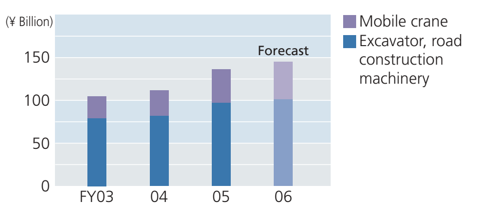
Main Products

Hydraulic Excavators
Mobile Cranes
Road Machinery

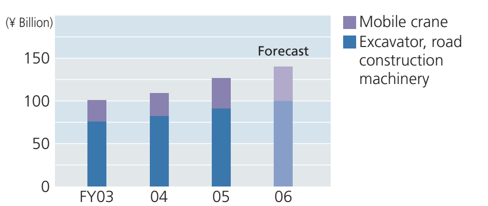
Major Units

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

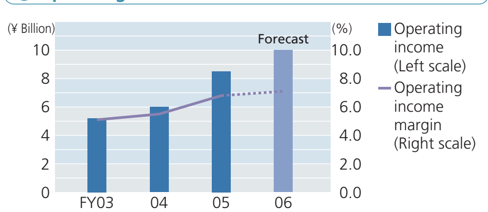
Orders



Sales



Operating Income



Segment Overview

Business Environment

Despite the ongoing slowdown in public works projects, domestic demand for construction machinery achieved a year-on-year rise for the third consecutive year, following growth in private construction demand. Overseas, the North American and European markets are buoyant. The markets in East Asia and Oceania are also growing.

Review and Analysis of Results in Fiscal 2005

In hydraulic excavators, we boosted our selling power on the basis of differentiating technologies, allowing us to achieve massive growth in orders and sales, especially in the North American market. In Japan, efforts were made primarily in the field of applied equipment. For Mobile cranes, orders and sales both soared after the continued boom in the North American market. Total orders received in this segment were ¥136.4 billion, up 22% year on year, accompanied by sales of ¥126.4 billion, a rise of 16%, and operating income of ¥8.5 billion for a 43% year-on-year rise.

Outlook for Fiscal 2006

We expect both the domestic and overseas markets to remain firm in fiscal 2006. We also foresee increased sales in North America and Europe, which will boost total revenues and earnings. To create a stable earnings structure, we will bolster our efforts to develop and sell new products that comply with the new emission regulations.

Overall Conditions in Major Units

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

Business in Fiscal 2005

A slump in domestic public investment was more than offset by vigorous private sector investment, to turn demand for construction machinery around. Although demand for hydraulic excavators, the mainstay of this segment, was poor in the general civil engineering market, we focused on hydraulic excavators with lifting magnets and other applied technologies, as we did in the previous year. In addition, we commenced development and sales promotional activities for models designed for forestry applications.

In the road machinery business, sales of asphalt finishers ended roughly level with the previous year, and we maintained our leading market share despite shrinking domestic demand.

In overseas markets, we successfully expanded exports of hydraulic excavators not only to the North American market, which remained strong, but also to East Asia and Oceania. In the Chinese market, we displayed our large and medium-sized asphalt finishers in a trade show in Beijing for the first time. This display impressed visitors with the technical excellence of the Sumitomo brand and generated many favorable comments.

Strategies for Fiscal 2006

In Japan, we will advance our promotional activities for new hydraulic excavators compliant with the new emission regulations and stress our distinguished technical capabilities and environmental performance to increase market share. We will be releasing new asphalt finisher models: a new model for a paving width of 4.5 meters; a model compliant with emission regulations; and a large model with a paving width of 9 meters, which will be introduced to the large-sized asphalt finisher market dominated by overseas manufacturers.

Overseas, we will continue to strengthen ties with CNH Global N.V. to expand sales of hydraulic excavators in the North American and European markets. In the growing Chinese market, we will improve our network of agents and endeavor to expand sales of large and medium-sized asphalt finishers. In other emerging markets, we will upgrade the service capabilities of the parts centers set up in Shanghai and Singapore to promote the sale of construction machinery of the Sumitomo brand and ensure the smooth supply of components. Moreover, the Chiba Factory will expand its production capacity to help boost sales volume in Japan and overseas.

Newly Launched HA90C Asphalt Paver at Beijin Exhibition

SH75 Forestry Application

Mobile Crane Business (Link-Belt Construction Equipment Company)

Business in Fiscal 2005

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

The North American mobile telescopic crane market continued to increase at the rapid pace that began in 2004. Link-Belt's sales increased, as well as its market share in select segments that were focal points of new product offerings. Link-Belt's sales and production were somewhat constrained by component availability. The under two-hundred ton North American crawler crane segment began recovering in 2005. Link-Belt introduced a new one-hundred-and-ten ton lattice-boom crawler crane at Con-Expo in March of 2005. The introduction of this new model combined with the recovery in the under two-hundred ton crawler crane market allowed Link-Belt to increase crawler crane sales and market share.

There were increases in commodity pricing in 2005. Link-Belt has continued to increase pricing on all products to mitigate the impact of rising commodity prices.

Strategies for Fiscal 2006

The continuing strength of Link-Belt is the introduction of new models that meet and exceed the requirements and expectations of the customer. Link-Belt's continuing goal is to be the leader in customer service and satisfaction.

The fiscal 2006 outlook for the North American crane market is for continued strong growth in the mobile telescopic crane segment. The North American crawler crane segment in the under two-hundred ton class began to recover in 2005 and should continue to increase in 2006. The availability of components and qualified personnel will continue to be a challenge in 2006 as production levels are increased. Link-Belt is working closely with vendors to provide an uninterrupted supply of material and components to meet production needs to achieve increased sales and a larger market share. Link-Belt has initiated a LeanSigma® program that, through continuous improvement activities, will improve the quality, cost and delivery of Link-Belt's products.

Lattice Crawler Crane

Rough Terrain Crane

Research and Development

R&D Strategy

In our medium-term management plan “Leap to Excellence ’07,” we aim to continue creating first-class products, while fostering collaborative development among our various businesses and synergistic value chains interlinking our divisions.

To continuously create first-class products, we have designated the cream of our lineups in each business area as “core products” and have launched Groupwide initiatives to further develop them as a priority task.

We have designated the following markets as growth areas: Semiconductor and Liquid Crystal Production Equipment, Information & Technology Related Equipment, Medical Equipment, and Actuators. In these fields, we are stepping up technological development, and treating new product development as a Group priority.

Our development paradigms are built around value chain synergies and interlinkage, based on our leading-edge R&D and business bases clustered in the Yokosuka area southwest of Tokyo. At the same time, to speed up development and create complementary technologies, we are aggressively developing new technologies and enhancing established products in partnership with universities and other companies.

R&D investments totaled approximately ¥7.4 billion in fiscal 2005. We increased investments in projects aimed at expanding our precision equipment business, further extending our technological lead in this area.

Our new product to sales ratio (sales of newly developed products over three to five years from first launch as a ratio of total sales) stood at approximately 28% (parent only), and we will continue to improve this ratio going forward.

Main R&D Milestones

(1) Growth Areas

Semiconductor and Liquid Crystal Production Equipment and Information & Technology Related Equipment

In the Plastics Machinery Division, we implemented a full model change for our all-electric injection molding machines and launched a large number of new models on the market. The ultimate Direct-Drive System in the small-sized SE-DU series provides the highest level of precision and stability. The new midsized SE-HD series ensures exceptional stability with a focus on cost performance, while the SE-HS series, with a low inertia, high response injection design, attains the injection performance typically found only on hydraulics with accumulator. The new SEDU-HP series of super high-speed, all-electric injection molding machine realizes the super high speeds and high response needed for thin-wall molding. We added the SE75D-CI to our series of all-electric double-shot injection molding machines, to meet broadening applications for double-shot molding, and launched the SR-D series of all-electric driven vertical rotary table-type injection molding machines offering excellent operability and space-saving features without detracting from the superior performance of horizontal all-electric systems. These new products meet the needs of a wide range of customers, and help them enhance their productivity.

In the “SLR” series of CO_2 laser drills for printed circuit boards, we have launched models with increased scanner speed to meet the need for higher productivity. In laser annealing devices, our “SWA” series for semiconductor manufacturing devices has won praise from the market.

In next-generation display devices, we developed a Reactive Plasma Deposition system for organic electroluminescent (EL) applications, a promising field, and have begun to supply equipment on a trial basis. The equipment can coat thin film for encapsulation without causing damage to the organic light-emitting element.

In cryogenic equipment and its applications, we have completed development of a new cryopump system SICERA® optimized for next-generation semiconductor-manufacturing tools. A new model wider range temperature control device for Prober system, a semiconductor inspection tool, has been developed and commercialized also.

In precision positioning stages, we have developed elemental devices for high speed XY-stage systems speeding up processes in the semiconductor inspection systems, based on highly precise active vibration control and structural design technology. In motion components, we have upgraded the functionality of existing controllers and improved the performance of motor-drivers, with a focus on realization of high-performance control systems.

Clean transportation facilities developed and delivered by the Group for manufacturing lines for advanced function film for liquid crystal displays have begun commercial operation at customer sites. Building on this achievement, we are developing systems for clean facilities including high- functionality Automatic Guided Vehicles (AGVs).

Medical Equipment

In the diagnostic and medical equipment field, we have made priority investments in development of Positron Emission Tomography (PET) systems for cancer diagnosis. In PET cancer diagnosis in Japan, some companies have begun supplying the diagnostic tracer Fluorodeoxyglucose (FDG), extending our presence in this market. Sumitomo Heavy Industries, Ltd. has developed the ultra-compact, low-cost “HM-7” cyclotron system for production of PET tracer, which is small enough to be installable in customers’ existing facilities. Another new product is the highly automation-friendly “F200” automatic synthesis system for cassette-type SPG, featuring simplicity of preparation.

Actuators

We have newly launched the Altax® series of technologically upgraded gear motors, which come under the motion control and drive products group and are one of the Sumitomo Heavy Industries Group’s core technologies. To better position ourselves to cultivate the expanding market for servo drives, we have commercialized a new series of right-angle Hyponic drive® with hollow-axial input type, high-precision planetary gear speed reducers for use in combination with servo motors, and the “GS-200” series of enhanced-functionality optimized servo drives with integrated gear motors. In precision control applications, we have made further improvements to high value-added products such as the “F4C-D series of Cyclo® speed reducers” with enhanced rotation control and output torque. In this way, we are responding more effectively to the diversifying needs of customers in Japan and overseas.

(2) Other Businesses

Environmental Equipment, Ships, and Logistics

In our water-treatment plant business, we marketed an energy-saving system for high-load anaerobic treatment of low-concentration waste water, and have shipped the first order. We also launched development of a new bio-treatment processing system, and a new aeration agitator using unique proprietary technology.

In energy-related plants, we are developing technology enabling circulating fluidized-bed boilers to use new fuel materials based on substances such as biomass (wood chip) and waste tyres and plastics, as well as resource recovery technologies for valuable metals derived from waste materials using rotary kilns. To contribute to prevention of global warming and promotion of a recycling-based society, we are aiming to further increase energy efficiency and our ratio of resource recycling.

In ship and marine operations, we have continued developing energy-saving hull forms and new tankers that meet tougher safety rules. We are also working to improve construction methods to improve productivity and reduce total processing times.

Turning to logistics and parking systems, in the area of commercial logistics we are targeting systems for mail-order customers through TV and online channels. We are also developing rapid and flexible picking systems that can promptly deal with changes in product lineups. In car-parking facilities, we launched a new version of the "Sumipark® Free" ("puzzle-type" underground parking facility) for medium-scale structures in October, and have already received two orders for systems for 200 vehicles or more.

Other Industrial Equipment

In forging presses, we have smoothly launched operation of a front and back feed bars separated type transfer system, developed with the goal of substantially broadening the range of products handled, and improving productivity and maintenance. Based on operating data, we have completed a separated type high speed transfer system for a small-sized press, and we will deliver it soon. Moreover we have developed a new range of more simple and compact presses jointly with a customer, and have completed their serialization as items of production equipment. Orders have already been placed.

In the field of industrial power-generation turbines, orders have increased for our new high-temperature-compatible system, and we are speeding up serialization. We are also in the final stages of development of a long-blade system, and have carried out rotation trials and tested blades for strength.

R&D activities in construction machinery have focused on products that offer IT-system compatibility, ease of operation and energy-saving and environment-friendly qualities. In hydraulic excavators, we have developed and launched large models (33, 35, and 70 tons) with engines meeting Tier 3 emission standards for major general civil engineering projects, road construction and rock loading work in key markets in Japan and overseas.

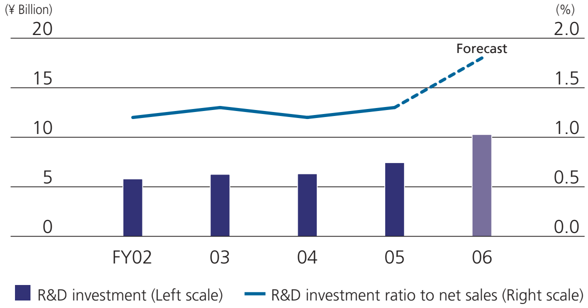
In road paving equipment, we have developed the "HA90C" large asphalt finisher, chiefly for the China market, and the "HA45W-5" small asphalt finisher fitted with "J-paver", 3-stage extendable screeds for paving widths of up to 2.0m to 4.5m freely. We have serialized "J-paver" for maximum paving widths of 4.5m, 5m, and 6m. We will continue to develop next-generation hydraulic excavators and asphalt finishers with engines that meet Tier 3 emission standards.

(Cyclo, Altax, Hyponic drive, SICERA, and Sumipark are Sumitomo Heavy Industries, Ltd. registered trademarks)

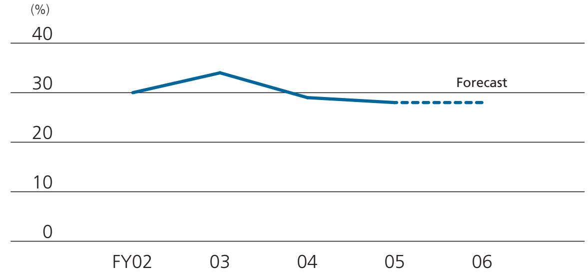
Clean Roll Handling AGV

RPD Coating System for ZnO (zinc oxide)

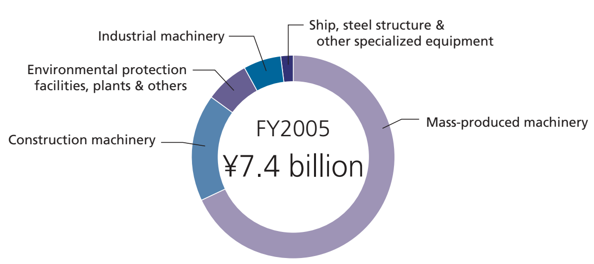
R&D Investment



Proportion of New Products in Total Sales



R&D Expenses Broken Down by Segment



Intellectual Property

As the Sumitomo Heavy Industries Group is oriented towards growth driven by distinctive proprietary technologies, intellectual property is the most important of the cornerstones of the Group brand, and the wellspring of its competitive advantage. Throughout Sumitomo Heavy Industries, the core company of the Group, we devote our energies to the active protection, management, and creation of this Group "property." The principal focus of our efforts is directed at the four elements of intellectual property activity, namely: utilizing exclusive rights; respecting other companies' rights; ensuring that rights to intellectual property are secured; and ensuring that such rights are utilized with the optimum timing and all due speed.

Management Structure

To link the senior management of operating divisions and development divisions directly with intellectual property activity, the Company has appointed chief intellectual property officers (CIPO) with the same rank as the general managers of technology and development divisions, ranking immediately below and reporting directly to the officers in charge of group or divisional business. The CIPOs prepare optimal intellectual property strategies for each operating and development division, make all members of those divisions thoroughly acquainted with them, and create the mechanisms to translate those strategies into reality. In addition, the Intellectual Property Department, which reports directly to the President, participates fully in reform activities implemented by the CIPOs.

Principal Activities and Results

(1) Intellectual Property Inspection Activities

We have formed an Inspection Committee composed principally of CIPOs, and use mechanisms for the regular evaluation of inventive proposals. In this way, we foster the efficient and systematic filing of patent applications ultimately intended for commercialization.

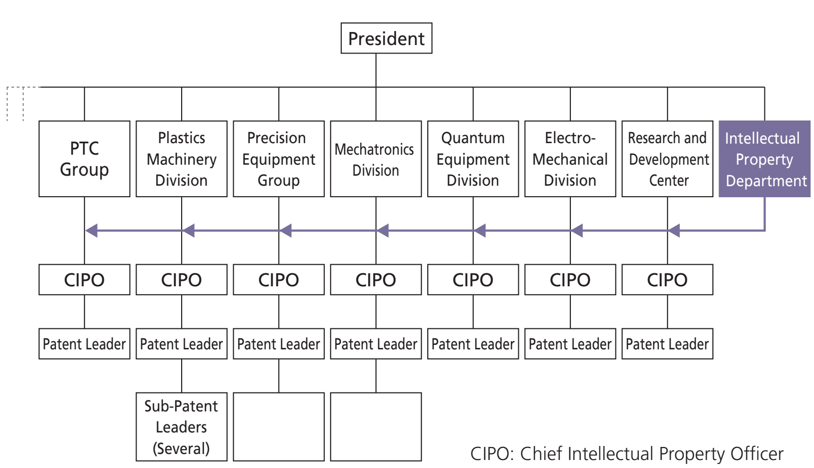
(2) Special Cross-Departmental Meetings

At our training center, we hold two-day gatherings for staff involved in planning, marketing, technology, and intellectual property, primarily the CIPOs. The members concentrate on devising measures to respond to other companies' patents, and on formulating the priority domains for inventive activity, in line with our business strategies. This kind of support structure that cuts across our organization is effective in stimulating activities for the creation and use of intellectual property that tend to atrophy if confined to individual divisions.

(3) Emphasis on Overseas Patent Applications

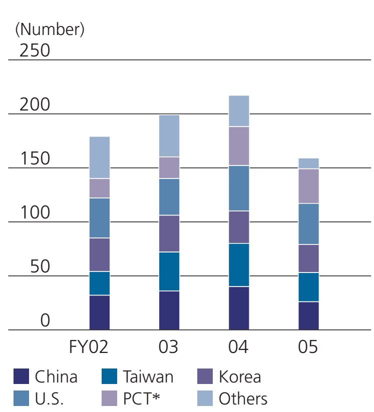
In tandem with the internationalization of the business activities of the Sumitomo Heavy Industries Group, we have been calling on all operating divisions and other relevant divisions to take active steps to file patent applications overseas. As a result, as of May 2006 as many as 1,026, or 37%, of the total of 2,776 patents held by Sumitomo Heavy Industries were held overseas. It is of note that during the past four years we have increased the number of overseas patent applications under the Patent Cooperation Treaty (PCT). We have been stepping up the use of these PCT applications because of the advantages they offer in terms of cost savings, higher efficiency and greater rapidity. For example, they eliminate certain duplications in the examination procedures that are conducted by each individual country, and the date of filing within Japan is also deemed to be the date of filing in other designated countries, if certain conditions are satisfied.

CIPO System



CIPO: Chief Intellectual Property Officer

Overseas Patent Applications



*PCT indicates the contracting states to the Patent Cooperation Treaty

Corporate Governance and Compliance

What corporate governance means to us

Sumitomo Heavy Industries believes that the essence of corporate governance is the establishment of a system enabling the efficient and transparent conduct of management, with the aim of pursuing higher enterprise value, allowing a company to enjoy even stronger trust from all its stakeholders, including shareholders, customers, employees, and the community as a whole.

Corporate Governance System

The Company employs the conventional Japanese management system, known as the "statutory auditing system," and within this governance framework, we have introduced a system of executive officers. We ensure a proper separation of the executive function and the function performed by the Board of Directors.

The Company has 10 directors, of whom one is an outside director. This system has been adopted to enhance management transparency and provide a stronger management oversight function. Thanks to this small number of members of the Board of Directors (by comparison with average Japanese company practice until recently), the Board is able to deliberate more effectively on each agenda item. Moreover, the Board discusses not only those matters mandated by the Corporation Law, but also other priority management issues, which it addresses proactively and from a broad perspective.

The Company has 16 executive officers (of whom 8 serve concurrently as directors), who are responsible for overseeing the day-to-day conduct of business operations. The Executive Officer Committee (composed solely of all 16 executive officers) and the Group Management Council, which consists of top management representatives of the major corporate members of the SHI Group, are responsible for monitoring business performance on a consolidated basis, as well as monitoring the implementation of management measures determined by the Board of Directors. We also have a Management Strategy Committee composed of Head Office Executive Officers and chaired by the President of the Company. This body engages in preparatory discussions of items for deliberation by the Board of Directors, and also undertakes in-depth examinations of priority management issues within the scope of authority laid down by the Board of Directors.

The Board of Corporate Auditors, comprising four statutory auditors, of whom two are outside auditors, is charged with responsibility for checking the legal correctness and ethical appropriateness of the discharge of their duties by the Company's directors and executive officers. The Group Corporate Auditing Committee, comprising statutory auditors of the Company and of its subsidiaries and affiliates within the Group, meets regularly to allow the exchange of information among the members so as to ensure the efficient performance of the auditing function at the Group level. The role of the outside auditors, who are chosen from among lawyers and certified public accountants, is to reinforce the system for checking the observance of compliance within the Group, as well as the whole range of accounting procedures. In addition, we have set up a Board of Corporate Auditors Secretariat, under the direct control of the auditors' board, to provide it with administrative support.

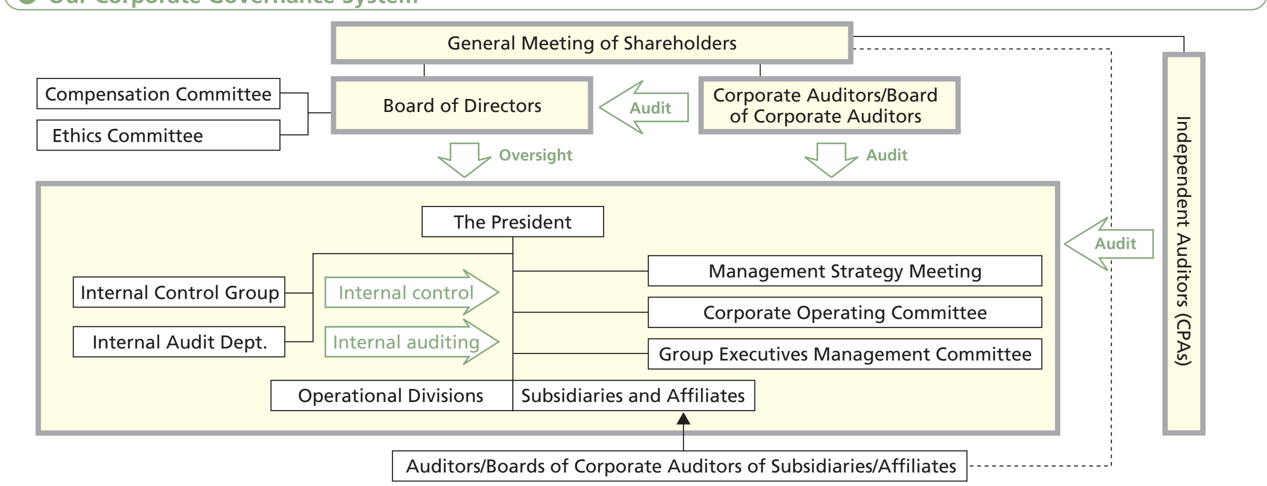
Internal Control and Risk Management

The Company has taken a number of steps over the past few years to ensure the proper observance of legal statutes in the course of its business operations, as well as the principle of fairness and the maintenance of high ethical standards. These steps include drafting an in-house manual of ethical behavior, the establishment of an Ethics Committee, and an in-house whistle-blowing system. We introduced a comprehensive risk management system in fiscal 2001, since when we have been working to expand its functions and make it into an integral part of our whole business process. From fiscal 2004 we have been creating an internal control system for the entire Group that would integrate these separate activities in the fields of ethics and risk management into one seamless whole. In October 2004 we published a Compliance Manual, and up to March 2005 we conducted a staff training program for the employees of all Group companies, including affiliates.

In fiscal 2005, to further improve our compliance, we revised and updated our Antimonopoly Law observance program, and instituted a number of staff retraining programs in the field of compliance. Then, in April 2006 we appointed executive officers responsible solely for matters of internal control, and raised the status of our Internal Control Promotion Office. The new organization is given authority to give orders to all departments throughout the Group with regard to internal control promotion activities. Regular reports on the state of progress with regard to both our internal control system and our compliance system are currently submitted to the Board of Directors.

From here onward, in response to directions in the recently enacted Corporation Law, together with the Japanese version of the Sarbanes-Oxley Act (which will be going into effect in Japan in the autumn of 2007), with respect to the legally correct method of constructing an internal control system, we will focus our efforts on adapting our system to the changed state of the law.

Our Corporate Governance System



Measures for Environmental Preservation

One of the corporate missions of the Sumitomo Heavy Industries Group is to contribute to regional development, a better environment, and safety. Based on our understanding that global environmental protection, regional environmental preservation and promotion of a recycling economy are part of the social responsibilities of an enterprise, the Group as a whole is promoting environmental activities. Most notably, in fiscal 2005 we commenced new initiatives for the prevention of global warming, with the Group as a whole working to reduce its electricity consumption.

Environmental Management

Management Organization

The Environmental Management Department within the General Affairs Group looks into various matters relating to environmental management activities within the Company and the Group. Each of the Works and the Group companies outside of the regions covered by Works has built and operated environmental management systems in compliance with ISO14001, the international standard for environmental measures, in line with the environmental policies established by the president or the plant manager. Elements listed as having a potential impact on the environment are being assessed, and environmental programs and targets for activities are being set up based on the assessment results.

Environmental Accounting

Environmental accounting that complies with the Environmental Accounting Guidelines established by Ministry of the Environment has been implemented, to quantitatively clarify the money spent and amounts invested by the Company in environmental activities and achieve even more efficient environmental preservation. The total amount of outlay on environmental preservation measures was about ¥1.9 billion in fiscal 2005. Of that amount, about ¥500 million was invested in facilities and equipment designed to reduce the burden on the environment and conserve energy.

The cost of environmental preservation is increasing every year, and even compared to the last financial year, the total cost of environmental preservation has risen ¥400 million, while the cost of plant and equipment investments is up ¥200 million.

Reducing Environmental Load

The Sumitomo Heavy Industries Group is working on new initiatives to contribute to the prevention of global warming – one of the most serious environmental problems we are facing. We have launched our "Prevent Global Warming! Use less electricity" campaign, the goal of which is to cut electricity consumption in fiscal 2007 to 10% below fiscal 2004 levels. This is a priority initiative of ours that all of our staff are involved in. In addition to controlling our lighting and air-conditioner usage, we have also introduced energy-efficient equipment.

The volume of chemical substances emitted and transferred has been clarified based on the PRTR* method, and was 1,384 tons in fiscal 2005. Solvents for coatings account for more than 90% of this volume, and the Group is currently seeking ways to develop low-volatility paints and improve coating use efficiency and the recovery ratio.

*The PRTR law:
Law on specified chemical substances released by factories as emissions that are targeted for reduction. was enacted to encourage manufacturers to undertake stricter monitoring and control of chemical substances.

Activities Geared to the Recycling-Based Society

We aim to reduce the generation of substances that are a burden on the environment in two steps: first, by cutting overall waste from our business activities, and second, by reducing waste disposal. Waste is being managed in three categories, namely: waste for disposal, which is land filled or incinerated; recycling of waste as resource materials, which enables reuse; and valuable resources, which are reused or placed on a route for reuse in the Company.

Provided below are figures on the amount of waste the Sumitomo Heavy Industries Group produced and disposed of in fiscal 2005. These figures show that there has been a significant reduction in the waste produced and disposed of compared to fiscal 2001 levels.

Volume of waste produced in FY2005	27,538 tons (Down 14% on FY2001 levels)
Volume of waste disposed of in FY2005	4,477 tons (Down 24% on FY2001 levels)

Developing Environmentally-Friendly Products

It is a mission of manufacturers to help preserve the quality of the environment in a broader sense through their products and services, in addition to reducing the burden on the environment caused by emissions. The Group helps its customers to reduce the environmental burden of their activities and reduce their operating costs, whilst also contributing to the realization of a society capable of sustainable development, through the reduction in the size and weight of its products, the development and supply of products that help conserve energy, and the construction and operation of environmental facilities, including our recycling plazas and biomass power-generation facilities.

Format of Voluntary Environmental Preservation Costs

Scope of statistics: Entirety of the SHI Group
Period under review: April 1, 2005 to March 31, 2006

(¥ Million)

Category	Major Measures and Their Effects	Investment Amount	Cost
(1) Costs in manufacturing field	Appropriate measures for water quality, air quality, noise, vibration, chemical substances, waste, etc. Reduction of energy use and resource usage and recycling	199	623
Break down (1)-1 Preventing pollution	Improvement and management of discharge treatment facilities, measures for dust collection and against VOCs, examination of trace PCB content, measurement of water quality and emitted gases	59	236
Break down (1)-2 Environmental preservation	Monitoring of electricity demand, investment in energy conservation, temperature management	120	48
Break down (1)-3 Resource recycling	Recycling of industrial waste, provision of waste leaving site, recycling of thinners, collection, transport, treatment and disposal of waste	20	339
(2) Upstream and downstream manufacturing processes	Use of low-sulfur heavy oil, "green purchasing" of office goods	0	3
(3) Environmental management	Maintenance and management for ISO14001 certification, staff training (general, specific, examiner, in-house supervisor), periodical inspection, expansion of green areas, maintenance and management of green areas	38	107
(4) R&D	Incineration and gasification of household garbage and industrial waste, development of emitted gas treatment systems, development of ash-melting furnace systems, development of water supply and sewerage facilities, development of methods of reducing noise from Cyclo and speed reducers, development of new tube heat exchangers	292	677
(5) Compensation for environmental damage	Surcharges for air pollutant loads, contributions by regional enterprises for green areas and compensation for damage from pollution	0	1

(¥ Million)

Item	Descriptions	Amount
Total investments for the term	Improvement of discharge treatment facilities, development of dust collection systems, installation of VOC treatment facilities, investment in energy conservation	529
Total R&D costs for the term	Incineration and gasification of household garbage and industrial waste, development of emitted gas treatment systems, development of ash-melting systems, development of water supply and sewerage facilities, development of methods of reducing noise from Cyclo and speed reducers, development of new tube heat exchangers	969
Amount of sales of valuable articles related to (1)-3	Metal scrap left over after the effective use of remnant materials	211

Financial Section

Eleven-Year Summary

SUMITOMO HEAVY INDUSTRIES, LTD. and Consolidated Subsidiaries

	FY1995	FY1996	FY1997	FY1998
Summary of Income (For the year):				
Net sales	¥499,990	¥606,537	¥556,786	¥554,488
Cost of sales	418,576	505,636	460,254	464,286
Selling, general and administrative expenses	65,200	78,367	75,743	80,572
Research and development expenses	8,845	9,763	8,121	8,983
Operating income	16,214	22,534	20,789	9,630
EBITDA (Note 2)	30,461	32,297	35,128	23,800
Net income (loss)	6,024	5,923	4,613	(12,298)
Cash Flows (For the year):				
Cash flows from operating activities	¥ 5,506	¥ 12,503	¥ 516	¥ 11,348
Cash flows from investing activities	9,699	(15,254)	(4,198)	(9,050)
Free cash flows (Note 3)	15,205	(2,751)	(3,682)	2,298
Cash flows from financing activities	5,292	(1,539)	(1,933)	19,709
Cash and cash equivalents at the end of year	45,308	41,018	35,403	57,410
Financial Position (At year-end):				
Total assets	¥698,610	¥740,091	¥748,017	¥723,673
Total current assets	528,376	559,900	566,559	542,689
Property, plant and equipment	116,051	128,396	128,757	124,757
Interest-bearing debt	364,381	363,894	365,923	387,199
Net interest-bearing debt	319,073	322,876	330,520	329,789
Stockholders' equity	71,023	76,123	78,909	72,975
Amounts per Share of Common Stock:				
Net income (loss) (Note 4)	¥ 10.23	¥ 10.06	¥ 7.83	¥ (20.88)
Stockholders' equity	120.64	129.30	134.04	123.96
Cash dividends	—	3.0	3.0	—
Financial Indexes:				
Operating ratio	3.2	3.7	3.7	1.7
EBITDA margin	6.1	5.3	6.3	4.3
R&D expenses ratio to net sales	1.8	1.6	1.5	1.6
Return on assets (ROA)	0.9	0.8	0.6	(1.7)
Return on equity (ROE)	8.5	7.8	5.8	(16.9)
Stockholders' equity ratio	10.2	10.3	10.5	10.1
Interest-bearing debt ratio	52.2	49.2	48.9	53.5
D/E ratio (Times)	5.1	4.8	4.6	5.3
ROIC (Note 5)	2.6	3.2	2.8	1.6
Investment in Plant and Equipment, and Others:				
Capital expenditures	¥ 13,688	¥ 20,732	¥ 16,208	¥ 14,763
Depreciation and amortization	14,271	15,378	15,805	14,170
Number of employees		14,842	14,357	13,840

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥117=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2006.
2. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization
3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities
4. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.
5. ROIC (Return on Invested Capital) = $\frac{\text{(Operating income + Interest and dividend received) x 55\% (= 1 – Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$

						Millions of yen	Thousands of U.S. dollars (Note 1)
FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2005($)
¥566,668	¥513,753	¥517,138	¥481,289	¥482,765	¥521,310	¥551,339	$4,712,300
473,798	434,544	430,399	400,460	378,422	407,512	434,904	3,717,132
80,162	71,724	72,564	63,616	64,112	65,025	68,930	589,146
12,206	8,688	6,777	5,800	6,263	6,317	7,441	63,598
12,709	7,485	14,175	17,213	40,231	48,773	47,505	406,022
26,910	20,402	26,078	29,322	50,344	58,055	56,577	483,562
(6,328)	(28,612)	1,650	2,688	16,262	22,792	29,742	254,201
¥ 39,117	¥(16,957)	¥ 38,808	¥ 29,499	¥ 75,775	¥ 45,451	¥ 50,023	$ 427,549
(1,969)	29,560	(3,343)	(1,074)	(7,929)	(6,087)	(7,024)	(60,034)
37,148	12,603	35,465	28,425	67,846	39,364	42,999	367,515
(48,765)	(21,403)	(32,785)	(22,116)	(56,666)	(46,490)	(48,812)	(417,195)
45,173	36,496	40,846	47,661	57,678	49,108	43,644	373,022
¥657,149	¥579,772	¥634,904	¥588,010	¥580,291	¥569,771	¥579,233	$4,950,714
474,059	394,252	371,049	329,231	321,400	316,166	317,813	2,716,348
128,784	119,135	199,758	196,104	258,891	253,605	261,421	1,551,114
341,912	324,324	294,552	273,544	215,807	169,228	125,504	1,072,676
298,617	287,609	254,402	225,571	157,353	119,592	81,587	697,325
64,829	30,049	87,494	89,331	114,526	137,157	167,740	1,433,676

						Yen	U.S. dollars (Note 1)
¥ (10.74)	¥ (48.60)	¥ 2.80	¥ 4.57	¥ 27.01	¥ 37.80	¥ 49.45	$ 0.42
110.12	51.04	148.63	151.86	190.25	227.90	279.02	2.38
3.0	—	—	—	—	3.0	5.0	0.04

						%
2.2	1.5	2.7	3.6	8.3	9.4	8.6
4.7	4.0	5.0	6.1	10.4	11.1	10.3
2.2	1.7	1.3	1.2	1.3	1.2	1.3
(1.0)	(4.9)	0.3	0.5	2.8	4.0	5.1
(9.8)	(95.2)	1.9	3.0	14.2	16.6	17.7
9.9	5.2	13.8	15.2	19.7	24.1	29.0
52.0	55.9	46.4	46.5	37.2	29.7	21.7
5.3	10.8	3.4	3.1	1.9	1.2	0.7
1.9	1.3	2.3	2.6	6.5	8.5	8.8

						Millions of yen	Thousands of U.S. dollars (Note 1)
¥ 12,606	¥ 14,305	¥ 15,549	¥ 14,406	¥ 10,562	¥ 8,175	¥ 10,285	$ 87,906
14,201	12,916	11,902	12,118	10,112	9,282	9,072	77,540
13,748	12,411	12,457	11,777	11,282	11,149	11,319	

Management's Discussion and Analysis

1. Overview of Operating Environment and Business Strategies

During fiscal 2005, prices of crude oil and other raw materials remained high. Nevertheless, the Japanese economy continued its steady expansion thanks to the firming of domestic demand driven by the continuing growth of consumer spending and the upward momentum of private-sector capital investment accompanying the improvement in corporate earnings. Overseas, the US economy expanded, while the Chinese market maintained its high growth. Promising markets such as Southeast Asia and India also developed, while the European economy saw a gradual recovery. Consequently, the overall basic trend in the global economy was one of expansion.

In this environment, the Sumitomo Heavy Industries Group posted record-high sales and net income for the third consecutive year in the term under review, which is the first year of the medium-term management plan "Leap to Excellence '07." This is attributable to the solid performance of our core products, such as speed reducers, as well as to the reform of our business structure accelerated by the execution of the management plan.

In our medium-term management plan, we have built a system in which we can demonstrate our strengths in each business field and generate synergy among our businesses. We also made a proactive structural shift from the public sector to the private sector. In addition, we have cultivated our human resources by promoting training for business strategies and the Six Sigma Program to improve the capabilities of our employees, and we strengthened the foundation of our internal control systems through measures such as simplifying our organizational structure and the full enforcement of compliance training.

The Group's financial strength was also enhanced as we worked thoroughly on cash flow management to actively reduce interest-bearing debt. As a result, ROIC after tax, one of the focal points in "Leap to Excellence '07," rose to 8.8%, from 8.5% in the previous year. This is attributable to the improvement in capital turnover stemming from higher operating efficiency, despite a decline in operating income due to a temporary factor.

2. Business Performance

Sales and Orders

Consolidated sales for the year under review increased for the third consecutive year, rising 5.8% from the previous year, to ¥551,339 million. One major driver of this growth was the Mass-Produced Machinery Business in which speed reducers displayed significant growth, reflecting the recovery in capital investment in Japan and abroad. Sales growth was also bolstered by the Construction Machinery Business, which benefited from the construction boom in North America. Looking at sales by business segment (excluding inter-segment sales), the Mass-Produced Machinery Business posted sales of ¥218,798 million (up 6.7% from the previous year), followed by the Construction Machinery Business at ¥126,375 million (up 16.0%), the Ship, Steel Structure & Other Specialized Equipment Business at ¥67,372 million (up 3.2%), and the Industrial Machinery Business at ¥56,054 million (up 3.8%). The Environmental Protection Facilities, Plants & Others Business posted a sales decline of 5.9% from the previous year, to ¥82,740 million, impacted by the shift in focus from public-sector demand to private-sector demand.

Orders received increased by 7.5% from the previous year, to an all-time high of ¥602,995 million. The Construction Machinery Business, which saw brisk orders for crawler cranes and hydraulic excavators in North America, the Ship, Steel Structure & Other Specialized Equipment Business, which has an order backlog for Aframax tankers, and the Industrial Machinery Business, which saw an increase in demand for cranes from steel mills, all enjoyed double-digit growth in orders. However, the Mass-Produced Machinery Business, in which there was a slight sales slump for injection molding machines, and the Environmental Protection Facilities, Plants & Others Business, which was in the midst of shifting its focus to private-sector demand, saw order growth decline.

Cost of Sales and Selling, General and Administrative Expenses

The cost of sales rose by 6.7% from the previous year, to ¥434,904 million, primarily owing to a rise in the prices of raw materials, including crude oil. However, despite the rise in procurement costs, gross profit expanded by 2.3%, to ¥116,435 million, while the gross margin declined by 0.7 percentage points year-on-year.

SG&A expenses totaled ¥68,930 million, up ¥3,905 million, or 6.0%, from the previous year, while the SG&A expenses ratio was unchanged at 12.5%, reflecting our ongoing cost reduction efforts.

Operating Income

Operating income decreased by ¥1,269 million, or 2.6%, from the previous year, to ¥47,505 million. The decrease was primarily in reaction to the ¥2,500 million gain on the sale of a portion of the land of the Tanashi Works posted in the previous year. If this had been excluded, operating income would have increased by approximately 2.7% year-on-year.

Review of Operations by Business Segment

Mass-Produced Machinery

Orders in the Mass-Produced Machinery segment rose 1.8% from the previous year to ¥216,974 million and sales rose by 6.7%, to ¥218,798 million.

Speed reducers, the mainstay product in this segment, displayed steady growth both in Japan and overseas. This was a result of our efforts to expand business through the aggressive introduction of new products and the reinforcement of sales channels and marketing divisions in each country as capital investment recovered.

The plastic injection molding machines business remained brisk in Japan, supported by the steady performance of the automobile industry. However, total orders did decline as IT-related demand, which had been buoyant in the previous year, fell on overseas markets.

In the precision control equipment and components business, we enhanced customer value by improving product quality and production efficiency. This led to increased orders for cryogenic equipment and precision forged parts. However, primarily due to a rise in material costs, operating income in this segment declined by 3.5% from the previous year, to ¥29,338 million, and the operating income margin fell 1.4 percentage points, to 13.4%.

Environmental Protection Facilities, Plants & Others

Both orders and sales decreased in this segment. Orders declined by 16.0% from the previous year, to ¥84,283 million, while sales dropped by 5.9%, to ¥82,740 million.

Orders in the energy-related plants business maintained the level of the previous year as sales activity was reinforced and our response to the increasingly sophisticated specification demands of our customers improved. In the water treatment plant business, however, both orders and sales declined significantly from the previous year, primarily due to the shift in the focus of the business structure from the public-sector market to the private-sector market.

As a result, operating income in this segment declined 39.7% from the previous year, to ¥4,278 million. The operating income margin also fell 2.9 percentage points, to 5.2%. One of the factors behind the decline in operating income was the temporary factor of the gain of approximately ¥2,500 million on the sale of land posted in the previous year.

Ship, Steel Structure & Other Specialized Equipment

Orders in this segment rose 27.6% year-on-year, to ¥96,660 million, and sales increased 3.2% to ¥67,372 million.

The shipbuilding business booked orders for 11 Aframax tankers, an increase of three from the previous year, as we stepped up our marketing activity, emphasizing a proactive approach based on a combination of marketing and technical elements. On the sales front, we delivered nine tankers.

In the steel structure and other specialized equipment business, both orders and sales declined as a result of the shifting focus of the business structure from the public-sector market to the private-sector market.

Overall, this segment posted an operating loss of ¥480 million as it was affected significantly by higher prices for steel and other materials.

Industrial Machinery

In the Industrial Machinery Business, orders increased 14.5% year-on-year, to ¥68,693 million, while sales rose 3.8%, to ¥56,054 million.

Orders increased for material handling machinery and systems as our marketing emphasized a proactive approach to take in customer needs and we explored the market with enhanced sales activities.

We enhanced our sales strategies in the turbines and pumps business by customer, market, and model type to further reinforce our ability to make proposals to solve our customers' problems and consequently increased sales both in Japan and overseas.

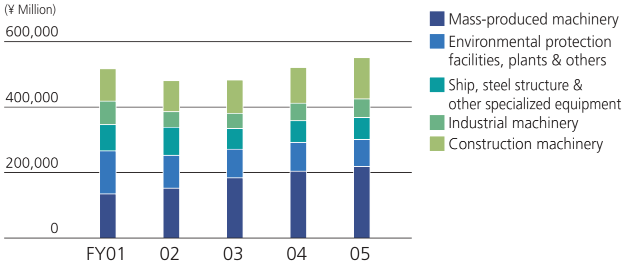
As a result, operating income in this segment climbed 21.0% from the previous year, to ¥5,847 million and the operating income margin increased by 1.4 percentage points year-on-year, to 10.4%.

Construction Machinery

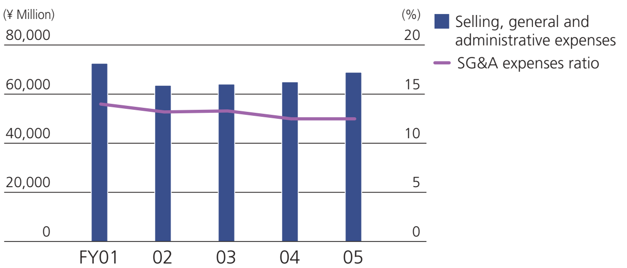
Orders in this segment increased 22.3% from the previous year, to ¥136,385 million, while sales rose 16.0%, to ¥126,375 million.

In the hydraulic excavator business, both orders and sales increased by a large margin in North America from the previous year. This is attributable to our efforts to expand sales through stronger cooperation with our business partners and group companies in the United States, as we enhanced our sales capability based on differentiating our technology from those of our competitors.

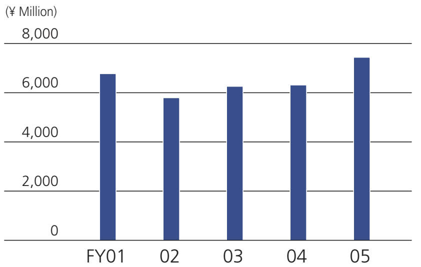
Net Sales



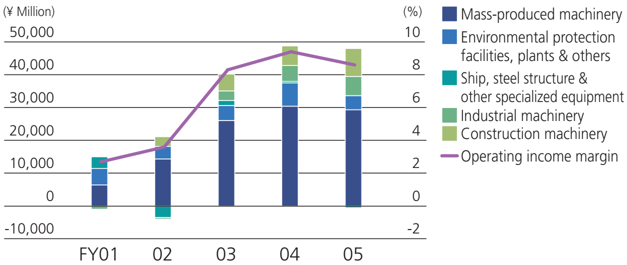
Selling, General and Administrative Expenses, SG&A Expenses Ratio



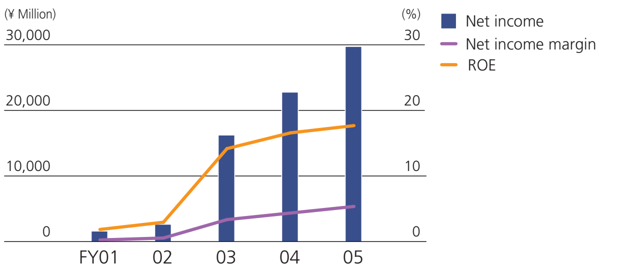
R&D Expenses



Operating Income, Operating Income Margin



Net Income, Net Income Margin, ROE



The mobile crane business also experienced an increase in orders and sales, particularly in North America, as we developed marketing to stimulate demand by launching new products successively to meet the needs of our customers.

As a result, operating income in this segment jumped 43.1% from the previous year, to ¥8,533 million, while the operating income margin rose 1.3 percentage points, to 6.8%.

Segment Information by Geographical Region

Our geographical segments are Japan, North America and Other Regions, which consists of Europe and Asia, including China.

Japan

In Japan, sales rose 1.5% from the previous year, to ¥465,769 million. Although Japan's share of total sales is the largest at 84.5%, this was down 3.5 percentage points year-on-year, reflecting our progress toward globalization. However, the operating income margin was higher in Japan than in other regions, at 8.9%.

North America

In North America, sales improved considerably, surging 43.3% from the previous year, to ¥56,672 million, as sales of hydraulic excavators and other construction machinery were brisk. North America accounts for 10.3% of total sales, but the operating income margin was 7.7%, which was below the company average.

Other Regions

In Other Regions, sales increased by 26.6% year-on-year, to ¥28,898 million. As a part of our development of an operation network to expand business in China and other Asian countries with tremendous growth potential, we started operation of a new plant in Vietnam in May.

Other Income and Expenses

With regard to other gains and losses, several factors such as the improvement in the financial balance, the amortization of net transition obligations for severance and retirements benefits making up the shortfall in retirement benefits accounting, and losses from the liquidation of subsidiaries or the reorganization of their businesses virtually ran their course in the previous year. As a result, losses this term declined by ¥8,747 million, to ¥1,438 million.

The financial balance returned to the black at ¥81 million, thanks to a decline in the interest burden attributable to a reduction in interest-bearing debt, the concrete result of measures to strengthen our financial position, as well as to an increase in investment income from equity-method subsidiaries such as SEN Corporation, an SHI and Axcelis Company (former Sumitomo Eaton Nova Corporation). In addition, in order to secure financial soundness, most of the losses related to the liquidation of subsidiaries, the reorganization of business operations, and the elimination of the retirement benefits shortfall were accounted for in the previous year. Therefore, such losses did not arise in the term under review, which made a substantial contribution to the improvement of other income and expenses.

Net Income

A significant improvement in other gains and losses helped boost net income by 30.5% from the previous year, to ¥29,742 million, a record high for the third year in succession. As a result, the net income margin rose 1.0 percentage point to 5.4%.

Earnings per share reached ¥49.45, representing a year-on-year increase of ¥11.65.

Based on our strong performance, we increased our annual dividend for the term by ¥2 to ¥5, including the interim dividend (¥2.50 per share).

3. Financial Position

Assets

Total assets at the end of the year under review increased by 1.7% year-on-year, to ¥579,233 million. Major factors behind the increase included the rise in trade receivables, such as notes and accounts receivable, in step with sales expansion and unrealized gains on securities due to the recovery of the stock market.

Among current assets, inventories increased in addition to the trade receivables mentioned above. However, because cash and deposits decreased due to the increase in working capital, total current assets rose by just 0.5% from the previous year, to ¥317,813 million.

Among fixed assets, there was no major change in property, plant and equipment or intangible assets. Among investments and other assets, investment securities increased by ¥13,428 million due to the posting of the unrealized gains mentioned above. Therefore, total fixed assets increased by 3.1% from the end of the previous year, to ¥261,421 million.

Liabilities and Stockholders' Equity

Total liabilities at the end of the year under review fell 4.9% from the end of the previous year to ¥407,742 million, primarily due to a reduction in interest-bearing debt.

Current liabilities dipped 3.5% year-on-year, to ¥299,547 million. Although notes and accounts payable increased accompanying sales expansion, the repayment of interest-bearing debt was substantial at ¥30,139 million. As a result, total current liabilities declined. This resulted in a 214.4% jump in net working capital (current assets minus current liabilities) from the end of the previous year, to ¥18,266 million. The current ratio improved by 4.2 percentage points from the end of the previous year, to 106.1%.

Long-term liabilities fell 8.6% from the end of the previous year, to ¥108,195 million. The major factor behind the decline was the repayment of long-term debt. Thanks to the above, the outstanding balance of interest-bearing debt, including debt recorded under current liabilities, was down ¥43,723 million from the end of the previous year, at ¥125,504 million, and the ratio of interest-bearing debt to total assets dropped 7.9 points, to 21.7%.

Total stockholders' equity rose a significant 22.3% from the end of the previous year, to ¥167,740 million. Not only did retained earnings increase, reflecting the buoyant business performance in the year under review, but unrealized gains on securities rose in step with the recovery of the stock market.

As a result, the stockholders' equity ratio improved 4.9 points from the end of the previous year, to 29.0%, while ROE rose to 19.5%, up 1.4 percentage points year-on-year. In addition, the D/E ratio fell below 1.0 from 1.23 at the end of the previous year to 0.75, thereby substantially improving our financial position.

Cash Flows

The balance of cash and cash equivalents at the end of the year under review totaled ¥43,644 million, representing a decline of ¥5,464 million from the end of the previous year. This is mainly attributable to an increase in the use of cash from financing activities to reduce interest-bearing debt.

Net cash provided by operating activities increased by ¥4,572 million from the previous year, to ¥50,023 million, mainly due to the increase in income before income taxes and the decrease in notes and accounts receivable.

Net cash used in investing activities increased ¥937 million to ¥7,024 million, principally owing to an increase in capital investment.

Net cash used in financing activities increased ¥2,322 million to ¥48,812 million, mainly reflecting the repayment of short-term loans and long-term debt, and the resumption of dividend payments.

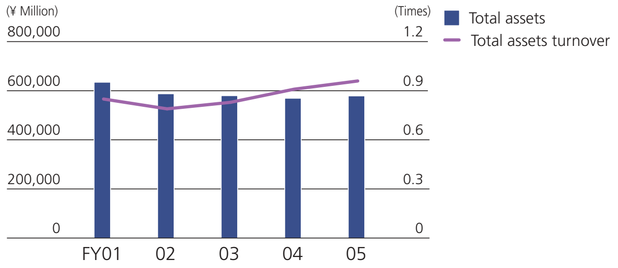
Free cash flow (cash flows from operating activities minus cash flows from investing activities) totaled ¥42,999 million, an increase of ¥3,635 million from the previous year.

4. Outlook for Fiscal 2006

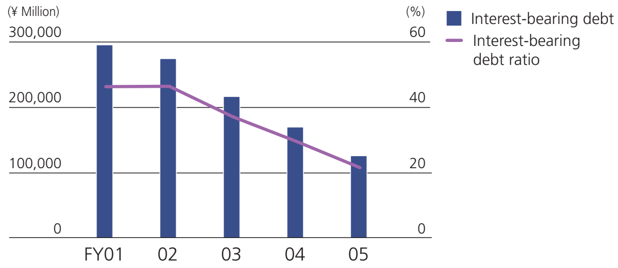
While there are some concerns over the external environment in the near future, including a slowdown of the economy in the US which has been more noticeable, we believe that the Sumitomo Heavy Industries Group will continue to enjoy favorable business conditions, as we expect capital investment in Japan to remain brisk while the global economy should maintain its stable growth, driven by China and other parts of Asia. The Group will continue to work towards achieving the targets in the medium-term management plan "Leap to Excellence '07." We see these solid business conditions as a perfect opportunity for growth, and consequently we expect to make dramatic gains.

For fiscal 2006, we currently forecast sales of ¥570 billion, operating income of ¥53 billion, and net income of ¥31 billion based on our exchange rate assumption of ¥110/$.

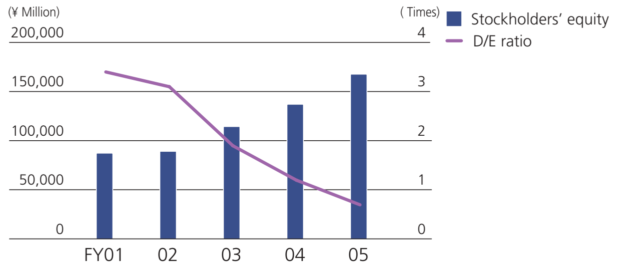
Total Assets, Total Assets Turnover



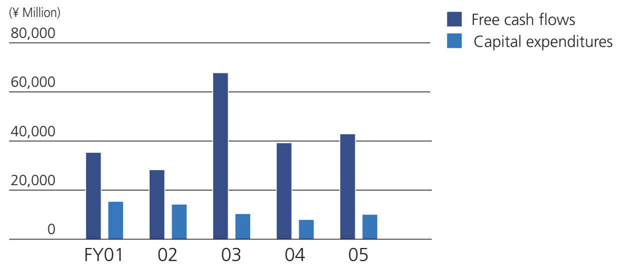
Interest-Bearing Debt, Interest-Bearing Debt Ratio



Stockholders' Equity, D/E Ratio



Free Cash Flows, Capital Expenditures



Financial Statements-Consolidated Balance Sheets

March 31, 2006 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Current assets:			
Cash and deposits (Note 2)	¥ 43,917	¥ 49,636	$ 375,360
Trade receivables:			
Notes receivable	16,208	20,034	138,530
Accounts receivable	142,685	131,584	1,219,532
Allowance for doubtful receivables	(794)	(1,937)	(6,785)
Inventories (Note 3)	92,981	88,859	794,710
Deferred income taxes (Note 6)	7,844	7,838	67,044
Prepaid expenses and other current assets	14,971	20,152	127,957
Total current assets	317,812	316,166	2,716,348
Property, plant and equipment:			
Land (Note 5)	114,115	115,536	975,345
Buildings and structure	115,143	114,583	984,125
Machinery and equipment	115,551	113,950	987,618
Construction in progress	3,525	1,462	30,128
	348,334	345,531	2,977,216
Accumulated depreciation	166,854	164,541	1,426,102
Net property, plant and equipment	181,480	180,990	1,551,114
Investments, long-term loans and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	23,612	19,809	201,812
Long-term loans receivable and Investment securities (Note 11)	31,457	22,126	268,860
Deferred income taxes (Note 6)	7,400	11,498	63,248
Other assets	19,774	24,046	169,010
Allowance for doubtful receivables	(2,302)	(4,864)	(19,678)
Total Investments, long-term loans and other assets	79,941	72,615	683,252
	¥579,233	¥569,771	$4,950,714

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen 2006	2005	Thousands of U.S. dollars (Note 1) 2006
Current liabilities:			
Short-term bank loans (Note 5)	¥ 28,188	¥ 44,883	$ 240,921
Long-term debt due within one year (Note 5)	30,529	53,471	260,929
Commercial paper (Note 5)	20,000	11,500	170,940
Trade payable:			
Notes payable	52,865	53,060	451,841
Accounts payable	89,913	81,379	768,487
Advance payments received on contracts	31,976	27,417	273,297
Accrued income taxes	9,129	10,720	78,022
Accrued expenses and other current liabilities	36,946	27,925	315,793
Total current liabilities	299,546	310,355	2,560,230
Long-term liabilities:			
Long-term debt due after one year (Note 5)	46,787	59,373	399,886
Employees' severance and retirement benefits (Note 13)	22,578	20,049	192,974
Allowance for retirement benefits for directors, corporate auditors and executive officers (Note 1)	921	629	7,870
Deferred income taxes on revaluation reserve for land (Note 1)	33,505	31,055	286,365
Other long-term liabilities	4,403	7,324	37,647
Total long-term liabilities	108,194	118,430	924,742
Minority interests	3,752	3,829	32,066
Contingent liabilities (Note 8)			
Stockholders' equity (Note 7):			
Common stock:			
Authorized-1,200,000 thousand shares	30,872	30,872	263,860
Issued-602,626 thousand shares			
Capital surplus	16,808	16,803	143,655
Retained earnings	68,848	42,677	588,443
Revaluation reserve for land, net of income taxes (Note 1)	42,142	45,265	360,188
	158,670	135,617	1,356,146
Unrealized gains on securities, net of income taxes	10,269	4,476	87,773
Foreign currency translation adjustments	(654)	(2,741)	(5,593)
Treasury stock at cost, 1,439,859 shares (981,014 shares in 2005)	(544)	(195)	(4,650)
Total stockholders' equity	167,741	137,157	1,433,676
	¥579,233	¥569,771	$ 4,950,714

See accompanying notes.

Consolidated Statements of Income

Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales (Note 9)	¥551,339	¥521,310	$4,712,300
Costs and expenses (Note 9):			
Cost of sales	434,904	407,512	3,717,132
Selling, general and administrative expenses	68,930	65,025	589,146
	503,834	472,537	4,306,278
Operating income (Note 9)	47,505	48,773	406,022
Other income (expenses):			
Income			
Interest and dividend income	587	461	5,017
Equity in earnings of unconsolidated subsidiaries and affiliated companies	4,303	4,080	36,778
Other - net	3,305	3,361	28,249
Expenses			
Interest expense	(2,384)	(2,995)	(20,378)
Loss on disposal of property, plant, equipment	(836)	(1,074)	(7,146)
Other - net	(4,894)	(4,753)	(41,830)
Special gains (losses):			
Gains			
Gain on sale of securities	906	506	7,742
Amortization of prior service cost	—	2,515	—
Gain on sale of property, plant, equipment and other assets	—	1,575	—
Losses			
Loss on breach of antimonopoly law	(705)	—	(6,023)
Loss on sale of property, plant and equipment	(687)	—	(5,866)
Loss from write-down of investment securities	(471)	—	(4,027)
Provision for retirement benefits to directors, corporate auditors and executive officers	(257)	(489)	(2,194)
Impairment losses of fixed assets (Note 4)	(229)	—	(1,957)
Loss on liquidation of subsidiaries	(70)	(3,053)	(599)
Loss from write-down of shares of affiliated company	(7)	—	(62)
Amortization of discrepancies from change in standards for retirement allowance accounting	—	(5,584)	—
Loss from business reorganization	—	(2,810)	—
Loss on sales of property, plant and equipment	—	(1,925)	—
Income before income taxes and minority interests	46,066	38,588	393,726
Income taxes (Note 6):			
Current	15,736	13,415	134,490
Deferred	135	2,406	1,157
Total	15,871	15,821	135,647
Minority interests	(453)	25	(3,878)
Net income	¥ 29,742	¥ 22,792	$ 254,201

	Yen		U.S. dollars (Note 1)
	2006	2005	2006
Amounts per share of common stock:			
Net income	¥ 49.45	¥ 37.80	$ 0.42
Diluted net income	—	—	—
Cash dividends applicable to the year	¥ 5.00	¥ 3.00	$ 0.04

See accompanying notes.

Consolidated Statements of Stockholders' equity

Years ended March 31, 2006 and 2005

		Millions of yen						
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings (Accumulated deficit)	Revaluation reserve for land, net of income taxes	Unrealized gains (losses) on securities, net of income taxes	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	602,626	¥30,872	¥16,800	¥19,848	¥45,500	¥ 5,362	¥(3,783)	¥ (73)
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(185)	—	—	—	—
Transfer from revaluation reserve for land, net of income taxes to retained earnings	—	—	—	235	(235)	—	—	—
Sales of treasury stock	—	—	3	—	—	—	—	—
Net income	—	—	—	22,792	—	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	1,042	—
Adjustment for unrealized gains on securities	—	—	—	—	—	(886)	—	—
Treasury stock	—	—	—	—	—	—	—	(122)
Bonuses to directors and corporate auditors	—	—	—	(13)	—	—	—	—
Balance at March 31, 2005	602,626	¥30,872	¥16,803	¥42,677	¥45,265	¥ 4,476	¥(2,741)	¥(195)
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(55)	—	—	—	—
Increase owing to merger	—	—	—	278	—	—	—	—
Adjustment of retirement benefits of a subsidiary in the UK	—	—	—	(839)	—	—	—	—
Transfer from revaluation reserve for land, net of income taxes to retained earnings	—	—	—	399	(3,123)	—	—	—
Sales of treasury stock	—	—	5	—	—	—	—	—
Net income	—	—	—	29,742	—	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	2,087	—
Adjustment for unrealized gains on securities	—	—	—	—	—	5,793	—	—
Treasury stock	—	—	—	—	—	—	—	(349)
Bonuses to directors and corporate auditors	—	—	—	(42)	—	—	—	—
Dividends	—	—	—	(3,308)	—	—	—	—
Bonus for employee in numbers of consolidated subsidiaries	—	—	—	(4)	—	—	—	—
Others	—	—	—	0	—	—	—	—
Balance at March 31, 2006	602,626	¥30,872	¥16,808	¥68,848	¥42,142	¥10,269	¥ (654)	¥(544)

		Thousand of U.S. dollars (Note 1)						
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings (Accumulated deficit)	Revaluation reserve for land, net of income taxes	Unrealized gains (losses) on securities, net of income taxes	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	602,626	$263,860	$143,612	$364,760	$386,883	$38,255	$(23,429)	$(1,667)
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(471)	—	—	—	—
Increase owing to merger	—	—	—	2,378	—	—	—	—
Adjustment of retirement benefits of a subsidiary in the UK	—	—	—	(7,171)	—	—	—	—
Transfer from revaluation reserve for land, net of income taxes to retained earnings	—	—	—	3,412	(26,695)	—	—	—
Sales of treasury stock	—	—	43	—	—	—	—	—
Net income	—	—	—	254,202	—	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	17,836	—
Adjustment for unrealized gains on securities	—	—	—	—	—	49,518	—	—
Treasury stock	—	—	—	—	—	—	—	(2,983)
Bonuses to directors and corporate auditors	—	—	—	(358)	—	—	—	—
Dividends				(28,278)	—	—	—	—
Bonus for employee in numbers of consolidated subsidiaries	—	—	—	(32)	—	—	—	—
Others	—	—	—	1	—	—	—	—
Balance at March 31, 2006	602,626	$263,860	$143,655	$588,443	$360,188	$87,773	$ (5,593)	$(4,650)

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥46,066	¥38,588	$393,727
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation	9,072	9,282	77,540
Impairment losses of fixed assets	229	—	1,957
Gain on sale of property, plant and equipment	(89)	(1,575)	(757)
Loss on sale of property, plant and equipment	686	214	5,866
Loss on disposal of property, plant and equipment	836	1,074	7,146
Loss on disposal of property, plant and equipment and others	—	1,925	—
Gain on sale of investment securities	(906)	(506)	(7,742)
Loss on sale of investment securities	1	4	10
Loss from write-down of investment securities	471	—	4,027
Loss on breach of antimonopoly law	705	—	6,023
Loss from liquidation of subsidiaries	70	3,053	599
Loss from write-down of shares of affiliated company	7	—	62
Loss from reorganization of business	—	2,810	—
Increase in employee' severance and retirement benefits	1,315	3,826	11,243
Increase in provision for retirement benefits to directors, corporate auditors and executive officers	292	629	2,493
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(4,303)	(4,080)	(36,778)
Decrease in allowance	(5,227)	(790)	(44,671)
Interest and dividend income	(587)	(461)	(5,017)
Interest expenses	2,384	2,995	20,378
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	3,028	(9,483)	25,876
(Increase) decrease in accrued revenue	6,941	(3,497)	59,321
(Increase) decrease in inventories	(1,634)	4,126	(13,964)
Increase in notes and accounts payable	6,533	4,421	55,842
Increase in deposits received	3,544	(174)	30,288
Other-net	(983)	3,540	(8,419)
Sub-total	68,451	55,921	585,050
Interest and dividend received	679	481	5,802
Interest expenses	(2,258)	(3,023)	(19,299)
Payment for income taxes	(16,849)	(7,928)	(144,003)
Net cash provided by operating activities	¥50,023	¥45,451	$427,550

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from investing activities:			
Net decrease in time deposits	¥ 278	¥ 256	$ 2,374
Payments for securities	(1,295)	(2,338)	(11,071)
Proceeds from sale of securities	1,280	2,758	10,936
Disbursement for investment in affiliated company	(1,080)	494	(9,229)
Proceeds from liquidation of subsidiaries	1,528	12	13,059
Payments for purchases of property, plant and equipment	(11,497)	(10,178)	(98,262)
Proceeds from sale of property, plant and equipment	2,202	3,257	18,821
Proceeds from refund of investment	1,462	—	12,500
Payments for long-term loans receivable	(44)	(344)	(380)
Collection of long-term loans receivable	332	936	2,841
Other-net	(190)	(940)	(1,623)
Net cash used in investing activities	(7,024)	(6,087)	(60,034)
Cash flows from financing activities:			
Net decrease in short -term loans	(18,074)	(25,355)	(154,476)
Net increase in commercial paper	8,500	1,500	72,650
Proceeds from long-term debt	17,990	2,930	153,761
Payments for long-term debt	(52,540)	(31,916)	(449,062)
Proceeds from issue of bonds	—	10,000	—
Payments for redemption of bonds	(1,000)	(3,521)	(8,547)
Proceeds from sale of treasury stock	8	4	69
Disbursement for acquisition of treasury stock	(352)	(124)	(3,009)
Cash dividends paid	(3,308)	—	(28,278)
Payment of dividends for minority stockholders	(36)	(8)	(303)
Net cash used in financing activities	(48,812)	(46,490)	(417,195)
Effect of exchange rate changes on cash and cash equivalents	343	1	2,930
Net decrease in cash and cash equivalents	(5,470)	(7,125)	(46,749)
Cash and cash equivalents at beginning of year	49,108	57,678	419,723
Increase due to new consolidated company	3	—	24
Increase due to merger and acquisition	215	—	1,834
Net decrease from the change in consolidated companies	(212)	(1,445)	(1,810)
Cash and cash equivalents at the end of year (Note 2)	¥43,644	¥49,108	$373,022

See accompanying notes.

Notes to Consolidated financial statements

1. Significant accounting policies

Basis of presenting consolidated financial statements

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

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥ 117 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Principles of consolidation

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

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

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

Statements of cash flows

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

Marketable and investment securities

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

Inventories

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

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

Property, plant and equipment and depreciation

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

Allowance for doubtful receivables

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

Revaluation Reserve for Land

The company revaluated land used for business operations on March 31, 2002 in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land effective march 31, 1998. As a result of the revaluation, the land, which previously had a book value of ¥32,412million ($277,027 thousand), was revaluated at ¥109,349 million ($934,608 thousand), which is determined primarily based on real estate tax value. The Company recorded ¥44,585 million ($381,068 thousand) as revaluation reserve for land in stockholders' equity section, after reflecting deferred income tax effects of ¥32,352 million ($ 276,512 thousand) which were recorded as long-term liabilities.

The current value of the land on March 31,2006 fell ¥21,692million ($185,398 thousand) in comparison with the book value of the land after revaluation.

Employees' severance and retirement benefits

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

The net transition obligation arising from adopting new accounting standards as of April 1, 2000, amounted to ¥51,934 million ($443,885 thousand), some of the amount were expensed as a result of the contribution of investment securities to the employee retirement benefit trust and some of the amount were charged to income by some of the consolidated subsidiaries in the year ended March 31, 2001. The remaining net transition obligation amounting to ¥27,897 million ($238,433 thousand) is recognized as expenses in equal amounts primarily over 5 years commencing with the year ended March 31, 2001.

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

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

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

The Company and a consolidated domestic subsidiary abolished the Officers' Retirement Benefit Plans, and determined the amounts of the officers' retirement benefits to be paid as those calculated for their service periods up to the time of the plan abolishment in June 2006, and recognized such benefits on an accrual basis instead of recognizing them at the time of retirement effective from the year ended March 31, 2005. Also, in the year ended March 31, 2006, certain consolidated domestic subsidiaries abolished officers' retirement benefit plans and determined to pay such benefits for their service periods up to the time of the abolishment, and recognized such benefits on an accrual basis. Refer to Change in accounting policy below.

Sales

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

Software costs

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

Research and development costs

Research and development costs included in cost of sales, and selling, general and administrative expenses were ¥7,441 million ($63,598 thousand) and¥6,317 million for the years ended March 31, 2006 and 2005, respectively.

Income taxes

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

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

Bond issuance expense

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

Foreign currency translation

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

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

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

Information for Certain leases as Lessee

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

Derivatives and hedge accounting

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

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

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

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

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

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

Amounts per share

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

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

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

Reclassifications

Certain amounts in the consolidated financial statements for the year ended March 31, 2005 have been reclassified to conform to the 2006 presentation.

Change in accounting policy

Allowance for losses on construction contracts

Effective April 1, 2005, with regard to construction works that have not yet been delivered and are with high probability of generating substantial losses as of the annual balance sheet date and in cases where it is possible to reasonably estimate the amount of such losses, the accounting policy has been changed so that the estimated amount of such losses to be incurred in the following fiscal years are recognized in the current fiscal year as allowance for losses on construction contracts.

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

As a result, in the year ended March 31, 2006, cost of sales increased by ¥45 million ($381thousand), and operating income and income before income taxes and minority interests decreased by the same amount, respectively, compared with what would have been reported under the previous accounting policy. Effects on the segment information are disclosed in Note 9.

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

Although retirement benefits for officers had been recognized at the time of retirement, the Company and a consolidated domestic subsidiary resolved that the Officers' Retirement Benefit Plans of these companies would be abolished as of the close of the respective annual shareholders' meetings held in June 2005, and the retirement benefits to be paid at future retirement dates were fixed as the amounts of such benefits calculated for the officers' service periods up to the close of the shareholders' meetings.

Pursuant to this resolution, in order to further strengthen financial health, the accounting policy was changed effective for the year ended March 31, 2005, and the Company and the consolidated subsidiary recognized officers' retirement benefits on an accrual basis and set up an allowance for retirement benefits for officers.

Due to the change, in the year ended March 31, 2005, ¥141 million, the officers' retirement benefits incurred for that year, was recognized as selling, general and administrative expenses and ¥489 million, which corresponds to the previous years' retirement benefits, was recognized as special losses. As a result, in 2004, operating income decreased by ¥141 million and income before income taxes and minority interests decreased by ¥629 million compared with what would have been reported under the previous accounting policy.

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

Due to this change, for the year ended March 31, 2006, ¥29 million ($249 thousand), the officers' retirement benefits incurred for that year, was recognized as selling, general and administrative expenses, and ¥257 million ($2,194 thousand), which corresponds to the previous years' benefits, was recognized as special losses. As a result, in 2005, operating income decreased by ¥29 million and income before income taxes and minority interests decreased by ¥286 million ($2,442 thousand) compared with what would have been reported under the previous accounting policy. Effects on the segment information are disclosed in Note 9.

Impairment of fixed assets

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

As a result, income before income taxes minority interests decreased by ¥229 million ($1,957 thousand).

2. Cash and cash equivalents

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

Cash and cash equivalents as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash and deposits	¥43,917	¥49,636	$375,360
Time deposits with maturities over three months	(273)	(528)	(2,338)
Cash and cash equivalents	¥43,644	¥49,108	$373,022

3. Inventories

Inventories as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Finished products and semi-finished products	¥26,744	¥25,627	$228,580
Work in process	53,344	53,182	455,928
Raw materials and supplies	12,893	10,050	110,202
	¥92,981	¥88,859	$794,710

4. Impairment losses of fixed assets

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

			Millions of yen	Thousands of U.S. dollars (Note 1)
Application	Category	Location	2006	2006
Idle	Land	Kurashiki-shi, Okayama prefecture	¥229	$1,957
Total			¥229	$1,957

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

There was no utilization plan, and, due to decrease in the value of the land, an impairment loss has been recognized.

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 appraisal report.

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

Bank loans at March 31, 2006 and 2005 consisted of short-term loans, bearing interest principally at 0.59% and 0.59% per annum, respectively.

At March 31, 2006 and 2005, commercial paper principally bore an average annual interest rate of 0.3% and 0.09%, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
1.0 % domestic bonds due in March 2010	¥10,000	¥10,000	$ 85,470
1.7 % domestic mortgage bonds due in November 2005	—	1,000	—
Loans principally from banks and insurance companies due serially through March 2015 with interest ranging from 1.00% to 7.00% in 2006			
Secured	4,544	5,545	38,836
Unsecured	62,772	96,299	536,509
	77,316	112,844	660,509
Amount due within one year	30,529	53,471	260,929
Amount due after one year	¥46,787	¥59,373	$399,886

Annual maturities of long-term debt as of March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year ending March 31	2006	2006
2007	¥30,529	$260,929
2008	14,107	120,574
2009	2,740	23,417
2010	11,193	95,667
2011	8,132	69,506
2012 and there after	10,615	90,722

At March 31, 2006, assets pledged as collateral for bank loans, secured long-term loans from banks and insurance companies and domestic mortgage bonds were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2006	2006
Land	¥36,140	$308,885
Other property, plant and equipment, at cost less accumulated depreciation	3,602	30,787
	¥39,742	$339,672

The Company has agreements with seven banks for revolving lines of credit for timely operating-fund raising for the aggregate maximum amount of ¥25,000 million ($213,675 thousand). As of March 31, 2006, there were no borrowings under the agreements.

6. Income Tax

The Companies are subject to a number of income taxes, which, in the aggregate indicate a statutory tax rate in Japan of approximately 41% for the years ended March 31, 2006 and 2005.

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

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

Since the effective tax rate for consolidated financial statement purposes for the year ended March 31, 2005 differed from the statutory tax rate by less than 5%, disclosure of reconciliation between these tax rates is omitted.

Significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Deferred tax assets:			
Accrued bonuses	¥ 3,058	¥ 2,895	$ 26,138
Allowance for doubtful accounts	1,442	3,764	12,321
Allowance for warranty	1,339	1,199	11,445
Allowance for employees' severance and retirement benefit	14,041	13,323	120,007
Devaluation of inventories	756	771	6,458
Unrealized profit on inventories	1,077	961	9,204
Devaluation of marketable securities and investments	2,880	2,660	24,617
Excess depreciation	676	658	5,777
Operating losses carry forward	3,532	3,746	30,192
Others	3,395	3,146	29,023
Total deferred tax assets	32,196	33,123	275,182
Less-valuation allowance	(6,930)	(9,621)	(59,231)
Deferred tax assets-net	25,266	23,502	215,951
Deferred tax liabilities:			
Difference on revaluation of assets and liabilities of subsidiaries	(1,849)	(1,391)	(15,801)
Accelerated depreciation	(527)	(416)	(4,503)
Excess tax depreciation reserve	(147)	(206)	(1,258)
Net unrealized holding gains on securities	(6,980)	(2,926)	(59,660)
Retained earnings in consolidated subsidiaries overseas	(1,851)	(508)	(15,823)
Others	(38)	(97)	(326)
Deferred tax liabilities	(11,392)	(5,544)	(97,371)
Net deferred tax assets	¥13,874	¥17,958	$118,580

7. Stockholders' equity

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

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

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

The maximum amount that the Company can distribute as dividends at March 31, 2006 amounted to ¥15,363 million ($131,306 thousand).

In accordance with the customary practice in Japan, the appropriations are not accrued in financial statements for the period to which they relate, but are recorded in the subsequent according period after shareholders' approval has been obtained. Retained earnings at March 31, 2006 include amounts representing the year-end cash dividends approved at the shareholders' meeting held on June 29, 2006.

8. Contingent liabilities

The Companies were contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥90 million ($770 thousand) at March 31, 2006. In addition, at the same date the Companies were contingently liable as guarantors of bank loans to unconsolidated subsidiaries, affiliated companies and employees in the amount of ¥5,822 million ($49,763 thousand) (net of guarantees by co-guarantors).

9. Segment information

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

A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 2006 and 2005, and a summary of identifiable assets, depreciation expenses and capital expenditures by segment of business activities for the years ended March 31, 2006 and 2005 are presented below:

	Millions of yen						
2006	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	¥218,798	¥82,740	¥67,372	¥56,054	¥126,375	¥ —	¥551,339
Intersegment	2,059	2,903	421	335	56	(5,774)	—
Total	220,857	85,643	67,793	56,389	126,431	(5,774)	551,339
Costs and expenses	191,519	81,365	68,273	50,542	117,898	(5,763)	503,834
Operating income	¥ 29,338	¥ 4,278	¥ (480)	¥ 5,847	¥ 8,533	¥ (11)	¥ 47,505
II Identifiable assets	¥217,048	¥78,417	¥89,549	¥44,328	¥106,618	¥43,273	¥579,233
Depreciation expenses	4,722	975	1,355	609	1,411	—	9,072
Impairment losses of fixed assets	—	—	—	—	—	229	229
Capital expenditures	5,316	1,458	1,206	1,010	1,295	—	10,285

	Millions of yen						
2005	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	¥205,092	¥87,937	¥65,288	¥54,008	¥108,985	¥ —	¥521,310
Intersegment	1,253	2,654	553	397	69	(4,926)	—
Total	206,345	90,591	65,841	54,405	109,054	(4,926)	521,310
Costs and expenses	175,930	83,497	65,363	49,571	103,093	(4,917)	472,537
Operating income	¥ 30,415	¥ 7,094	¥ 478	¥ 4,834	¥ 5,961	¥ (9)	¥ 48,773
II Identifiable assets	¥220,286	¥83,427	¥91,635	¥48,134	¥100,585	¥25,704	¥569,771
Depreciation expenses	4,896	934	1,397	597	1,458	—	9,282
Capital expenditures	4,126	842	1,174	375	1,658	—	8,175

	Thousands of U.S. dollars (Note 1)						
2006	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	$1,870,066	$707,180	$575,833	$479,093	$1,080,128	$ —	$4,712,300
Intersegment	17,599	24,803	3,602	2,861	482	(49,347)	—
Total	1,887,665	731,983	579,435	481,954	1,080,610	(49,347)	4,712,300
Costs and expenses	1,636,914	695,430	583,530	431,983	1,007,680	(49,259)	4,306,278
Operating income	$ 250,751	$ 36,553	$ (4,095)	$ 49,971	$ 72,930	$ (88)	$ 406,022
II Identifiable assets	$1,855,113	$670,231	$765,378	$378,873	$ 911,268	$369,851	$4,950,714
Depreciation expenses	40,361	8,335	11,578	5,202	12,064	—	77,540
Impairment losses of fixed assets	—	—	—	—	—	1,957	1,957
Capital expenditures	45,433	12,465	10,309	8,629	11,068	—	87,904

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

(B) Information by geographic area for the years ended March 31, 2006 and 2005 is as follows:

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

2005	Japan	North America	Other areas	Elimination and/ or corporate	Consolidated
	Millions of yen				
I Sales and operating income					
Sales:					
Unaffiliated customers	¥458,947	¥39,535	¥22,828	¥ —	¥521,310
Intersegment	23,920	871	2,894	(27,685)	—
Total	482,867	40,406	25,722	(27,685)	521,310
Costs and expenses	437,675	38,390	23,962	(27,490)	472,537
Operating income	¥ 45,192	¥ 2,016	¥ 1,760	¥ (195)	¥ 48,773
II Identifiable assets 2004	¥470,361	¥31,925	¥18,510	¥48,975	¥569,771

2006	Japan	North America	Other areas	Elimination and/ or corporate	Consolidated
	Thousands of U.S. dollars (Note 1)				
I Sales and operating income					
Sales:					
Unaffiliated customers	$3,980,932	$484,379	$246,989	$ —	$4,712,300
Intersegment	239,767	7,316	24,739	(271,822)	—
Total	4,220,699	491,695	271,728	(271,822)	4,712,300
Costs and expenses	3,865,599	454,499	256,277	(270,097)	4,306,278
Operating income	$ 355,100	$ 37,196	$ 15,451	$ (1,725)	$ 406,022
II Identifiable assets	$4,032,072	$322,281	$186,011	$410,350	$4,950,714

Notes: 1. Identifiable assets under the elimination and/or corporate column primarily consisted of cash, time deposits and marketable securities.
2. Other areas include mostly the United Kingdom, Germany, and Singapore.

(C) Overseas sales of the Companies for the years ended March 31, 2006 and 2005 were as follows:

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

2006	To North America	To Asia	To other areas	Total
	Thousands of U.S. dollars (Note 1)			
Overseas Sales	$811,133	$628,326	$528,968	$1,968,427

Notes: 1. Other areas include mostly the United Kingdom and Germany.
2. Overseas sales of the Companies for the year ended March 31, 2005 were ¥197,807 million and accounted for 37.9% of consolidated net sales.
3. Overseas sales consist of export sales by the Company and certain consolidated domestic subsidiaries as well as sales by overseas consolidated subsidiaries.

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

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

Allowance for losses on construction contracts

Effective April 1, 2005, the Company and certain consolidated domestic subsidiaries changed their accounting policies and accrued estimated amount of losses on construction contracts to be incurred in the following fiscal year.

The effects of the change on the industrial machinery group are to increase cost and expense by ¥45 million ($381 thousand) and to decrease operating income by ¥45 million ($381 thousand). Also the effects of the change on Japan segment is to increase cost and expense by ¥45 million ($381 thousand) and to decrease operating income by ¥45 million ($381 thousand).

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

In the year ended March 31, 2006, certain consolidated domestic subsidiaries changed their accounting policies and recognized officers' retirement benefits on an accrual basis and set up an allowance for retirement benefits for officers.

The effects of the change on the mass produced machinery group are to increase costs and expenses by ¥9 million ($78 thousand) and to decrease operating income by ¥9 million ($78 thousand). Those on the environmental protection facilities, plants & others group are to increase costs and expenses by ¥5 million ($47 thousand) and to decrease operating income by ¥5 million ($47 thousand). Those on the ship, steel structure & other specialized equipment group are to increase costs and expenses by ¥3 million ($28 thousand) and to decrease operating income by ¥3 million ($28 thousand). Those on the industrial machinery group are to increase costs and expenses by ¥3 million ($23 thousand) and to decrease operating income by ¥3 million ($23 thousand). Those on the construction machinery group are to increase costs and expenses by ¥9 million ($73 thousand) and to decrease operating income by ¥9 million ($73 thousand). Also the effects of the change on Japan segment are to increase costs and expenses by ¥29 million ($249 thousand) and to decrease operating income by ¥29 million ($249 thousand).

Effective for the year ended March 31, 2005, the Company and a consolidated domestic subsidiary changed its accounting policy and accrued retirement benefits for officers at March 31, 2005. Such benefits had previously been expensed upon officers' retirement.

The effects of the change on the mass-produced machinery group are to increase costs and expenses by ¥70 million and to decrease operating income by ¥70 million. Those on the environmental protection facilities, plants & others group are to increase costs and expenses by ¥26 million and to decrease operating income by ¥26 million. Those on the ship, steel structure & other specialized equipment group are to increase costs and expenses by ¥16 million and to decrease operating income by ¥16 million. Those on the industrial machinery group are to increase costs and expenses by ¥29 million and to decrease operating income by ¥29 million. Also, the effects of the change on Japan segment are to increase costs and expenses by ¥141 million and to decrease operating income by ¥141 million.

Impairment of fixed assets

Effective April 1, 2005, the Company and consolidated domestic subsidiaries adopted new accounting standard for impairment of fixed assets. Although impairment loss of ¥229 million ($1,957 thousand) was recognized, there were no effects on Segment information.

10. Information for certain leases

The summary of assumed amounts of acquisition cost, accumulated depreciation and net book value with respect to finance leases accounted for in the same manner as operating leases as of March 31, 2006 is as follows:

(A) Lessees

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥24,732	¥8,784	¥15,948
Others	268	122	146
Total	¥25,000	¥8,906	¥16,094

	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	$211,385	$75,080	$136,305
Others	2,292	1,044	1,248
Total	$213,677	$76,124	$137,553

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥4,292 million ($36,682 thousand) and ¥4,305 million for the years ended March 31, 2006 and 2005, respectively.

Future lease payments as of March 31, 2006 and 2005, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Due within one year	¥ 4,356	¥ 3,953	$ 37,231
Due after one year	11,738	9,544	100,321
Total	¥16,094	¥13,497	$137,552

Also, future lease payments under operating leases as of march 31, 2006 were ¥1,765 million ($15,087 thousand), including ¥1,074 million ($9,183 thousand) due within one year.

(B) Lessors

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥106	¥56	¥50
Total	¥106	¥56	¥50

	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	$904	$475	$429
Total	$904	$475	$429

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥21 million ($175 thousand) and ¥17 million for the years ended March 31, 2006 and 2005, respectively.

Future lease payments as of March 31, 2006 and 2005, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Due within one year	¥20	¥16	$175
Due after one year	31	24	259
Total	¥51	¥40	$434

Also, future lease payments under operating leases as of March 31, 2006 were ¥1,293 million ($11,050 thousand), including ¥282 million ($2,413 thousand) due within one year.

11. Securities

(A) The following tables summarize book values of securities not stated at fair value as of March 31, 2006 and 2005.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Held-to-maturity debt securities:			
Non-listed corporate bonds	¥ 10	¥ 10	$ 86
Available-for-sale securities:			
Non-listed equity securities	4,266	4,776	36,460
Others	1,011	1,024	8,641
Total	¥5,287	¥5,810	$45,187

(B) The following tables summarize acquisition costs and book values of securities with fair value as of March 31, 2006 and 2005.

	Millions of yen		Thousands of U.S. dollars (Note 1)
Available-for-sale securities	2006	2005	2006
Acquisition cost:			
Equity securities	¥ 8,703	¥ 8,232	$ 74,381
Total	¥ 8,703	¥ 8,232	$ 74,381
Book value:			
Equity securities	25,865	15,717	221,069
Total	¥25,865	¥15,717	$221,069
Difference:			
Equity securities	17,162	7,485	146,688
Total	¥17,162	¥ 7,485	$146,688

(C) Total sales amount of available-for-sale securities sold in the year ended March 31, 2006 amounted to ¥1,251 million ($10,691 thousand) and the net gain amounted to ¥905 million ($7,733 thousand).

(D) The following tables summarize maturities of available-for-sale securities and held to maturity securities as of March 31, 2006

	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	—	¥10	—	—	¥10
Total	—	¥10	—	—	¥10

	Thousands of U.S. dollars (Note 1)				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	—	$86	—	—	$86
Total	—	$86	—	—	$86

12. Derivatives information

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

(A) Forward foreign exchange contracts

The aggregate amounts contracted to be paid/received and the fair values of forward foreign exchange contracts in Japanese yen of the Companies at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Contracted amount to be paid/received:			
To sell foreign currencies	¥4,962	¥2,103	$42,414
To buy foreign exchange options	192	2,893	1,637
To sell foreign exchange options	—	3,734	—
Fair value:			
To sell foreign currencies	5,153	2,049	44,051
To buy foreign exchange options	(1)	30	(5)
To sell foreign exchange options	—	(60)	—
Net unrealized exchange gain (loss)	¥ (192)	¥ 24	$ (1,642)

(B) Interest rate swap contracts

There were no interest rate swap contracts of the Companies at March 31, 2006 and 2005.

13. Information regarding retirement benefits

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
(1) Projected benefit obligation	¥(66,830)	¥(61,494)	$(571,196)
(2) Fair value of employee retirement benefit trust	50,352	32,167	430,355
(3) Unfunded projected benefit obligation	(16,478)	(29,327)	(140,841)
(4) Unrecognized net transition obligation	—	—	—
(5) Unrecognized actuarial difference	(6,051)	9,187	(51,715)
(6) Unrecognized prior service cost	4	161	33
(7) Prepaid pension benefit expenses	(53)	(70)	(451)
(8) Allowance for severance and pension benefit	(22,578)	(20,049)	(192,974)

(B). Included in the statements of operation for the years ended March 31, 2006 and 2005 are the following severance and pension benefit expenses:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
(1) Service cost	¥3,152	¥3,898	$26,939
(2) Interest cost on projected benefit obligation	1,439	1,412	12,303
(3) Expected return on plan assets	(410)	(316)	(3,508)
(4) Amortization of net transition obligation	—	5,585	—
(5) Recognized actuarial difference	1,558	1,364	13,316
(6) Recognized prior service cost	8	(2,444)	68
(7) Severance and pension benefit expense	5,747	9,499	49,118

(C). Assumptions for calculating:

	2006	2005
(1) Allocation of the estimated amount of all retirement benefits to be paid at the future retirement date	Equally to each service year using the estimated number of total service years	
(2) Assumed discount rate	2.0%	2.0%
(3) Expected rate of return on plan assets	1.5%	1.5%
(4) Amortization period of unrecognized net transition obligation	—	5 years
(5) Amortization period of actuarial differences	12 years	12 years
(6) Amortization period of prior service cost (consolidated subsidiaries)	(12 years)	1 year (12 years)

14. Subsequent events

(1) On June 29, 2006, the shareholders of the Company approved payment of year-end cash dividends to shareholders of record as of March 31, 2006 of ¥2.5 ($0.021) per share or a total of ¥1,503 million ($12,846 thousand).

(2) The Company concluded a share-for-share exchange "the Share Exchange" agreement with SEISA Gear, Ltd., ("SEISA") a consolidated subsidiary of the Company based on the resolution of the Board of Directors dated May 10, 2006. Under the Share Exchange, SEISA will become a wholly owned subsidiary of the Company after October 1, 2006. As for the share exchange ratio, 0.36 shares of the Company will be allocated in exchange for one share of SEISA. Based on the Share Exchange, the Company will issue 3,100,809 shares of common stock without increasing the amount of capital stock. However, the capital surplus will be increased by ¥3.8 billion.

The Company will implement the Share Exchange pursuant to the simplified procedure-for-share for share exchange under Article 796-3 of the Japanese corporate law.

15. Other matters (unaudited)

Furthermore, the Company was indicted on suspicion of breach of the Antimonopoly law with regard to steel bridge works, and was recommended by the Fair Trade Commission of Japan to eliminate the behavior at issue and ordered to pay a fine.

As for Breach of antimonopoly law of Sewage treatment recycling facilities, the Company indicated for the violation of Antimonopoly Law by Osaka District Public Prosecutors' office.

In response to these facts, the Sumitomo Heavy Industries, Ltd. and its group companies as a whole is determined to further promote through implementation of compliance.

As for Breach of antimonopoly Law of Sewage treatment recycling facilities, it has a possibility to affect to achievement by Sewage treatment recycling facilities, but it is hard to calculate the price of it.

Independent Auditors' Report

To the Board of Directors of Sumitomo Heavy Industries, Ltd.

We have audited the accompanying consolidated balance sheets of Sumitomo Heavy Industries, Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Heavy Industries, Ltd. and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

1. As discussed in Note 1, effective April 1, 2005, the Company and consolidated domestic subsidiaries changed the accounting policy to recognize losses on construction contracts that are probable to result and are reasonably estimated as of the balance sheet date as allowance for losses on construction contracts.
2. As discussed in Note 1, effective for the year ended March 31, 2006, certain consolidated domestic subsidiaries changed their accounting policies for retirement benefits for directors, corporate auditors and executive officers from recognizing them upon retirement to accruing them as allowance for retirement benefits for them.
3. As discussed in Note 1, effective April 1, 2005, the Company and consolidated domestic subsidiaries adopted the new accounting standard for impairment of fixed assets.
4. As discussed in Note 1, effective for the year ended March 31, 2005, the Company and a consolidated domestic subsidiary changed their accounting policies for retirement benefits for directors, corporate auditors and executive officers from recognizing them upon retirement to the accrual basis.
5. As discussed in Note 14 (2), the Company and Seisa Gear, Ltd. entered into the share exchange agreement on May 10, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2006

Network

[Domestic Network]

Offices

Head Office
9-11, Kitashinagawa 5-chome, Shinagawa-ku,
Tokyo 141-8686, Japan
Tel: 81-3-5488-8000
URL: http://www.shi.co.jp

Kansai Office
7-28, Kitahama 4-chome, Chuo-ku, Osaka-shi,
Osaka 541-0041, Japan
Tel: 81-6-6223-7111

Tanashi Works
1-1, Yato-cho 2-chome, Nishitokyo-shi,
Tokyo 188-8585, Japan
Tel: 81-424-68-4104

Chiba Works
731-1, Naganumahara-machi, Inage-ku, Chiba-shi,
Chiba 263-0001, Japan
Tel: 81-43-420-1355

Yokosuka Works
19, Natsushima-cho, Yokosuka-shi,
Kanagawa 237-8555, Japan
Tel: 81-46-869-1842

Nagoya Works
1, Asahi-machi 6-chome, Obu-shi, Aichi 474-8501,
Japan
Tel: 81-562-48-5111

Okayama Works
8230, Tamashima-Otoshima, Kurashiki-shi,
Okayama 713-8501, Japan
Tel: 81-86-525-6101

Ehime Works – Niihama Factory
5-2, Sobiraki-cho, Niihama-shi, Ehime 792-8588, Japan
Tel: 81-897-32-6211

Ehime Works – Saijo Factory
1501, Imazaike, Saijo-shi, Ehime 799-1393, Japan
Tel: 81-898-64-4811

Research & Development Center
19, Natsushima-cho, Yokosuka-shi,
Kanagawa 237-8555, Japan
Tel: 81-46-869-2300

Major Subsidiaries

Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku,
Tokyo 141-8686, Japan
Principal business: Holding Company of Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd. and Sumitomo (S.H.I.) Construction Machinery Manufacturing Co., Ltd.
Tel: 81-3-5421-8600
URL: http://www.sumitomokenki.co.jp
100% owned subsidiary

Shin Nippon Machinery Co., Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku,
Tokyo 141-8686, Japan
Principal business: Steam turbines, pumps and industrial fasteners
Tel: 81-3-5421-8343
URL: http://www.snm.co.jp
100% owned subsidiary

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku,
Tokyo 141-8686, Japan
Principal business: Sales, design, production, repair and reconstruction of vessel (excluding naval vessels). Marine engineering.
Tel: 81-3-5488-8204
100% owned subsidiary

Seisa Gear, Ltd.
16-1, Wakihama 4-chome, Kaizuka-shi,
Osaka 597-8555, Japan
Principal business: Power transmission equipment
Tel: 81-724-31-3021
URL: http://www.seisa.co.jp
53.5% owned subsidiary

Sumitomo Heavy Industries Engineering & Services Co., Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku,
Tokyo 141-8686, Japan
Principal business: Design, production and distribution of general industrial machinery, as well as remodeling, repairs, inspection and maintenance
Tel: 81-3-5421-8441
100% owned subsidiary

Sumitomo Heavy Industries Techno-Fort Co., Ltd.
5-2, Sobiraki-cho, Niihama-shi, Ehime 792-0001, Japan
Principal business: Forging press and other industrial machinery
Tel: 81-897-32-6300
URL: http://www.shi.co.jp/stf/
100% owned subsidiary

Lightwell Co., Ltd.
18-10, Moto-Asakusa 3-chome, Taito-ku,
Tokyo 111-0041, Japan
Principal business: Software and related equipment
Tel: 81-3-5828-9230
URL: http://www.lightwell.co.jp
100% owned subsidiary

Sumitomo Heavy Industries Himatex Co., Ltd.
5-2, Sobiraki-cho, Niihama-shi, Ehime 792-8588, Japan
Principal business: Castings, rolls and bimetallic cylinders
Tel: 81-897-32-6484
URL: http://www.shiff.co.jp
100% owned subsidiary

Sumiju Environmental Engineering, Inc.
9-11, Kitashinagawa 5-chome, Shinagawa-ku,
Tokyo 141-8686, Japan
Principal business: Operation and maintenance for environmental systems and plants
Tel: 81-3-5421-8484
100% owned subsidiary

SHI Plastics Machinery, Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku,
Tokyo 141-8686, Japan
Principal business: Plastics machinery
Tel: 81-3-5421-8425
100% owned subsidiary

SKK Ueda Gear, Ltd.
758 Kuroda, Sasayama-shi, Hyogo 669-2726, Japan
Principal business: Power transmission equipment
Tel: 81-79-593-1000
URL: http://www.skkgm.co.jp
100% owned subsidiary

Sumitomo Heavy Industries PTC Sales Co., Ltd.
2-2-900, Umeda 1-chome, Kita-ku, Osaka-shi,
Osaka 530-0001, Japan
Principal business: Power transmission equipment
Tel: 81-6-6346-0820
URL: http://www.sumiju.co.jp
100% owned subsidiary

Izumi Food Machinery Co., Ltd.
2-18, Awaza 2-chome, Nishi-ku, Osaka-shi,
Osaka 550-0011, Japan
Principal business: Food processing machinery and related equipment
Tel: 81-6-6543-3500
URL: http://www.izumifood.shi.co.jp
50% owned subsidiary

Sumitomo NACCO Materials Handling Co., Ltd.
75, Daitoh-cho 2-chome, Obu-shi, Aichi 474-8555,
Japan
Principal business: Forklift trucks and other materials handling equipments
Tel: 81-562-48-5251
URL: http://www.sumitomonacco.co.jp
50% owned subsidiary

SEN Corporation, an SHI and Axcelis Company
10-1, Yoga 4-chome, Setagaya-ku, Tokyo 158-0097,
Japan
Principal business: Semiconductor equipment, especially ion implantation systems
Tel: 81-3-5491-7800
50% owned subsidiary

Nihon Spindle Mfg. Co., Ltd.
2-30, Shioe 4-chome, Amagasaki-shi, Hyogo 661-8510,
Japan
Principal business: Industrial machinery, environmental protection equipment and building materials
Tel: 81-6-6499-5551
URL: http://www.spindle.co.jp
23.4% owned subsidiary

[Overseas Network]

Offices

Sumitomo Heavy Industries (Shanghai), Ltd.
26th Floor Raffles City (Office Tower) 268
Xi Zang Middle Road, Shanghai 200001, China
Tel: 86-21-6340-3993
100% owned subsidiary

Sumitomo Heavy Industries (Vietnam) Co, Ltd.
1-7, Thang Long Industrial Park, Dong Anh District, Hanoi, Vietnam
Principal business: Manufacture of motor for power transmission equipment
Tel: 84-4-9550004
100% owned subsidiary

Major Subsidiaries

Sumitomo Machinery Corporation of America
4200 Holland Boulevard, Chesapeake, Virginia 23323, U.S.A.
Principal business: Power transmission equipment
Tel: 1-757-485-3355
URL: http://www.smcyclo.com
100% owned subsidiary

Sumitomo (SHI) Cyclo Drive Germany, GmbH
Postfach 62 (PLZ85227) Cyclostrasse 92
D-85229 Markt Indersdorf, Germany
Principal business: Power transmission equipment
Tel: 49-8136-66-0
URL: http://www.sumitomodriveeurope.com
100% owned subsidiary

Sumitomo (SHI) Cyclo Drive Asia Pacific Pte. Ltd.
No.36 Tuas South Street 3, Singapore 638031
Principal business: Power transmission equipment
Tel: 65-6863-2238
URL: http://www.sumitomodrive.com.sg
100% owned subsidiary

Sumitomo (SHI) Cyclo Drive China, Ltd.
No.7 Sanjing Road, Dongli Economic Development Zone, Tianjin, China
Principal business: Power transmission equipment
Tel: 86-22-2499-3501
URL: http://www.smcyclo.com.cn
66.67% owned subsidiary

SHI Plastics Machinery Inc. of America
1266 Oakbrook Drive, Norcross, Georgia 30093, U.S.A.
Principal business: Holding company of Sumitomo (SHI) Plastics Machinery Mfg. (USA), LLC and Sumitomo (SHI) Plastics Machinery (America), LLC
Tel: 1-770-447-5430
URL: http://www.sumitomopm.com
100% owned subsidiary

SHI Plastics Machinery (Europe) B.V.
Breguetlaan 10A, 1438 BC OUDE MEER, Netherlands
Principal business: Plastics machinery
Tel: 31-20-65-33-111
URL: http://www.spm-europe.com
100% owned subsidiary

S.H.I. Plastics Machinery (S) Pte., Ltd.
67 Ayer Rajah Crescent #01-15 to 26, Singapore 139950
Principal business: Plastics machinery
Tel: 65-6779-7544
URL: http://www.spm-singapore.com
100% owned subsidiary

SHI Plastics Machinery (Taiwan) Inc.
3F-1, No.687, Sec.5, Chung Shan North Road, Taipei, Taiwan
Principal business: Plastics machinery
Tel: 886-2-2831-4500
URL: http://www.spm-northasia.com
100% owned subsidiary

SHI Plastics Machinery (Hong Kong) Ltd.
RM601, Telford House, 12-16 Wang Hoi Road, Kowloon Bay, Hong Kong
Principal business: Plastics machinery
Tel: 852-2750-6630
URL: http://www.spm-northasia.com
100% owned subsidiary

SHI Plastics Machinery (Shanghai) Co., Ltd.
Dept. D, 2nd Fl., No.188, HeDan Rd., Waigao Qiao FTZ, Pudong New Area, Shanghai, 200020, China
Principal business: Plastics machinery
Tel: 86-21-6340-3488
URL: http://www.spm-northasia.com
100% owned subsidiary

SHI Plastics Machinery (Malaysia) Sdn. Bhd.
Lot AG 16, 17 & 18, PJ Industrial Park, Jalan Kemajuan, Section 13, 46200 Petaling Jaya, Selangor, D.E. Malaysia
Principal business: Plastics machinery
Tel: 60-3-7958-2079
49% owned subsidiary

Sumitomo (SHI) Cryogenics of America, Inc.
1833 Vultee St. Allentown, Pennsylvania 18103-4783, U.S.A.
Principal business: Manufacturer of MRI magnet cryocoolers,cryopumps and laboratory cryostats for research and development
Tel: 1-610-791-6700
URL: http://www.apdcryogenics.com
100% owned subsidiary

Sumitomo (SHI) Cryogenics of America, Inc. Chicago Office
1500-C Higgins Road Elk Grove Village, IL 60007, U.S.A.
Principal business: Service and sales of cryocooler
Tel: 1-847-290-5801
100% owned subsidiary

SHI-APD Cryogenics (Europe) Ltd.
2 Eros House, Calleva Industrial Park, Aldermaston, Berkshire, RG7 8LN, U.K.
Principal business: Manufacturer of MRI magnet cryocoolers, cryopumps and laboratory cryostats for research and development
Tel: 44-011-8981-9373
100% owned subsidiary

SHI Cryogenics Europe GmbH
Daimlerweg 5a D-64293, Darmstadt, D-64287, Germany
Principal business: Service and sales of cryocooler
Tel: 49-6151-860610
100% owned subsidiary

Link-Belt Construction Equipment Company
2651 Palumbo Drive, P.O. Box 13600, Lexington, Kentucky 40583-3600, U.S.A.
Principal business: Construction crane
Tel: 1-859-263-5200
URL: http://www.linkbelt.com/
100% owned subsidiary

LBX Company, LLC
2004 Buck Lane Lexington, KY 40511-1074, U.S.A.
Principal business: Construction machinery
Tel: 1-859-245-3900
URL: http://www.lbxco.com/
50% owned subsidiary

SHI Machinery Service Hong Kong Ltd.
Unit 2203, Level 22, Tower II, Metroplaza, No.223 Hing Fong Road, Kwai Chung, New Territories, Hong Kong
Principal business: Maintenance service for harbor cranes
Tel: 852-2521-8433
100% owned subsidiary

SHI Designing & Manufacturing Inc.
32nd Floor Raffles Corporate Center Emerald Avenue, Ortigas Center, Pasig City, Metro Manila, Philippines
Principal business: Plant engineering, machinery design and software development
Tel: 632-914-4260
100% owned subsidiary

SHI Manufacturing & Services (Philippines), Inc.
Barangay Sta. Anastacia, Sto.Tomas, Batangas, Philippines
Principal business: Manufacture of key component for XY stage, cryocooler, controller and metal injection molding
Tel: 63-43-405-6263
100% owned subsidiary

Management *(As of June 29, 2006)*

Board of Directors

Yoshio Hinoh*
President and Chief Executive Officer

Eiichi Fujita*
Director

Naoki Takahashi
Director

Yukio Kinoshita
Director

Yoshinobu Nakamura
Director

Shinji Nishimura
Director

Eitaro Konii
Director

Kensuke Shimizu
Director

Mikio Ide
Director

Toshiaki Kakimoto
Director

*representative directors

Corporate Auditors

Shuji Toyoda, Standing Auditor
Masaaki Takeuchi, Standing Auditor
Mohachi Sugiyama, Auditor
Hideki Kumagai, Auditor

Executive Officers

Yoshio Hinoh
President

Eiichi Fujita
Senior Executive Vice President
General Manager, Export Administration Dept.

Naoki Takahashi
Executive Vice President
General Manager, Power Transmission & Controls Group

Yukio Kinoshita
Executive Vice President
General Manager, Corporate Finance, Accounting & Administration Group

Yoshinobu Nakamura
Executive Vice President
General Manager, Electro-Mechanical Systems Div.
General Manager, Mechatronics Div.

Shinji Nishimura
Executive Vice President
General Manager, Planning & Control Dept., Power Transmission & Controls Group

Eitaro Konii
Senior Vice President
General Manager, Corporate Planning & Development Dept.

Kensuke Shimizu
CEO, Sumitomo (S.H.I) Construction Machinery Co., Ltd.

Mikio Ide
Vice President
Director, Executive Vice President, Sumitomo (S.H.I) Construction Machinery Co., Ltd.

Toshiaki Kakimoto

Yasuhiko Seike
Executive Vice President
General Manager, Steel Structure & Process Equipment Div.

Yasuo Naide
Executive Vice President
General Manager, Energy & Environment Group

Shigeru Nisugi
Senior Vice President
Regional General Manager, Kansai Office
General Manager, Corporate Marketing Dept.

Akihiko Yoshii
Senior Vice President
General Manager, Corporate Technology Operation Group
General Manager, Research & Development Center

Tsuneo Nagano
Senior Vice President
CEO, Sumitomo (SHI) Cryogenics of America, Inc.

Osamu Sekiya
Senior Vice President
General Manager, Precision Equipment Group
CEO, Sumiju Forging Co., Ltd.

Shigeru Toyosumi
Senior Vice President
General Manager, Internal Control Group

Katsuhiko Taniguchi
Senior Vice President
General Manager, Plastics Machinery Div.

Corporate Data

Head office:	Sumitomo Heavy Industries, Ltd. 9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan Tel. +81-3-5488-8336 Fax. +81-3-5488-8074 URL http://www.shi.co.jp
Founded:	1888
Incorporated:	November 1, 1934
Paid-in Capital:	¥30,871,651,300
Number of Employees*:	11,319 (Consolidated) 2,922 (Non-consolidated)
Transfer Agent:	The Sumitomo Trust and Banking Co., Ltd.
Stock Exchange Listings:	Tokyo, Osaka
Shares Outstanding*:	602,625,585
Number of Shareholders*:	64,188

Major Shareholders*:

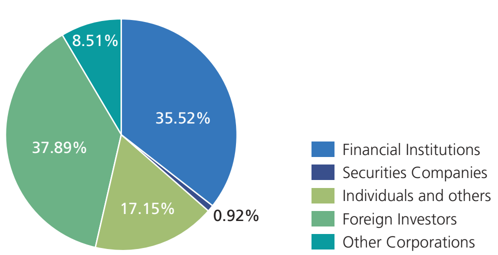
Name of shareholder	Percentage of voting rights
Japan Trustee Services Bank, Ltd.	8.1%
The Master Trust Bank of Japan, Ltd.	7.3%
State Street Bank and Trust Company	5.7%
Sumitomo Life Insurance Company	3.7%
Trust & Custody Services Bank, Ltd.	3.5%
The Chase Manhattan Bank	2.4%
Mellon Bank, N.A.	2.4%

* As of March 31, 2006

Breakdown of Shareholders as of March 31, 2006

Breakdown of shareholders	Number of shares held (unit 1,000)	
Financial Institutions	214,076	35.52%
Securities Companies	5,567	0.92%
Individuals and others	103,370	17.15%
Foreign Investors	228,350	37.89%
Other Corporations	51,262	8.51%

"Other Corporations" category also includes treasury stock, government institution and local government, and Japan Securities Depository Center, Inc. Number of shares held are rounded down to the nearest 1,000.



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