

Part 1 FY2006 Financial Summary and FY 2007 Projections

**Yukio Kinoshita,
Senior Executive Vice President**

Summary

- Higher earnings for the fourth straight year
- New records for operating income, ordinary income, and current net income
- New records for orders received and net income for the fourth straight year

Performance

- Orders received:
JPY705.3 billion (forecasted: 660 billion yen)
- Sales:
JPY600.3 billion (forecasted: JPY595 billion)
- Operating income:
JPY64.2 billion (forecasted: 60 billion yen)
- Ordinary income :
JPY65.3 billion (forecasted: 60 billion yen)
- Current net income:
JPY37.4 billion (forecasted: 33 billion yen)
- Interest-bearing debt: JPY88 billion
- ROIC (after tax) : 12.2% (forecasted: 11.0%)

Financial Summary for FY2006

1-2

Units: JPY billion

Orders Received

Increase in Construction Machinery, Industrial Machinery, and Ship & Steel Structure segments

Sales

Great increase in Construction Machinery and Industrial Machinery segments

Operating income

Great increase in Construction Machinery, Industrial Machinery, and Ship & Steel Structure segments

Ordinary income

Interest expense decrease

Extraordinary income or loss

Worsened due to factors such as reorganization of business operation

	FY2006	FY2005	Change
Orders received	705.3	603.0	102.4
Sales	600.3	551.3	49.0
Operating income	64.2	47.5	16.7
Operating income ratio	10.7%	8.6%	2.1%
Ordinary income	65.3	47.6	17.8
Ordinary income ratio	10.9%	8.6%	2.3%
Extraordinary income or loss	(2.4)	(1.5)	(0.9)
Current net income	37.4	29.7	7.6
Current net income ratio	6.2%	5.4%	0.8%
ROIC (after tax)	12.2%	8.8%	3.4%

Operating Income by Segment

1-3

Unit: JPY billion

Mass-produced machinery

Plastics machinery experienced a decline but power transmissions had favorable turn out in comparison with the previous term. All others were the same as last year.

Environmental protection facilities, plants and others

Roughly the same as the previous term.

Ship, steel structure and other specialized equipment

Progress with cost reductions in new ship building. Steel structure and equipment doing favorably.

Industrial machinery

Transport systems, turbines, pumps and forging machines doing favorably.

Construction machinery

US Crane subsidiary doing favorably.

Hydraulic excavators are doing favorably both in the domestic and overseas markets.

	FY2006	FY2005	Change
Mass-production machinery	28.8	30.0	(1.2)
Environmental protection facilities, plants & others	4.5	4.1	0.3
Ship, steel structure and other specialized equipment	6.7	(1.0)	7.7
Industrial machinery	9.5	5.8	3.7
Construction machinery	14.4	8.5	5.9
Total	64.2	47.5	16.7

Balance Sheets

1-4

Unit: JPY billion

	March FY2007	March FY2006	Changes		March FY2007	March FY2006	Changes
Current assets	332.5	317.8	14.7	Liabilities	394.9	407.7	(12.9)
Cash and deposits	48.2	43.9	4.2	Notes and accounts payable	150.9	142.8	8.1
Notes and accounts receivable	158.4	158.9	(0.5)	Advance payments	40.5	32.0	8.5
Inventories	100.5	93.0	7.5	Interest-bearing debt	88.0	125.5	(37.5)
Other	25.5	22.0	3.4	Other	115.5	107.5	8.0
				Minority interests	-	3.8	-
Fixed assets	268.4	261.4	7.0	Stockholders' equity	-	167.7	-
Tangible assets	185.1	181.5	3.7	Paid in capital	-	30.9	-
Intangible assets	6.3	4.8	1.5	Capital surplus	-	16.8	-
Investments and other assets	77.0	75.2	1.8	Retained earnings	-	68.8	-
				Revaluation reserve for land	-	42.1	-
				Other	-	9.1	-
				Net assets	206.0	-	-
				Common equity	155.3	-	-
				Variations in estimates and exchanges	49.3	-	-
				Minority interests	1.3	-	-
Total	600.9	579.2	21.7	Total	600.9	579.2	21.7
				Ratio of interest bearing debt	14.7%	21.7%	(7.0%)
				Stockholders' equity ratio	34.1%	29.0%	5.1%

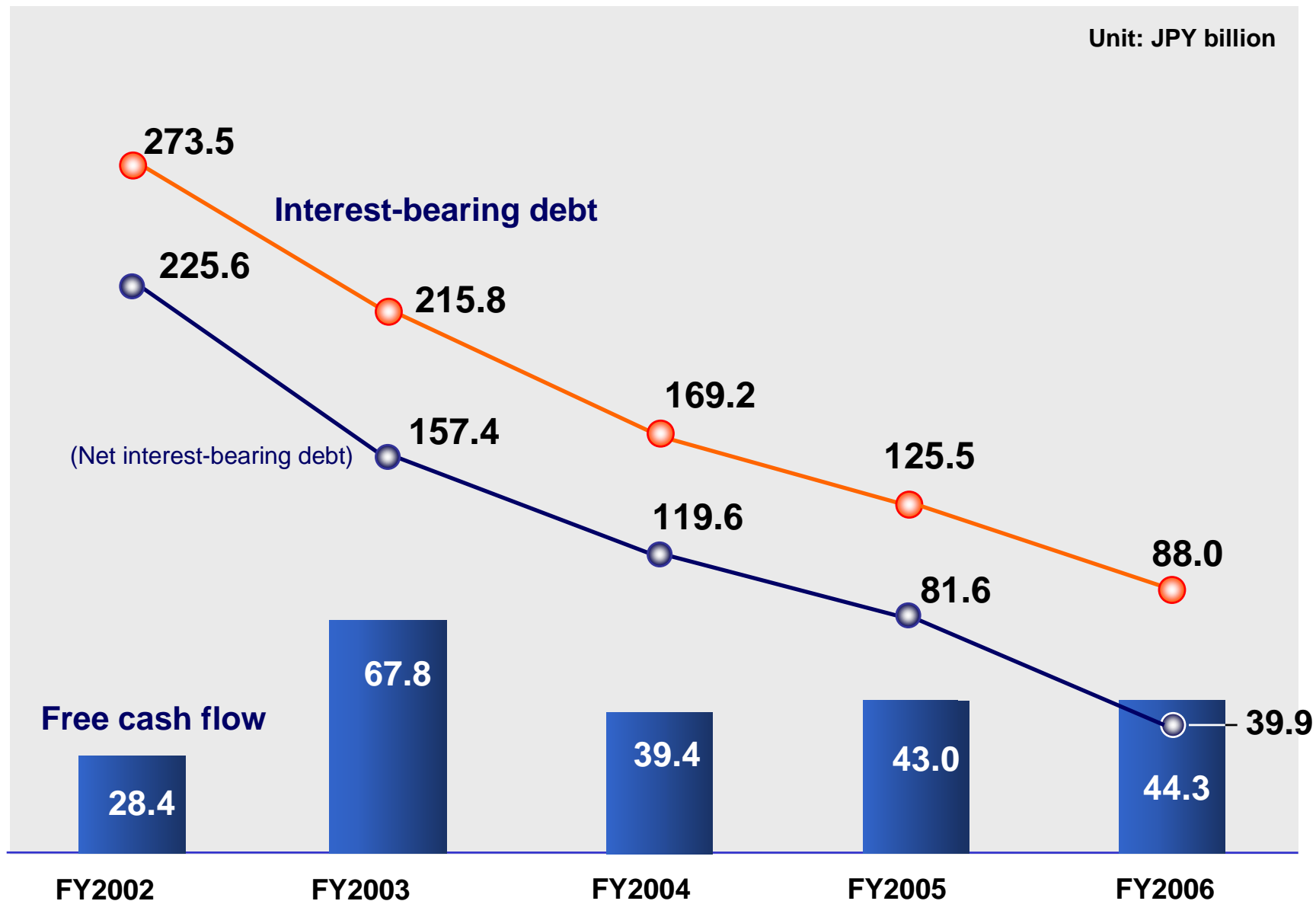
Statements of Cash Flow

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Unit: JPY billion

Category	FY2006	FY2005	Change
Cash flows from operating activities	56.8	50.0	6.8
Working capital	10.3	7.9	2.4
Operating income before interest payment	72.5	53.9	18.5
Other	(26.0)	(11.8)	(14.1)
Cash flows from investing activities	(12.5)	(7.0)	(5.4)
Free cash flow	44.3	43.0	1.3
Cash flows from financing activities	(41.2)	(48.8)	7.6
Change in cash and cash equivalents	3.4	(5.5)	8.9
Cash and cash equivalents at the end of the year	47.5	43.6	3.9

Change in Interest-Bearing Debt



FY2006 Operating Results and FY2007 Forecast

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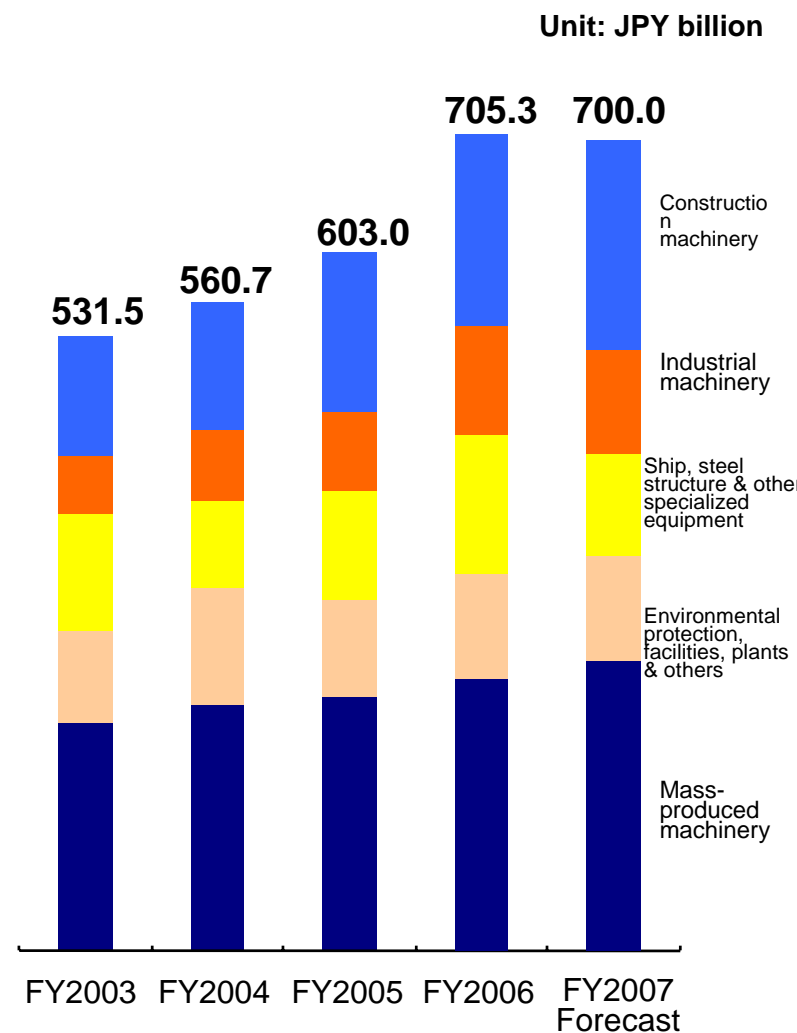
Unit: JPY billion

	1st half of FY2007 Forecast	1st half of FY2006 Actual	FY2007 Forecast	FY2006 Actual
Orders received	330.0	322.4	700.0	705.3
Sales	300.0	273.4	650.0	600.3
Operating income	30.0	26.8	74.0	64.2
Operating income ratio	10.0%	9.8%	11.4%	10.7%
Ordinary income	29.0	27.7	73.0	65.3
Ordinary income ratio	9.7%	10.1%	11.2%	10.9%
Extraordinary gain or loss	(1.0)	(1.6)	-2.0	-2.4
Net income	17.0	16.7	43.0	37.4
Net income ratio	5.7%	6.1%	6.6%	6.2%
Dividends	JPY5	JPY3.5	JPY10	JPY7
ROIC (after tax)			13.1%	12.2%
Projected exchange rate (US dollar)			1st half JPY115 2nd half JPY110	JPY110

FY2007 Forecast of Orders Received by Segment 1-8

Unit: JPY billion

	FY2003	FY2004	FY2005	FY2006	FY2007 Forecast
Mass-produced machinery	195.6	213.1	219.1	234.7	250.0
Environmental protection facilities, plants & others	80.4	100.3	83.6	90.0	92.0
Ship, steel structure & other specialized equipment	101.6	75.7	95.2	121.0	88.0
Industrial machinery	49.7	60.0	68.7	93.6	90.0
Construction machinery	104.2	111.5	136.4	166.1	180.0
Total	531.5	560.7	603.0	705.3	700.0



FY2007 Forecast of Sales and Operating Income by Segment

1-9

Unit: JPY billion

		1st half of FY2007 Forecast	1st half of FY2006 Actual	Change	FY2007 Forecast	FY2006 Actual	Change
Mass-produced machinery	Sales	110.0	107.4	2.6	234.0	222.9	11.1
	Operating income	12.0	14.0	(2.0)	31.0	28.8	2.2
	Operating income ratio	10.9%	13.0%	(2.1%)	13.2%	12.9%	0.3%
Environmental protection facilities, plants and others	Sales	35.0	31.6	3.4	86.0	79.4	6.6
	Operating income	1.0	(0.1)	1.1	5.0	4.5	0.5
	Operating income ratio	2.9%	(0.3%)	3.2%	5.8%	5.6%	0.2%
Ship, steel structure and other specialized equipment	Sales	30.0	29.3	0.7	74.0	69.5	4.5
	Operating income	4.0	2.3	1.7	9.5	6.7	2.8
	Operating income ratio	13.3%	7.8%	5.5%	12.8%	9.7%	3.1%
Industrial machinery	Sales	37.5	28.9	8.6	78.0	68.3	9.7
	Operating income	5.5	3.8	1.7	12.0	9.5	2.5
	Operating income ratio	14.7%	13.1%	1.6%	15.4%	14.0%	1.4%
Construction machinery	Sales	87.5	76.2	11.3	178.0	160.2	17.8
	Operating income	7.5	6.6	0.9	16.5	14.4	2.1
	Operating income ratio	8.6%	8.7%	(0.1%)	9.3%	9.0%	0.3%
Total	Sales	300.0	273.4	26.6	650.0	600.3	49.7
	Operating income	30.0	26.8	3.2	74.0	64.2	9.8
	Operating income ratio	10.0%	9.8%	0.2%	11.4%	10.7%	0.7%

Part 2 Management Strategy

Progress of Current Medium-Term Management Plan

**Yoshinobu Nakamura,
President and CEO**

■ Review of “Leap to Excellence ’07” and Results for FY2006

Medium-term targets

- Evolving into a “**company that systematically creates knowledge**” and provides top quality products - Launching products for a leap to excellence in markets
 - Vertically integrated business model – **Convergence of PTC and mechatronics**
 - Expansion and enhancement of key component businesses
-
- Numerical targets (for end FY2007)
 - ROIC after tax: **10% or more**
 - Operating income: **JPY60 billion or more**
 - Interest-bearing debt: **JPY150 billion or less**



Results for FY2006

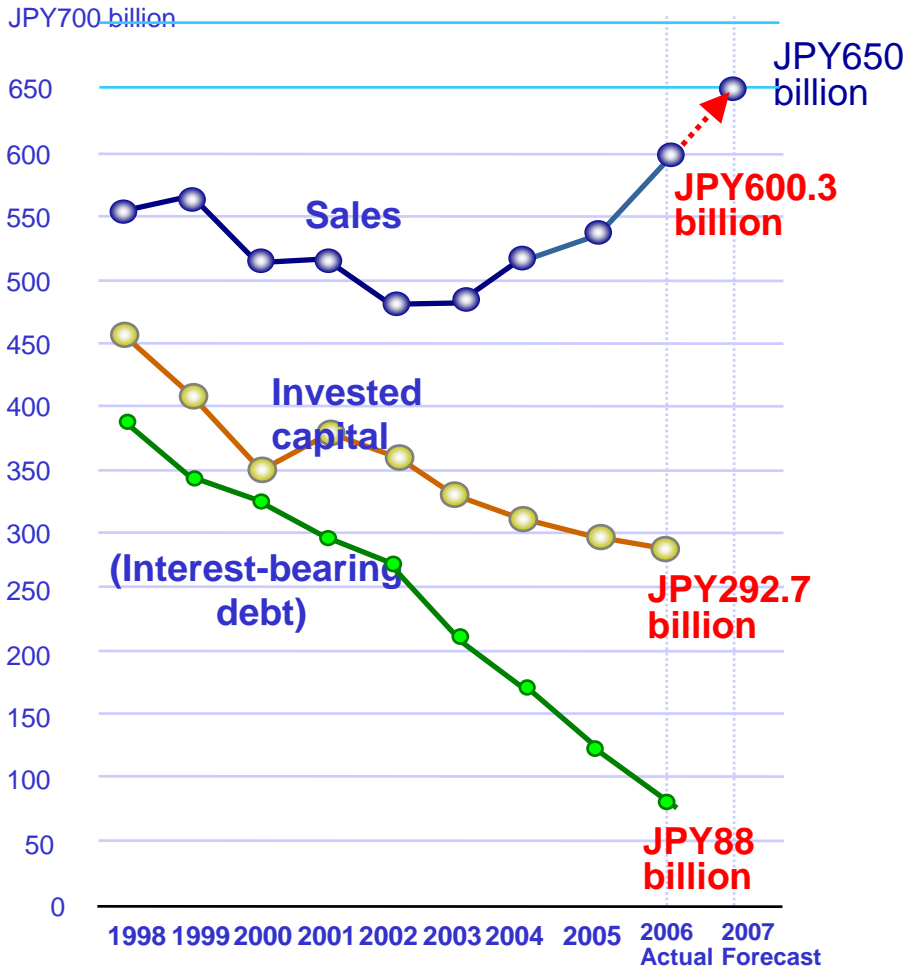
Targets achieved one year ahead of schedule for ROIC, operating income and interest-bearing debt

ROIC after tax:	12.2%
Operating income:	JPY64.2 billion
Interest-bearing debt:	JPY8.8 billion

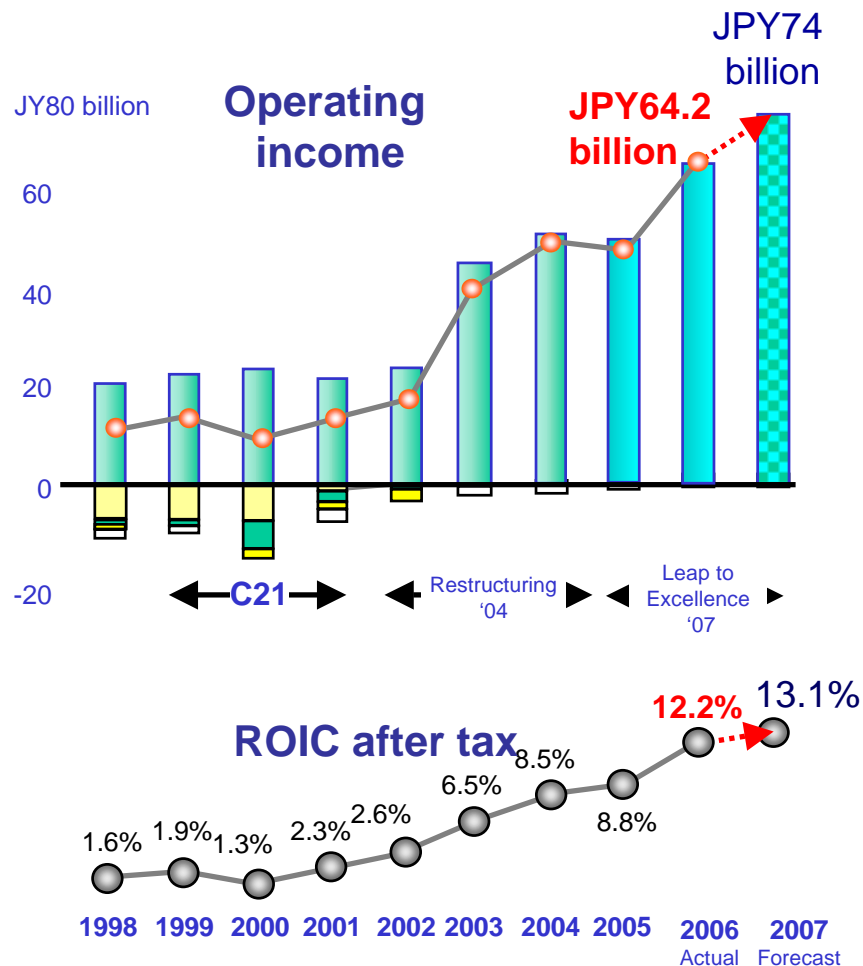
Performance Transition

■ Sales of JPY650 billion and operating income of JPY74 billion targeted for FY2007

Sales & invested capital

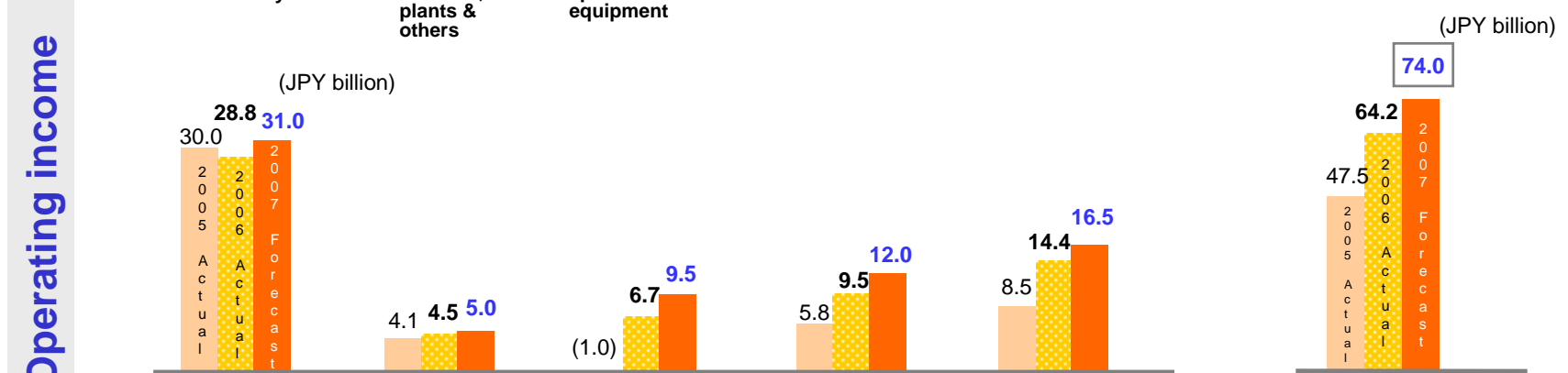
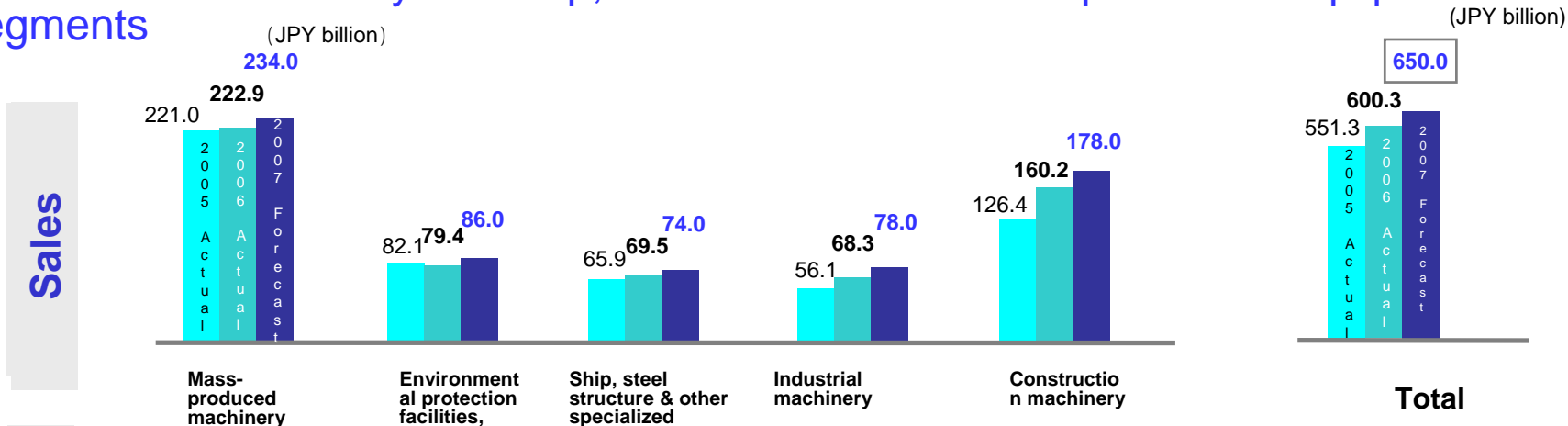


Operating income & ROIC



FY2005-2007 Sales and Operating Income

- Significant improvement in operating income due to favorable industry infrastructure for industrial machinery and ship, steel structure & other specialized equipment segments



Profitability improvement for ship building. Petroleum refinery equipment performing favorably.

Conversion of fuel in the paper pulp and chemical industries triggering favorable performance of multi-fuel fired boilers.

Hydraulic excavators are doing favorably due to global demand for construction. Sale of mobile cranes in the United States growing due to demand related to infrastructure in the United States.

Global increase in demand for resources (medium to large size power transmissions). Highly active but scattered growth in investments for semiconductor related facilities. Stagnant liquid crystal and disk markets.

Sales of turbines growing overseas due to renewed demand for power generation facilities. Strong drive for facility investments relating to ship building and steel works (Crane). Forging presses for automotive industry performing favorably.

■ Increased investments for growth from 2006

- **Promoting the creation of “Products for Leap to Excellence”**

- Proceed from developmental to market implementation stage

- **Realizing “Outclassing Quality” and “Ultimate Workmanship”**

- Activities for raising quality levels through the “Six Sigma Program”
- Production innovations through utilization of the Toyota Production System

- **Deepening of Vertically Integrated Business Model**

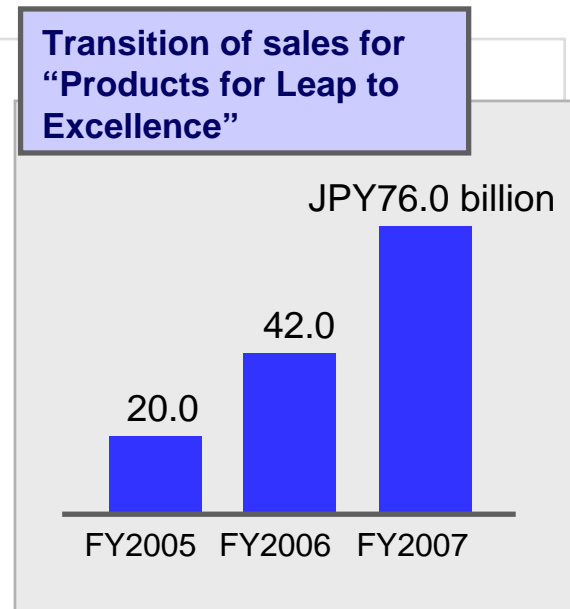
- Developments taking place across organizational boundaries
 - Inter-linked action of equipment and component businesses
- **Motion Control Drive Business Unit**
Promotion of business for power transmissions, as well as precision control technologies

- **Enhancing Overseas Businesses and Collaborations**

- **Global production network**
 - Enhancing production capacities at locations in Japan, Europe, North America, China and Southeast Asian countries, as well as inter-linking of their production activities

- **Focusing Investment on Growing Businesses**








- Facility investments for enhancing production capacities



FY2007 Outlook by Segment

2-5

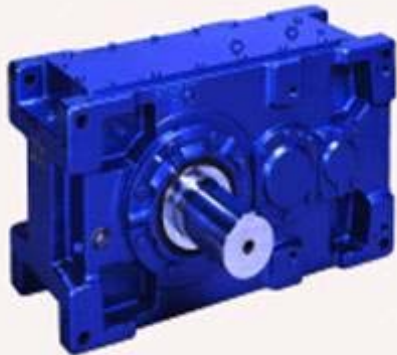
Unit: JPY billion

Segment		FY2006 actual		Market	Strategy	FY2007 forecast	
		Sales	Operating income			Sales	Operating income
Mass-produced machinery	Power transmission & control	91.1	28.8		<ul style="list-style-type: none"> · Sales expansion to China and Europe. · Enhance precision power transmission products. 	95.0	31.0
	Plastic machinery	55.2			<ul style="list-style-type: none"> · Increase share of general-use plastic injection molding machines. · Expand sales of medium-size machines for automotive industries. 	57.0	
	Precision control machinery	76.6			<ul style="list-style-type: none"> · Expand sales of cyclotron for PET in China. · Cryo-pump business expansion. · Enhance mechatronics components business. 	82.0	
Sub-total		222.9				234.0	
Environmental protection facilities, plants & others		79.4	4.5		<ul style="list-style-type: none"> · Circulating fluidized bed boiler export to Asia markets. · Improve project management ability. 	86.0	5.0
Ship, steel structures		69.5	6.7		<ul style="list-style-type: none"> · Enhance material cost control. · Reduce costs for serial shipbuilding of middle size tanker model. · Enhance capabilities for manufacturing reactor vessels. 	74.0	9.5
Industrial machinery		68.3	9.5		<ul style="list-style-type: none"> · Expand sales of material handling systems for shipbuilding and steel industries. · Global presence of small steam turbines. · Enhance forging press business for automotive industries. 	78.0	12.0
Construction machinery		160.2	14.4		<ul style="list-style-type: none"> · Introduction of fuel efficient, low emission, next generation machines. · Increase sales in China and Asia. · Expand sales of mobile crane. 	178.0	16.5
Tota		600.3	64.2			Total 650.0	74.0

Favorable number of orders for medium to large power transmissions being taken

MCD business implementation: Expand sales of precision power transmission products

Products for Leap to Excellence

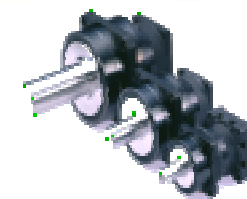


Gear box

Seisa: Large power transmission unit



Cyclo reduction gear for precision control



Precision epicycle reduction gear



Air actuator



Servo driver



Linear motor

Medium to large size reduction gears performing favorably

- Medium to large size reduction gear products performing favorably due to the globally increasing demand for resources.
- Further enhancement of product competitiveness for power transmission business, as well as conversion of the business into highly profitable enterprise.

Implementing Motion Control Drive (MCD) business through enhancement of precision reduction gear products.

- Enhancement of reduction gear products for robots.
- Promotion of convergence with precision control technologies.

Shaping up injection molding machines

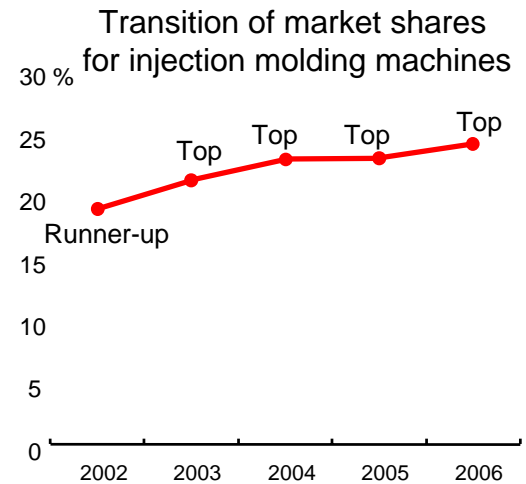
Products for Leap to Excellence



SE-HD series
for automotive industry



SE-HP series
for IT industry



Market share of injection molding machine for domestic manufacturers improved to 24% in FY2006, sustaining the top ranking position

- Growing market share for automotive industry.
- Market implementation of new products (ultrahigh-speed injection molding machines for IT industry)

Increasing demand of cyclotron for PET overseas

Products for Leap to Excellence



CYPRIS HM-7

Expanding business in semiconductor manufacturing related fields

Products for Leap to Excellence



Cryo-pump "SICERA"

India and ASEAN countries to follow China, Taiwan and Korea

- Over 30% of orders received are from overseas.
- Chinese market continues to grow.
- Our challenge is to continue with top-ranking success in the domestic market to markets in Asia.

Moving into business expansion phase with cryo-pumps

- System products comprised primarily of cryogenic machines: Capture the volume sales zone with our "cryo-pump".
- Implementation of cryo-pump for the next generation semiconductor manufacturing equipment: Market implementation of "SICERA".

Expanding demand for CFB boilers that accommodate new energies



Increasing demand by responding to needs of converting fuels from coal to new energies

- Differentiation through highly advanced technologies to provide ease of conducting multi-fuel combustion involving biomass and others, as well as improved quality of fuels and ash processing.
- Expand the business to a venture with a scale of JPY50 billion.

Specializing in standardized ships for serial shipbuilding



Aframax oil tanker

Orders for reactor vessels stacking up favorably



Coke drums

Responding to increasing volumes through efficient production

- Favorable performance sustained in our maritime transport (oil tankers) business. Favorably stacking up orders for vessels, including those with newly established standards (coating), as well as rush orders.
- Orders for 13 vessels secured for FY 2006.

Steady growth of petroleum refinery market

- Increasing demand for thermal decomposition plants of heavy crude oil due to stringent demand for crude oil.
- Expanded facilities for larger dimensions and improved efficiencies.

Orders for large cranes stacking up favorably



Goliath crane

Orders stacking up favorably in ship building and blast furnace segments

- Holding top shares in domestic market for large-scale Goliath cranes and jib cranes. Orders continuing to stack up favorably primarily from ship building and steel manufacturers.
- Orders for continuous unloaders from steel manufacturers stacking up favorably.

Global implementation of industrial steam turbines

Products for Leap to Excellence



Steam turbine for power generation

Orders stacking up favorably for industrial multiple stage turbines due to increasing demands for power generation using biomass

- Proposing products that are highly reliable and deliver optimum operations.
- Further implementation in overseas markets with target of succeeding in highly value-added market (power generating market) in the United States.

Sales of superior LEGEST starts

Products for Leap to Excellence



LEGEST

Mobile cranes performing well in North American market



Mobile crane

Implementation of equipment that comply with third gas emissions regulations

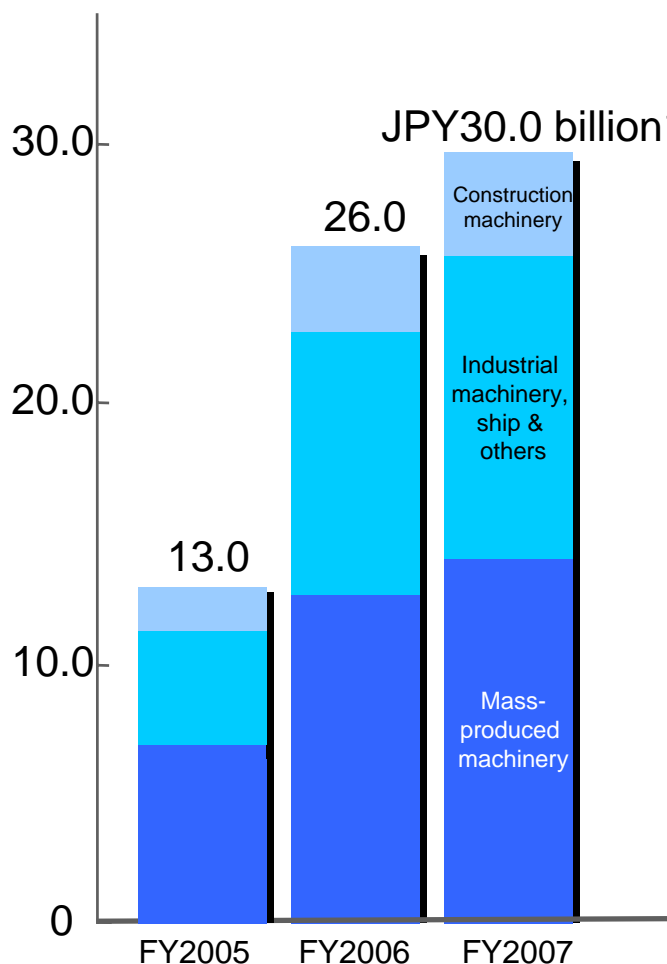
- Realization of superior durability and fuel efficiency (20% reduction).
- Reduction of maintenance costs and time.
- Surpassing dynamic capabilities.

Further enhancement of strategies for models and global implementations

- Enhancement of global supply chain through increased amount of supply and implementation of new models.
- Promotion of global marketing.

- Proactive distribution of sound cash flow for capital expenditure.
- Work to increase volume, reduce costs and improve quality through enhancement of production capabilities.

Capital expenditure



- Mass-produced machinery:
 - Gear reducers
Increasing processing capacities.
 - Plastic machinery:
Enhance and improve supply chain.
- Industrial machinery, ship and others:
 - Ship:
Increasing processing capacities.
 - Reactor vessels:
Increasing production capabilities.
 - Cranes:
Increasing production capabilities.
- Construction machinery
 - Hydraulic excavators:
Production capacity 12,000 units per year
 - Mobile cranes:
Increasing production capabilities.

* Figures are based on decisions made and may differ from financial figures.

Next Medium-Term Management Plan

■ Aiming for growth through utilization of highly improved earning capacity for investments.

To become "Global SHI"

- Aggressively undertaking action in global market.
- Establishing sustained competitive advantages.
- Promoting innovations.

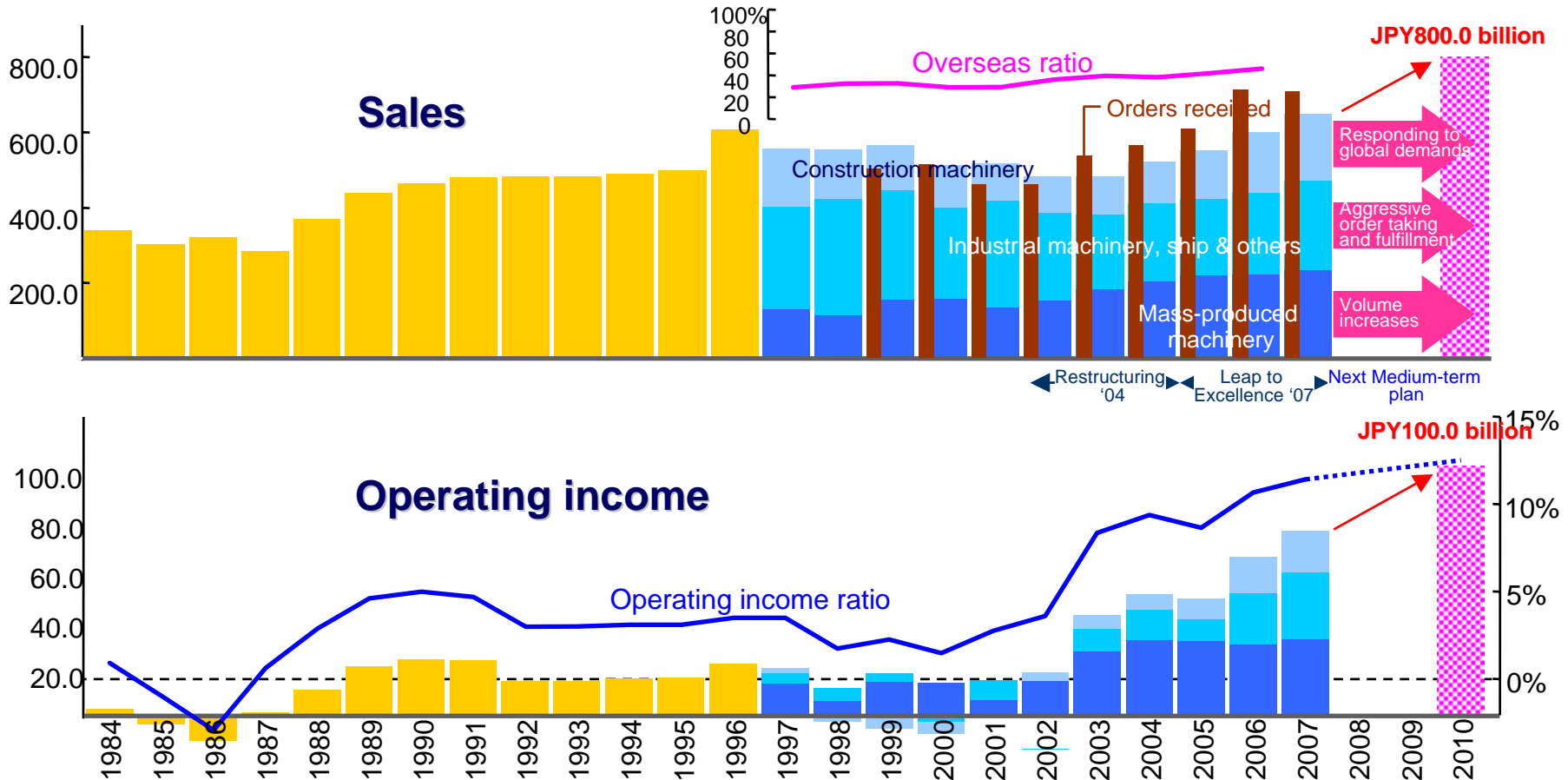
Targeted figures (for FY2010)

Sales amount:

JPY800.0 billion

Operating income:

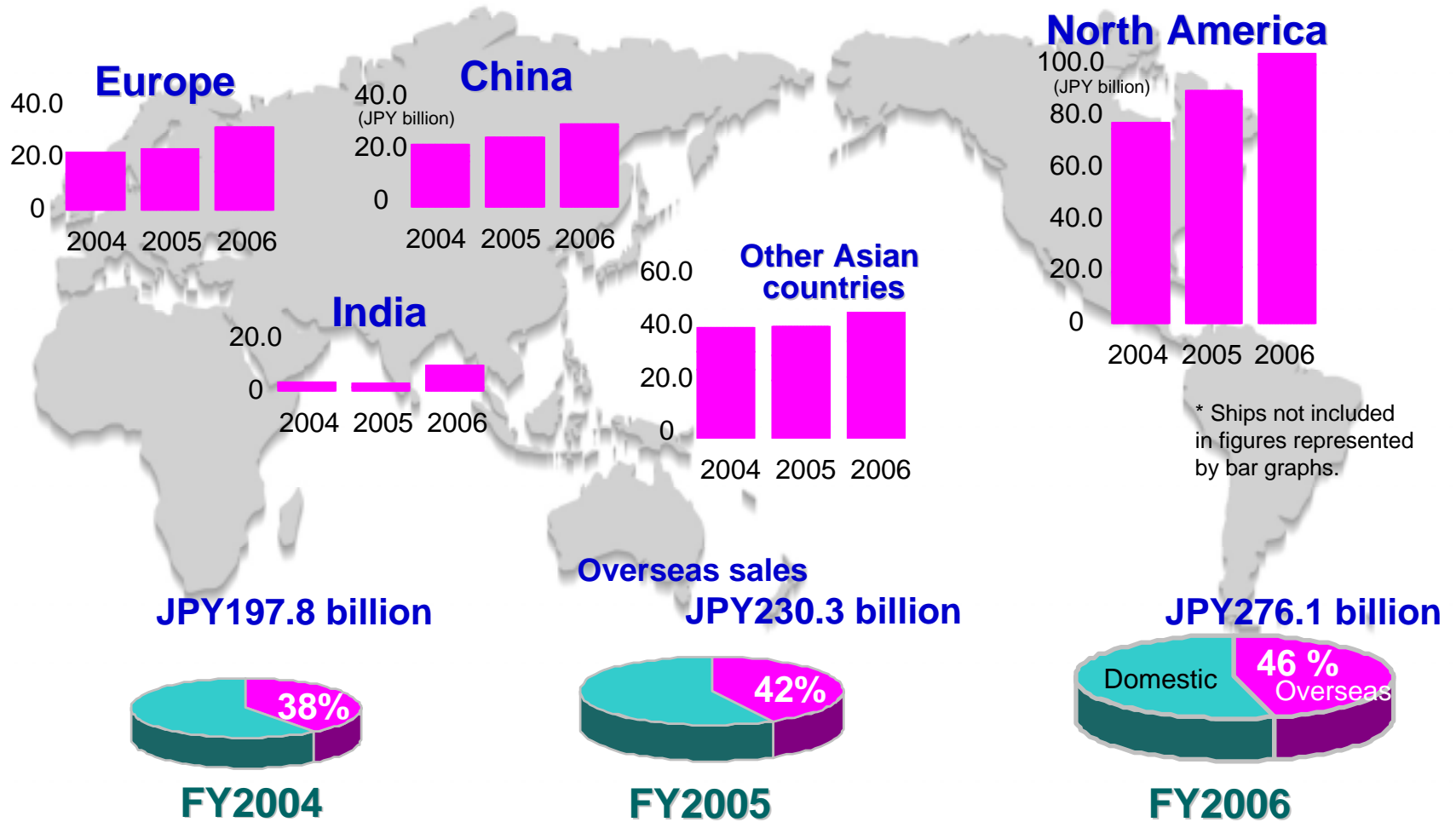
JPY100.0 billion



Overseas Sales

■ Sales growing primarily in North America with concentrated efforts being made in China and BRICs since FY2007

- Aggressive expansion for global growth



Strategies of Overseas Operations

■ Establishing organization for design, manufacturing, sales and service by utilizing the SHI-Group network

- Design location
- Manufacturing plant
- Major sales and service location

