

Summary of Current Medium-Term Management Plan - Leap to Excellence '07

Leap to Excellence '07 - Planned Goals

Development and expansion of topline growth

Medium-term goals

- Evolving into a “company that systematically creates knowledge” and provides first-class 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

- Initial numerical targets (for end of FY2007)

ROIC: 10% or more

Operating income: JPY60 billion or more → JPY74 billion
(forecast as of May 2007)

Interest-bearing debt: JPY150 billion or less

All targets achieved
a year ahead of schedule

FY2006 Results

New achievements forecast

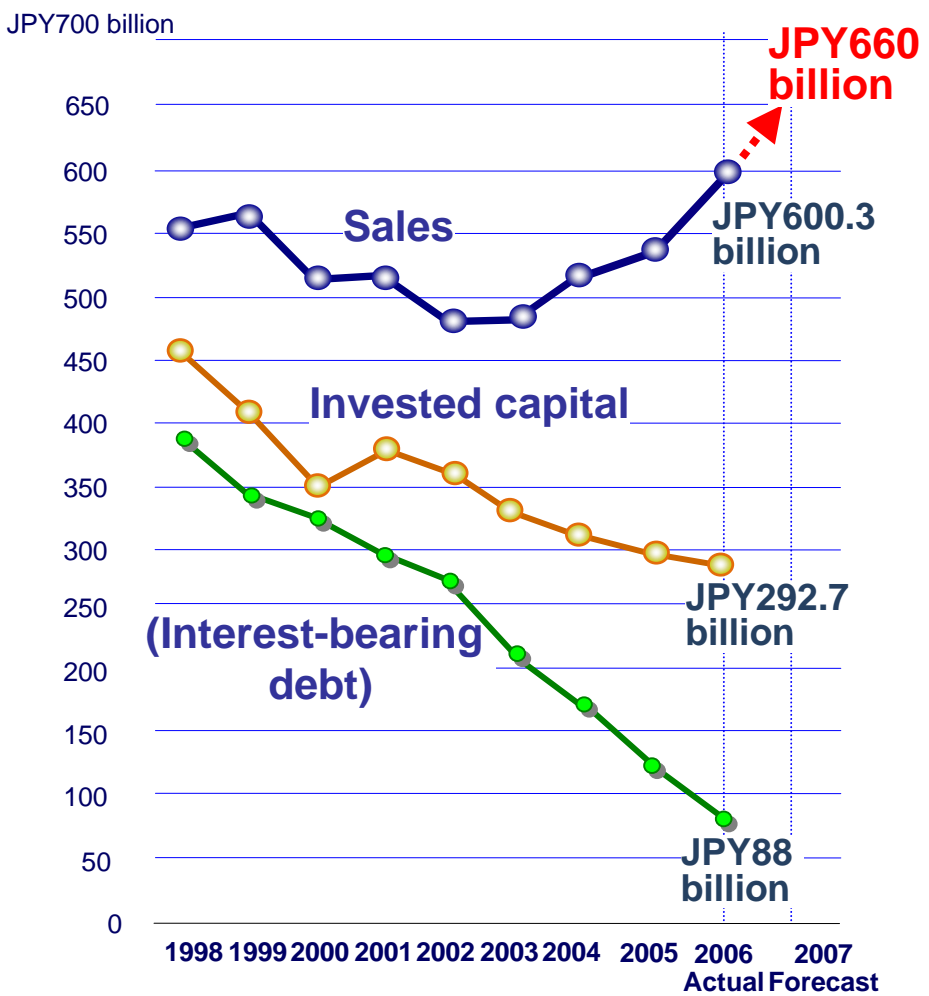
FY2007 Forecast

ROIC:	12.2%	13.7%
Operating income:	JPY64.2 billion	JPY77.0 billion
Interest-bearing debt:	JPY88.0 billion	JPY90.0 billion

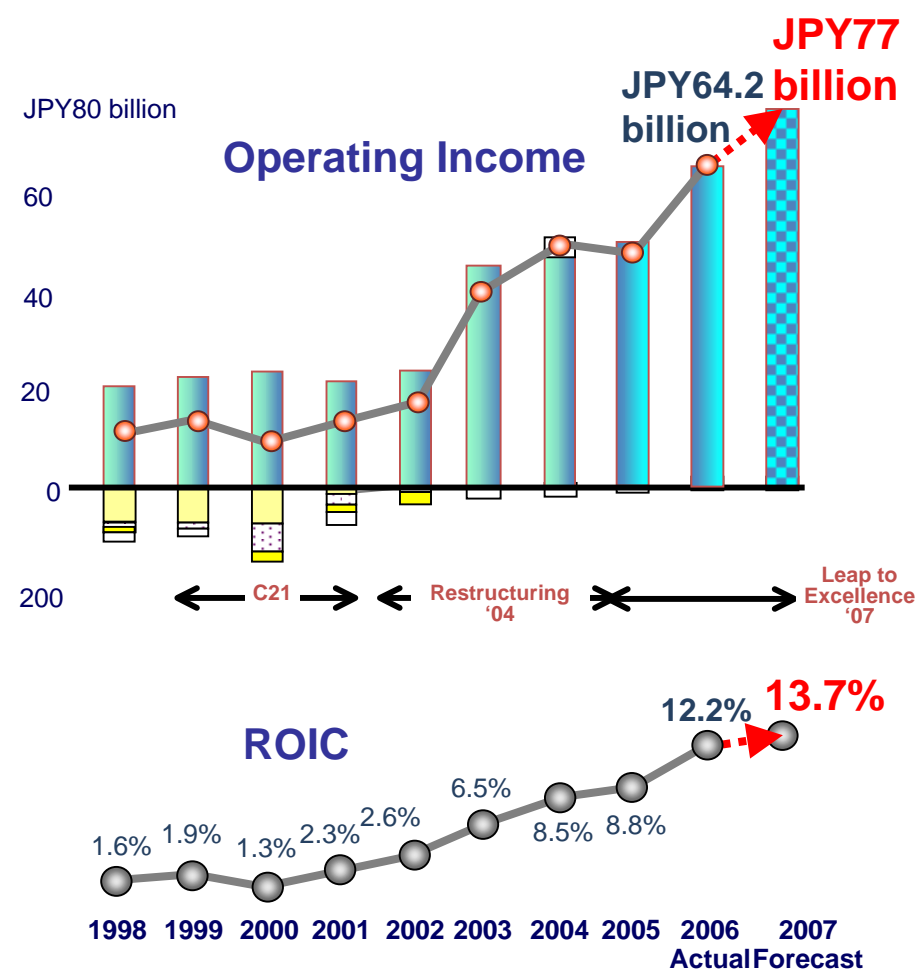
Leap to Excellence '07 - Performance Transition

Upward revision of forecasts for FY2007-Sales JPY660 billion, Operating income JPY77 billion

Sales and Invested Capital



Operating Income and ROIC



Difference in Actual and Forecast Performance of Leap to Excellence '07 by Segment

Segment	FY2007 Forecast (Compared to initial plan of May 2005)		Reasons for Difference
	Sales	Operating Income	
	JPY Billions	JPY Billions	
Mass-produced machinery	236.0 (14.0)	31.0 (5.0)	· Decrease due to continuing stagnant market for electronics, semiconductor/liquid crystal equipment - plastic machinery, precision equipment etc.
Environmental protection facilities, plants & others	87.0 (13.0)	5.5 (1.5)	· Decrease due to contraction in demand from public agencies and withdrawal from this sector.
Ship, steel structure & other specialized equipment segment	74.0 (+9.0)	11.0 (+ 7.5)	· Increases due to unexpected growth of industry infrastructure in areas such as materials, energy, and transport.
Industrial machinery	80.0 (+ 15.0)	12.0 (+ 6.5)	
Construction machinery	183.0 (+ 63.0)	17.5 (+ 9.5)	· Unexpected increase in demand for mobile cranes in the North American market and for hydraulic excavators in Asia and other overseas markets.
Total	660.0 (+ 60.0)	77.0(+ 17.0)	

Next Medium-Term Management Plan - Global 21

“Making the move from a Japanese-focused SHI
to a global SHI”

Framework of the New Medium-Term Management Plan 4

Name	<ul style="list-style-type: none">■ Global 21
Financial targets	<ul style="list-style-type: none">■ FY2010<ul style="list-style-type: none">Sales: JPY850.0 billionOperating Income: JPY100.0 billionROIC: 10% or more
Long-term vision	<ul style="list-style-type: none">■ Developing a company with sales of JPY1 trillion by 2015■ Reach the top 3 of market share-holders in all sectors
Keywords for growth	<ul style="list-style-type: none">■ Globalization■ Innovation
Investment policy	<ul style="list-style-type: none">■ Approximately JPY100.0 billion investment and 50.0 billion R&D over 3-year period<ul style="list-style-type: none">· Expansion of global bases· Creation of first-class products

Basic Policy of Next Medium-Term Management Plan

Corporate concept

- Evolving into a “company that systematically creates knowledge” and provides first-class products

Long-term Initiatives

- Advanced leadership
- Creating customer value through first-class products
- Vertically integrated business model
- Global development
- Highly efficient management

Growth process

- SHI-Way growth process - “synergistic value chain and positive growth cycle” model

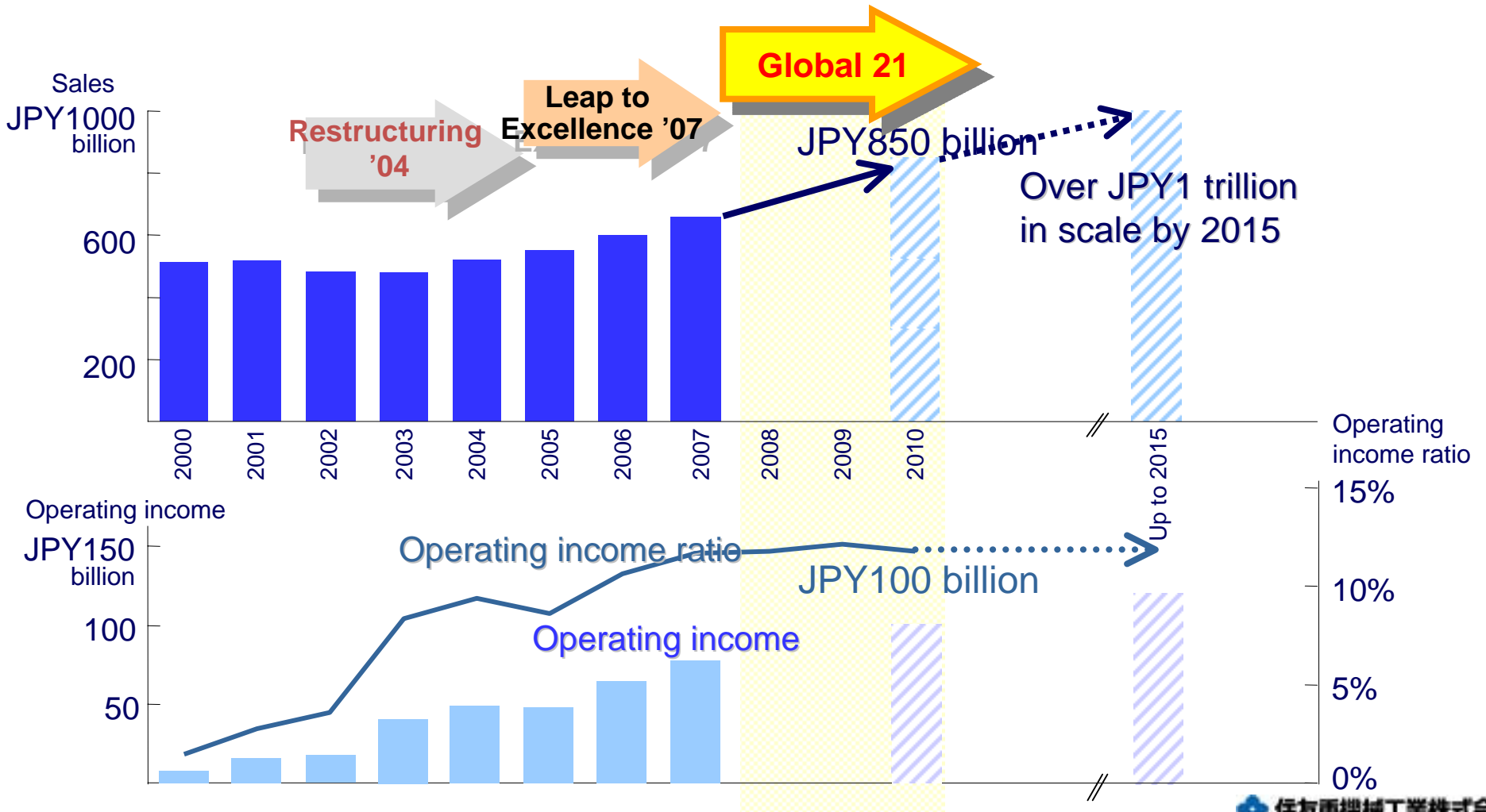
Business portfolio

- Mass-produced machinery, construction machinery
 - Quantitative increase due to global expansion
- Precision machinery
 - Increase scale of operations in this cutting-edge area
- Heavy machinery and plants
 - Focus on products in areas of strength and expand global sales

Long-Term Vision

Increase corporate value through expanding business scope while maintaining SHI's quality

- "A Global SHI" - Pursue growth through the global market
- Establish a continuous competitive edge
- Development of a leading company in both qualitative and quantitative terms



Financial Strategy

From restoring fiscal health to the next growth investment stage

■ FY2010 Targets

Sales: JPY850 billion
Operating income: JPY100 billion
Operating income ratio: Maintain FY2007 levels at least
ROIC: 10% or more

■ Investment: Approximately JPY150 billion over 3-year period (expenditure base)

(Current medium-term management plan investment: JPY80 billion)

Facility investments: Approximately JPY100 billion

R&D: Approximately JPY50 billion

Maintain financial discipline

■ Dividend: Continuous dividend increase

Approach to Growth

Taking a global perspective to the 21st century

Intercorporate competition moving from domestic to international sphere


- Domestic market maturization
- Entry into a period of global growth

Increasing business opportunities in newly emerging nations such as the BRICs.

Rapid economic growth in newly emerging nations is moving towards stable growth.

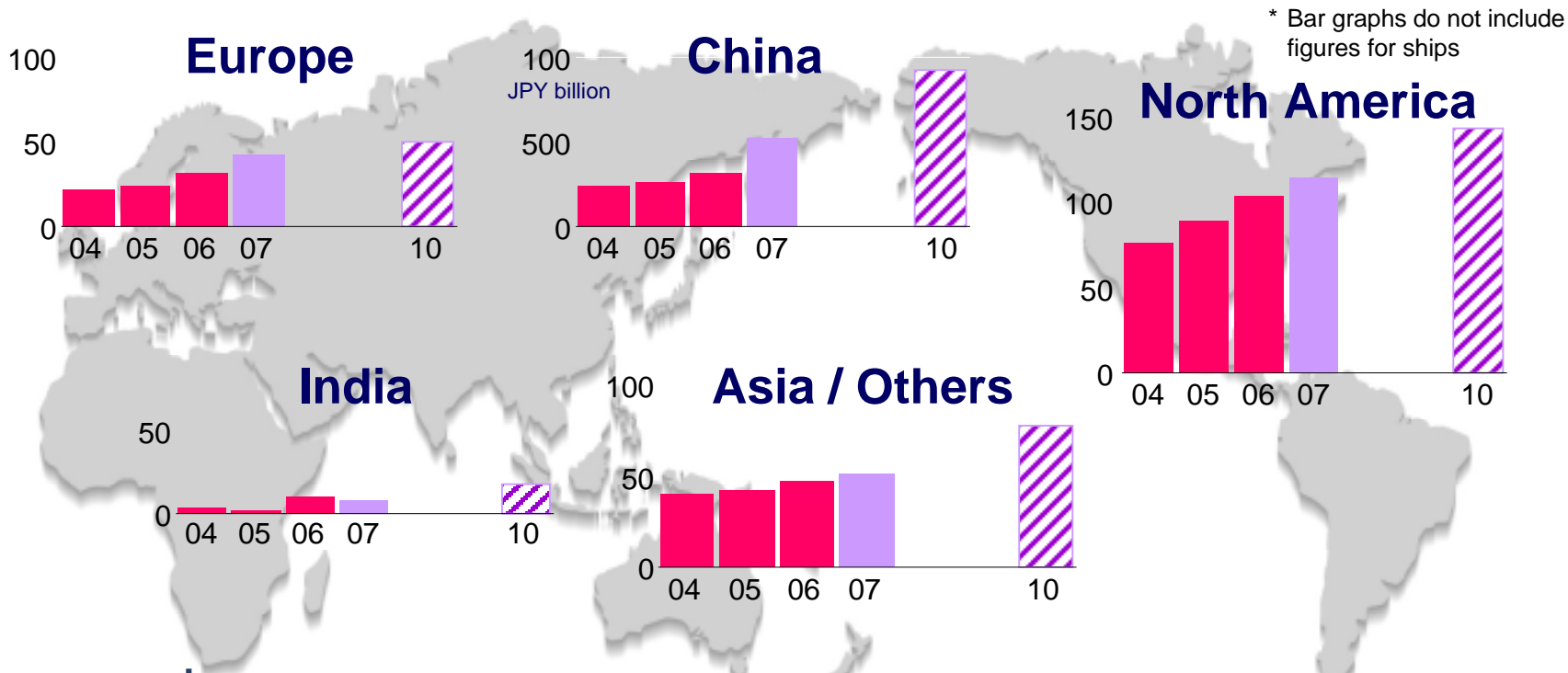
- The first half of the 21st century will be an extremely important one for corporate growth

Establishment of a competitive edge in the global marketplace

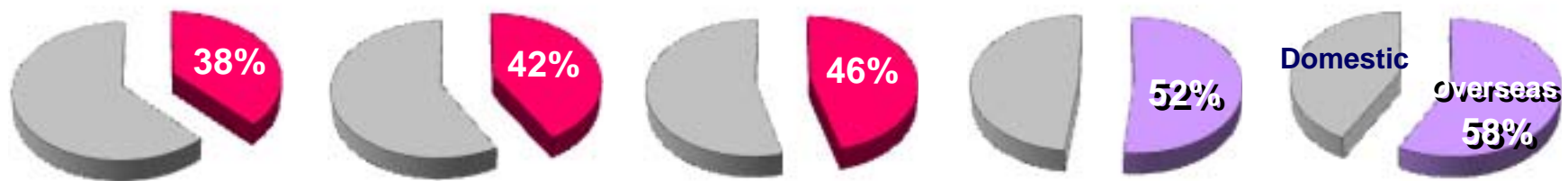
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- **Comprehensive sale of current strong product line-up on the global market**
Use the company's current products to actively unearth new markets and foster existing ones
 - **Increase extent of the considerable market for mass-produced machinery and construction machinery**
Fast paced scale expansion
 - **Establish continuous competitive edge through improving first-class products**
Maintain enhancement of competitiveness through innovation

Global Sales Plan (By Area)

Increased sales in North America, focus on China and other BRICs



Overseas sales
 JPY197.8 billion JPY230.3 billion JPY276.1 billion JPY340.0 billion JPY490.0 billion



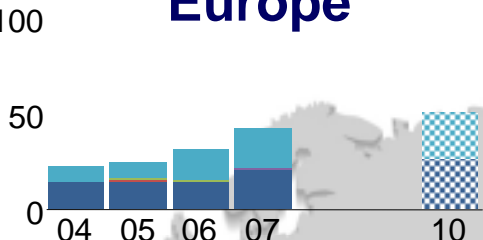
FY2004 FY2005 FY2006 FY2007 (forecast) FY2010 (planned)

Global Sales Plan (By Segment)

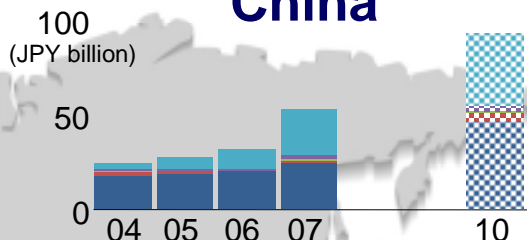
Focus on expansion of mass-produced machinery and construction machinery in all regions

*Bar graphs do not include figures for ships

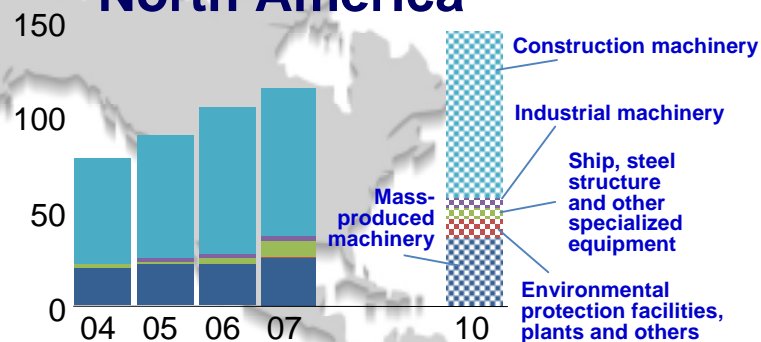
Europe



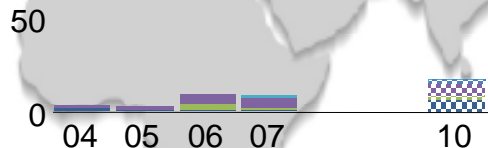
China



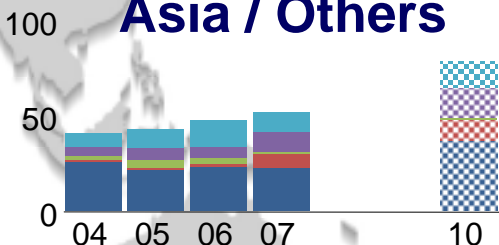
North America



India



Asia / Others



Overseas sales (ratio)

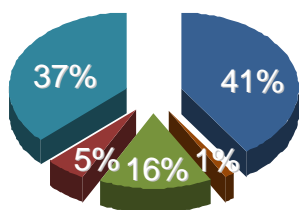
JPY197.8 billion (38%)

JPY230.3 billion (42%)

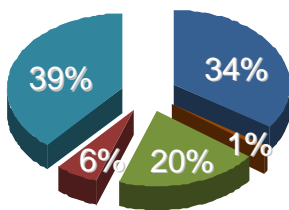
JPY276.1 billion (46%)

JPY340.0 billion (52%)

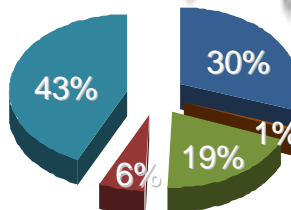
JPY490.0 billion (58%)



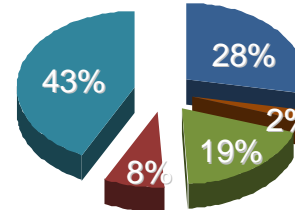
FY2004



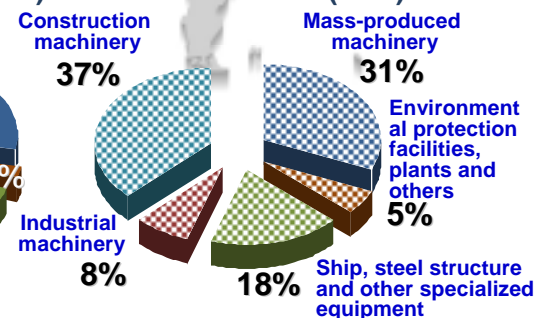
FY2005



FY2006



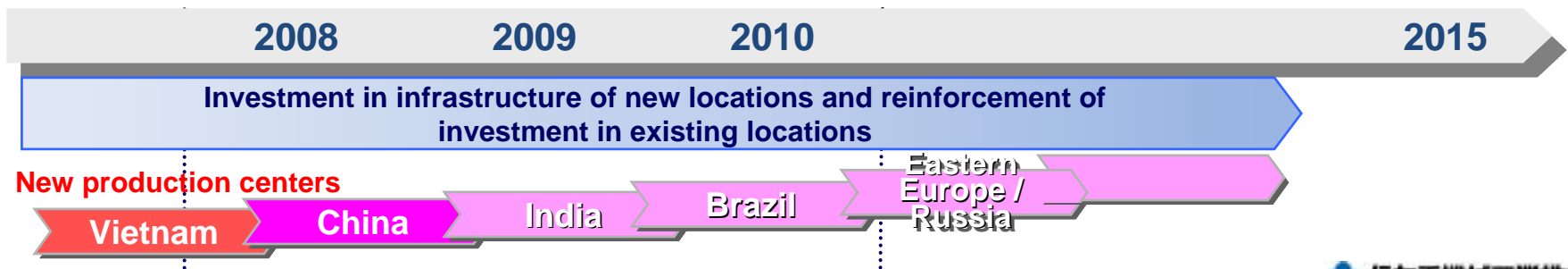
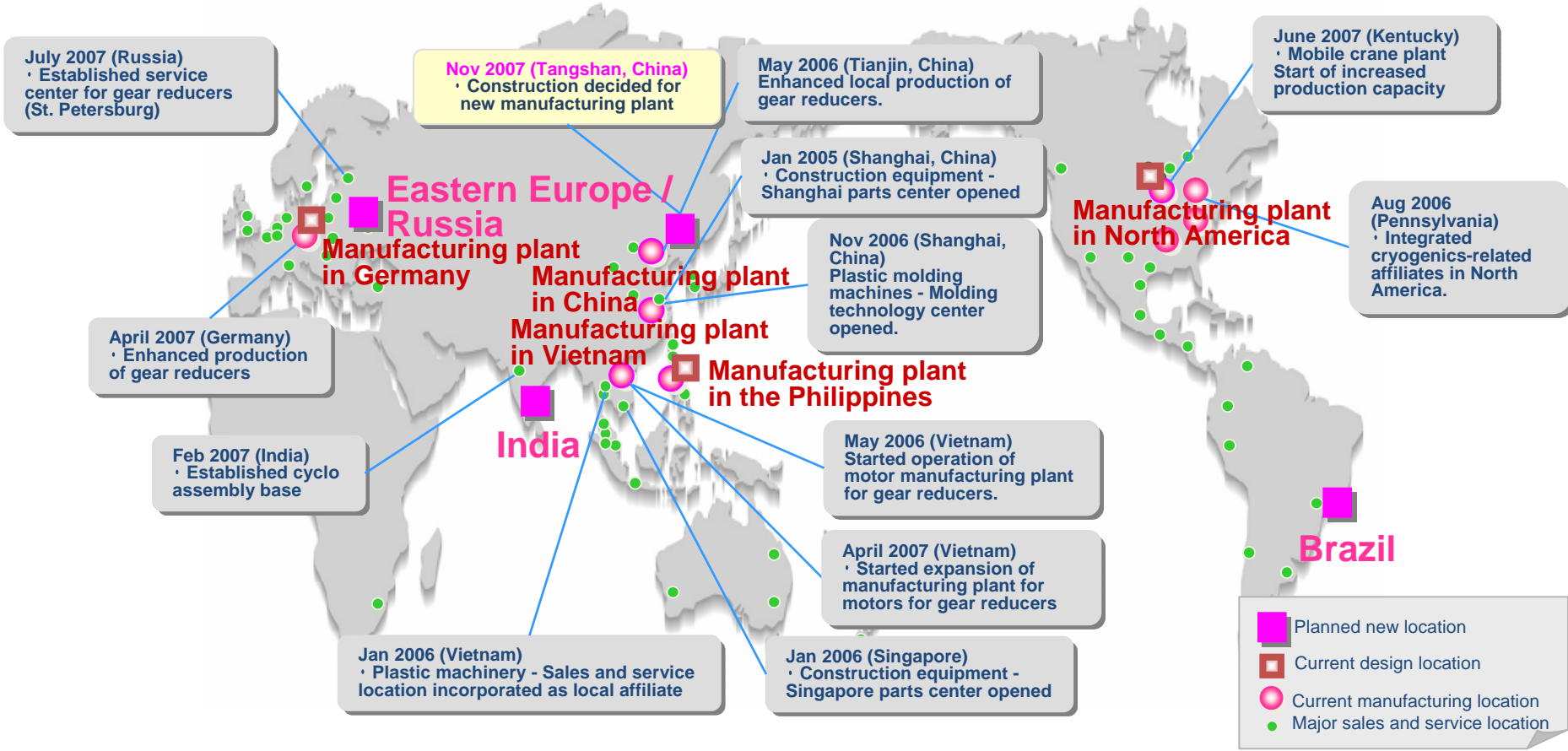
FY2007 (forecast)



FY2010 (planned)

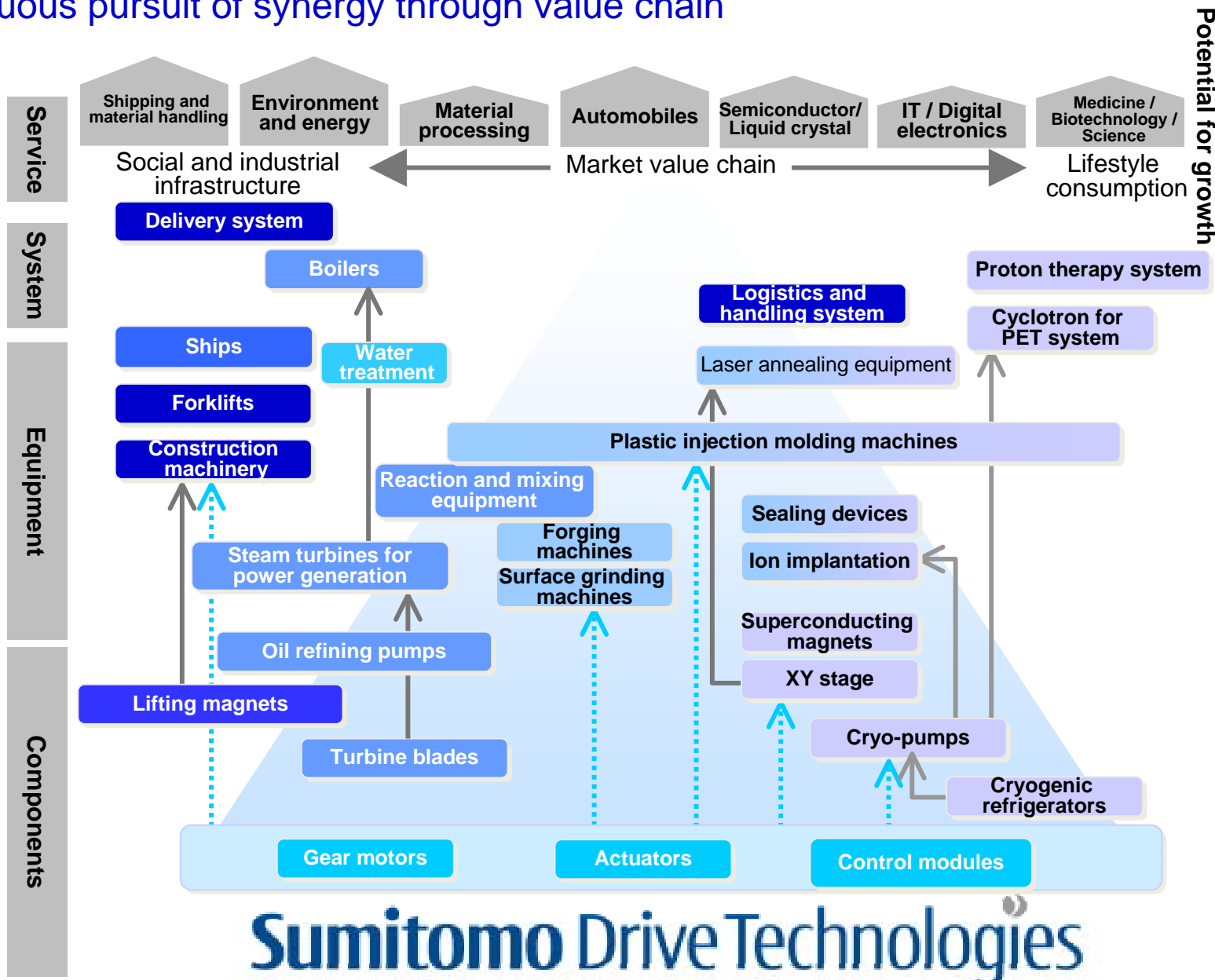
Investment in Global Locations

Implementation of new construction and reinforcement of location infrastructure



One-SHI Synergy Model

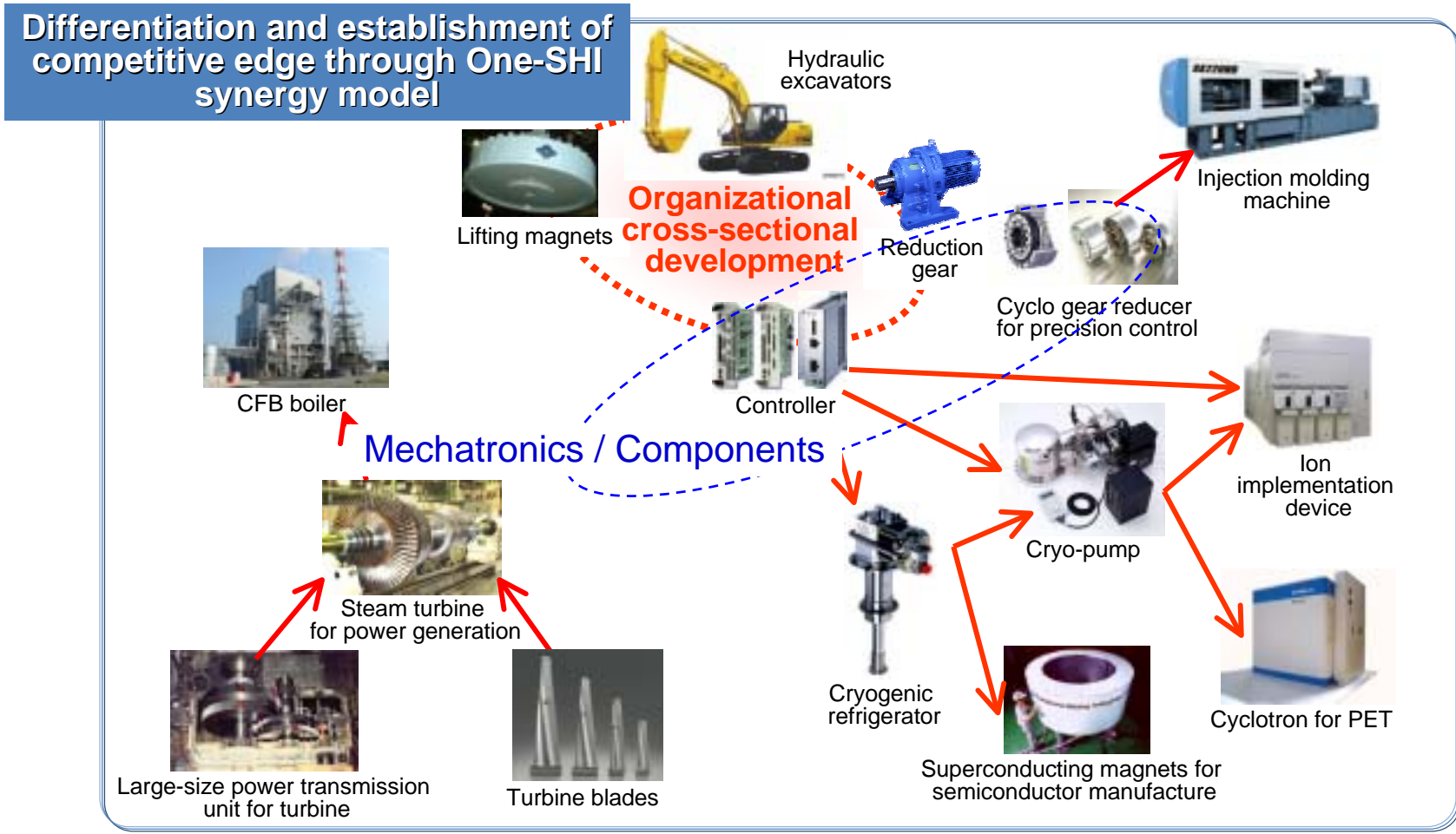
Continuous pursuit of synergy through value chain



Potential for growth

Investment in First-Class Products

Developing world-class first-class products through enhanced competitiveness



2008 2009 2010 2015

Development investment in high quality products - Promotion of innovation in technology

Overview of Medium-Term Management Plan by Segment ¹⁴

Segment	10 Year Target (compared to FY2007)	Market overview and key points of medium-term plan
	JPY billions	
Mass-produced machinery	Sales: 300.0 (+64.0) Operating income: 42.0 (+11.0)	Continuing favorable market conditions for industry infrastructure <ul style="list-style-type: none"> • Gear reducers: Increase sales related to resource infrastructure, increase sales through rapid development of global locations, enhancement of precision power transmission products. • Plastic injection molding machines: Increase sales in European market, enhancement of supply chain. • Precision equipment, other: Overseas expansion of PET, expansion of cryo-pump division, expansion of mechatronics components market.
Environmental protection facilities, plants and others	Sales: 130.0 (+43.0) Operating income: 9.0 (+3.5)	Continuing favorable market conditions for new energy <ul style="list-style-type: none"> • Achieve solid increase in sales and increased profitability through profit management and improved production capacity. • Increase sales of new energy-equipped boilers in Asian market • Increase sales due to private demand for water treatment products
Ship, steel structures and other specialized equipment	Sales: 100.0 (+26.0) Operating income: 14.0 (+3.0)	Continuing favorable market conditions for energy and resource transport industry infrastructure <ul style="list-style-type: none"> • Ships: Head towards 2010 with a backlog of highly profitable orders and total of 10 vessels constructed annually • Accelerate understanding of Toyota's production system, development of next generation model ship • Reactor vessels: Improve production efficiency
Industrial machinery	Sales: 95.0 (+15.0) Operating income: 13.0 (+1.0)	Continuing favorable market conditions for materials and energy industry infrastructure <ul style="list-style-type: none"> • Achieve solid increase in sales and increased profitability through profit management and improved production capacity • Cranes: Deeper understanding of domestic and overseas steelmakers • Small turbines: Increase overseas sales, improve supply chain • Forging machines: Expansion of products for automobile industry, commoditization of products
Construction machinery	Sales: 225.0 (+42.0) Operating income: 22.0 (+4.5)	Continuing favorable market conditions for improving global infrastructure <ul style="list-style-type: none"> • Hydraulic excavators: Increased sales in China, strengthening of supply chain, expansion of sales of vehicles in line with stage III emission standards • Mobile cranes: Expansion of sales through enhanced production capacity
Total	Sales: 850.0 (+190.0) Operating income: 100.0 (+23.0)	

All forward looking statements regarding the company's future performance are based on information currently available to Sumitomo Heavy Industries and determined subjectively. Future performance is not guaranteed and all information related to future performance contained herein is subject to changes in the business environment.