

Part 1: FY2007 Financial Summary and FY2008 Projections

Yukio Kinoshita

**Executive Vice President
and CFO**

Financial Summary for FY2007

Units: JPY billion

Summary

- (1) Record highs in all reported areas
- New records for orders and current net income for fifth straight year
 - New records for operating income and ordinary income for the second straight year
 - Net sales were at a 12 year high
- (2) Increased revenue for five straight years

Orders

Construction machinery and mass-produced machinery segments enjoyed robust growth

Net Sales

Significant increases in environmental protection facilities, plants and others, industrial machinery, and construction machinery segments

Operating income

Substantial increase in environmental protection facilities, plants and others, and ship & steel structure segments

Ordinary income

Fall in investment return on equity method

	FY2007	FY2006	Change
Orders	716.4	707.4	9.0
Net sales	660.8	600.3	60.5
Operating income	77.8	64.2	13.6
Operating income ratio	11.8%	10.7%	1.1%
Ordinary income	75.5	65.3	10.1
Ordinary income ratio	11.4%	10.9%	0.5%
Extraordinary income or loss	(3.0)	(2.4)	(0.6)
Net income	43.0	37.4	5.6
Net income ratio	6.5%	6.2%	0.3%
ROIC after tax	14.0%	12.2%	1.8%
Interest bearing debt outstanding	89.6	88.0	1.5

Operating Income by Segment

Units: JPY billion

Mass-produced machinery

Growth in plastics machinery was offset by decline in power transmission and precision instruments sectors.

Environmental protection facilities, plants, and others

Underwent upturn based on buoyant boiler sales.

Ship, steel structures and other specialized equipment

Gains made through reducing costs based on serial construction of single ship type. Steel structures and equipment sector was also robust.

Industrial machinery

Improved performance in material handling systems, turbines, and pumps.

Construction machinery

Improved results from our U.S. crane subsidiary. Strong overseas hydraulic excavator performance.

	FY2007	FY2006	Change
Mass-produced machinery	28.2	29.7	(1.5)
Environmental protection facilities, plants & others	6.9	4.6	2.3
Ship, steel structure and other specialized equipment	14.1	6.5	7.6
Industrial machinery	12.1	9.4	2.7
Construction machinery	16.3	13.6	2.7
Total	77.8	64.2	13.6

Consolidated Balance Sheets

1-3

Units: JPY billion

	March FY2008	March FY2007	Change		March FY2008	March FY2007	Change
Current assets	381.9	332.5	49.4	Liabilities	432.3	394.9	37.4
Cash and deposits	30.3	48.2	(17.9)	Notes and accounts payable	167.0	150.9	16.1
Notes and accounts receivable	185.9	158.4	27.5	Advance payments	48.6	40.5	8.1
Inventories	130.5	100.5	29.9	Interest-bearing debt	89.6	88.0	1.5
Other	35.3	25.5	9.9	Other	127.1	115.5	11.6
Fixed assets	296.7	268.4	28.3	Net Assets	246.4	206.0	40.4
Tangible assets	204.5	185.1	19.3	Stockholders' equity	192.0	155.3	36.7
Intangible assets	15.8	6.3	9.5	Variations in estimates and exchanges	45.1	49.3	(4.3)
Investments and other assets	76.5	77.0	(0.5)	Minority interests	9.3	1.3	8.0
Total	678.6	600.9	77.7	Total	678.6	600.9	77.7
				Ratio of interest bearing debt	13.2%	14.7%	(1.5%)
				Stockholders' equity ratio	34.9%	34.1%	0.8%

Consolidated Statements of Cash Flow

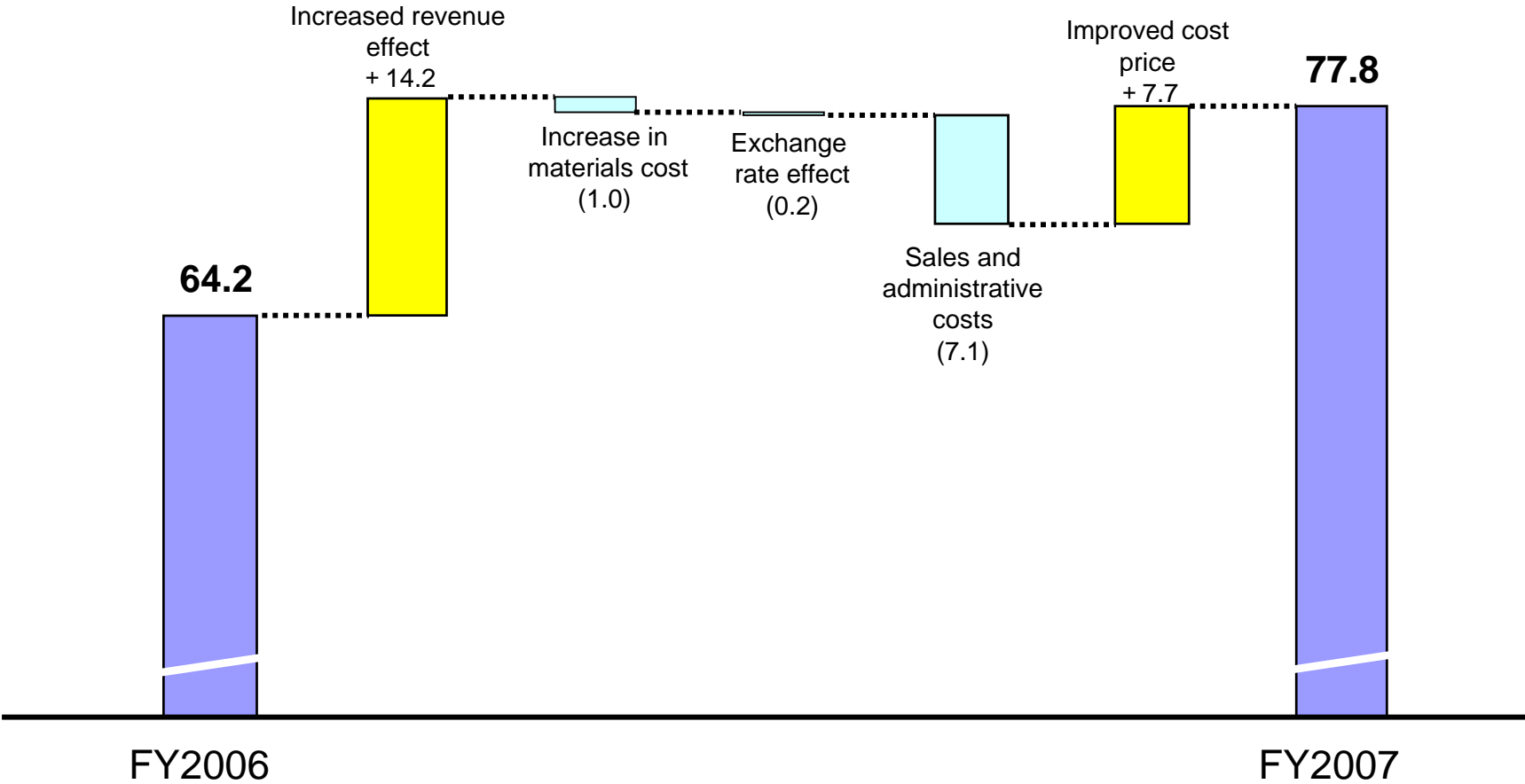
1-4

Units: JPY billion

Category	FY2007	FY2006	Change
Cash flows from operating activities	29.1	56.8	(27.7)
Working capital	(25.5)	10.3	(35.8)
Operating income before interest payment	87.7	72.5	15.2
Other	(33.0)	(26.0)	(7.0)
Cash flows from investing activities	(41.3)	(12.5)	(28.8)
Free cash flow	(12.2)	44.3	(56.5)
Cash flows from financing activities	(5.2)	(41.2)	36.0
Change in cash and cash equivalents	(17.5)	3.4	(20.9)
Cash and cash equivalents at the end of the year	29.9	47.5	(17.6)

Analysis of Change in Operating Income (FY2006 to 2007) ¹⁻⁵

Units: JPY billion



Key Points

- (1) Record highs expected for both sales and orders
- (2) While record income is expected for sixth consecutive year, the impact of rising costs of raw materials and the strong yen against the dollar is expected to lead to declining profits.

Orders: Increases expected in mass-produced machinery and environmental protection facilities, plants & others segments

Sales: Expected increase in sales of mass-produced machinery and construction machinery segments

Operating income: Potential impact of expected rising cost of materials and effect of exchange rates

	First half of FY2008 forecast	First half of FY2007 actual	FY2008 forecast	FY2007 actual	Units: JPY billion
Orders	360.0	343.8	770.0	716.4	
Sales	345.0	305.1	740.0	660.8	
Operating income	31.0	35.0	75.0	77.8	
Operating income ratio	9.0%	11.5%	10.1%	11.8%	
Ordinary income	29.0	35.0	72.0	75.5	
Ordinary income ratio	8.4%	11.5%	9.7%	11.4%	
Extraordinary gain or loss	0	(2.2)	0	(3.0)	
Net income	16.0	20.2	41.0	43.0	
Net income ratio	4.6%	6.6%	5.5%	6.5%	
Dividends	JPY6	JPY5	JPY12	JPY10	
Dividend ratio			17.7%	14.0%	
ROIC after tax			11.8%	14.0%	
Projected exchange rate (US dollar)			JPY100	JPY112	

FY2008 Forecast of Orders, Net Sales, and Operating Income by Segment

Units: JPY billion

		First half of FY2008 forecast	First half of FY2007 actual	Change	FY2008 forecast	FY2007 actual	Change
Mass-produced machinery	Orders	140.0	121.4	18.6	290.0	247.4	42.6
	Sales	129.0	110.2	18.8	280.0	232.6	47.4
	Operating income	12.5	12.7	(0.2)	30.0	28.2	1.8
Environmental protection facilities, plants & others	Orders	47.0	43.1	3.9	110.0	91.8	18.2
	Sales	37.5	35.3	2.2	100.0	91.2	8.8
	Operating income	1.5	1.9	(0.4)	8.0	6.9	1.1
Ship, steel structure & other specialized equipment	Orders	25.5	36.0	(10.5)	80.0	90.7	(10.7)
	Sales	38.0	31.1	6.9	80.0	76.4	3.6
	Operating income	5.5	5.7	(0.2)	11.0	14.1	(3.1)
Industrial machinery	Orders	47.5	48.6	(1.1)	90.0	98.8	(8.8)
	Sales	37.5	38.5	(1.0)	83.0	81.2	1.8
	Operating income	4.0	5.5	(1.5)	10.0	12.1	(2.1)
Construction machinery	Orders	100.0	94.6	5.4	200.0	187.7	12.3
	Sales	103.0	89.9	13.1	197.0	179.4	17.6
	Operating income	7.5	9.0	(1.5)	16.0	16.3	(0.3)
Total	Orders	360.0	343.8	16.2	770.0	716.4	53.6
	Sales	345.0	305.1	39.9	740.0	660.8	79.2
	Operating income	31.0	35.0	(4.0)	75.0	77.8	(2.8)

Part 2: Management Strategy

Yoshinobu Nakamura
President and CEO

Summary of Leap to Excellence '07

Development and expansion of topline growth

Medium-term goals

- Evolving into a “company that systematically creates knowledge” and provides first-class products
- Vertically integrated business model
- Expansion and enhancement of key component businesses

Performance and evaluation

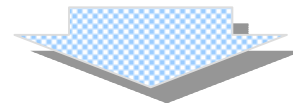
Product appeal enhanced and introduction into market of breakthrough products
 Strengthening of business integration and expansion of component business - Convergence of PTC and mechatronics

Initial numerical targets as of May 2005
 (for end of FY2007)

ROIC after tax: **10% or more**
 Operating income: **JPY60 billion or more**
 Interest-bearing debt: **JPY150 billion or less**



(forecast as of November 2007)
13.7%
JPY77 billion
Less than JPY90 billion



All targets achieved a year ahead of schedule - Additional targets also met

FY2006 Results

FY2007 Results

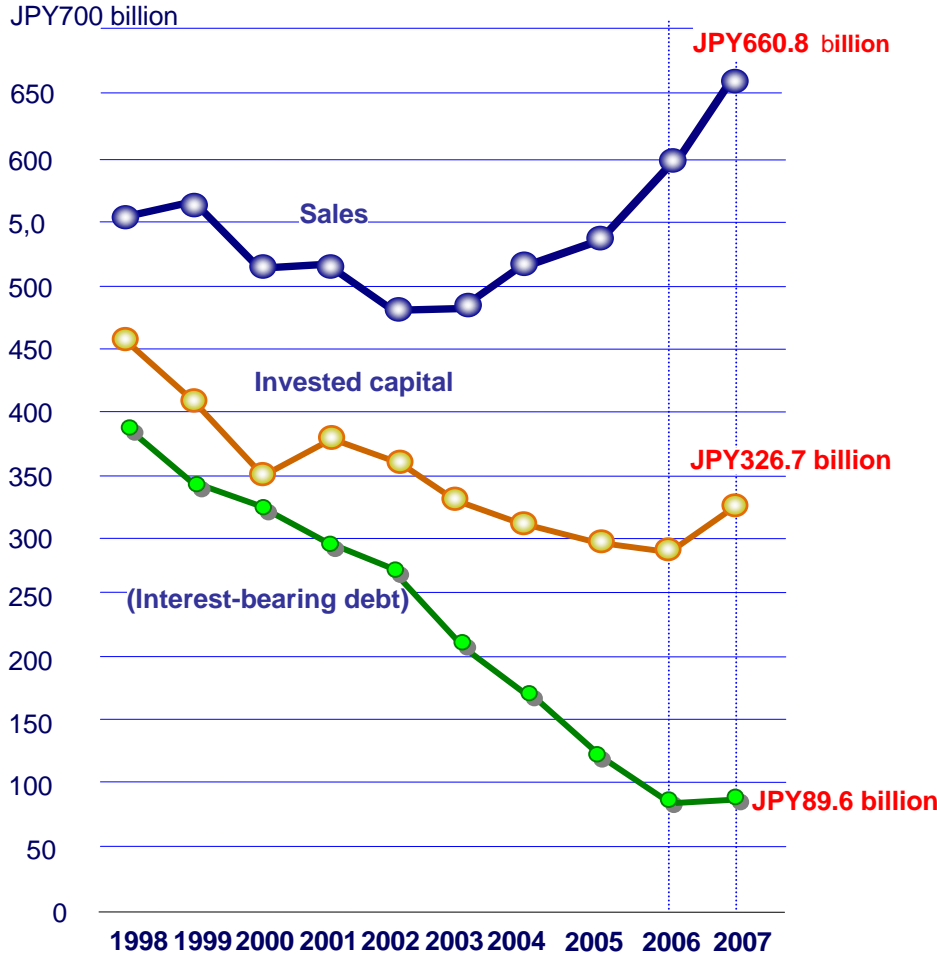
ROIC after tax: **12.2%**
 Operating income: **JPY64.2 billion**
 Interest-bearing debt: **JPY88.0 billion**

14.0%
JPY77.8 billion
JPY89.6 billion

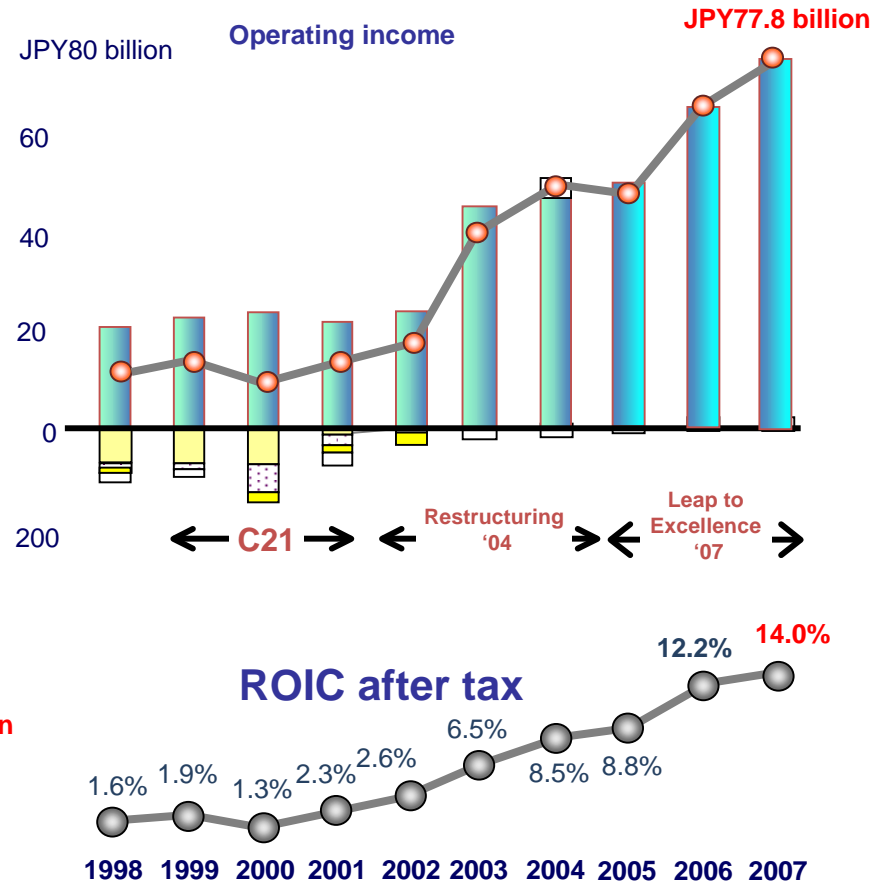
Leap to Excellence '07 - Performance Transition

Sales of JPY660.8 billion and operating income of JPY77.8 billion achieved in FY2007

Sales and Invested Capital



Operating Income and ROIC



Segment	2007 Performance (Compared to initial plan of May 2005)				Reasons for Difference
	Sales		Operating Income		
	JPY billions		JPY billions		
Mass-produced machinery	232.6	(-17.4)	28.2	(-7.8)	<ul style="list-style-type: none"> · Underperforming PTC division · Stagnant disk market for plastic machinery · Stagnant market for precision semiconductors and liquid crystal equipment
Environmental protection facilities, plants & others	91.3	(-8.7)	6.9	(-0.1)	<ul style="list-style-type: none"> · Contraction in demand from public agencies and withdrawal from this sector
Ship, steel structure & other specialized equipment	76.4	(+11.4)	14.1	(+10.6)	<ul style="list-style-type: none"> · Increases due to unexpected growth of industry infrastructure demand in areas such as materials, energy, and transport.
Industrial machinery	81.2	(+16.2)	12.1	(+6.6)	
Construction machinery	179.4	(+59.4)	16.3	(+8.3)	<ul style="list-style-type: none"> · Unexpected increase in demand for mobile cranes in North American market and for hydraulic excavators in Asia and other overseas markets.
Total	660.8	(+60.8)	77.8	(+17.8)	

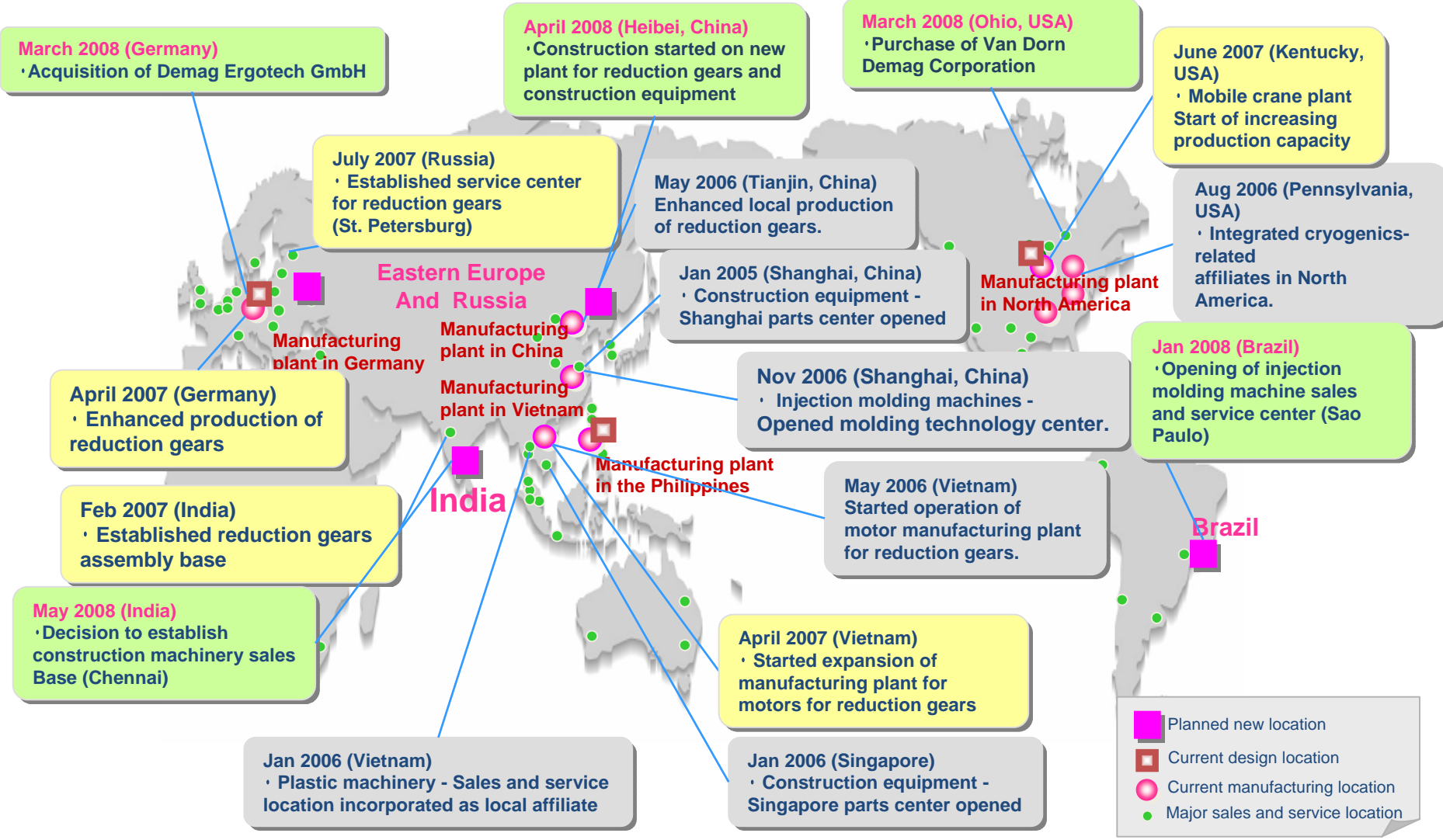
Medium-Term Management Plan - Global 21 (FY2008 to FY2010)

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

Financial targets	FY2010 Sales: JPY850.0 billion Operating Income: JPY100.0 billion ROIC: 10% or more
Long-term vision	<ul style="list-style-type: none"> ■ Developing a company with sales of JPY1 trillion by 2015 ■ Gain top-3 share in all business sectors
Keywords for growth	<ul style="list-style-type: none"> ■ Globalization ■ Innovation
Investment policy	<p>Approximately JPY150.0 billion investment over 3-year period (Investment in plants and equipment: Approx. JPY100 billion / Research and development: Approx. JPY50 billion)</p> <ul style="list-style-type: none"> · Expansion of global bases · Creation of first-class products
Business portfolio	<ul style="list-style-type: none"> ■ Mass-produced machinery, Construction machinery <ul style="list-style-type: none"> · Quantitative increase due to global expansion ■ Precision control machinery <ul style="list-style-type: none"> · Increase scale of operations as a frontier sector ■ Heavy machinery, plants & others <ul style="list-style-type: none"> · Focus on products in areas of strength and expand global sales

Investment in Global Locations

Implementation of new construction and reinforcement of location infrastructure

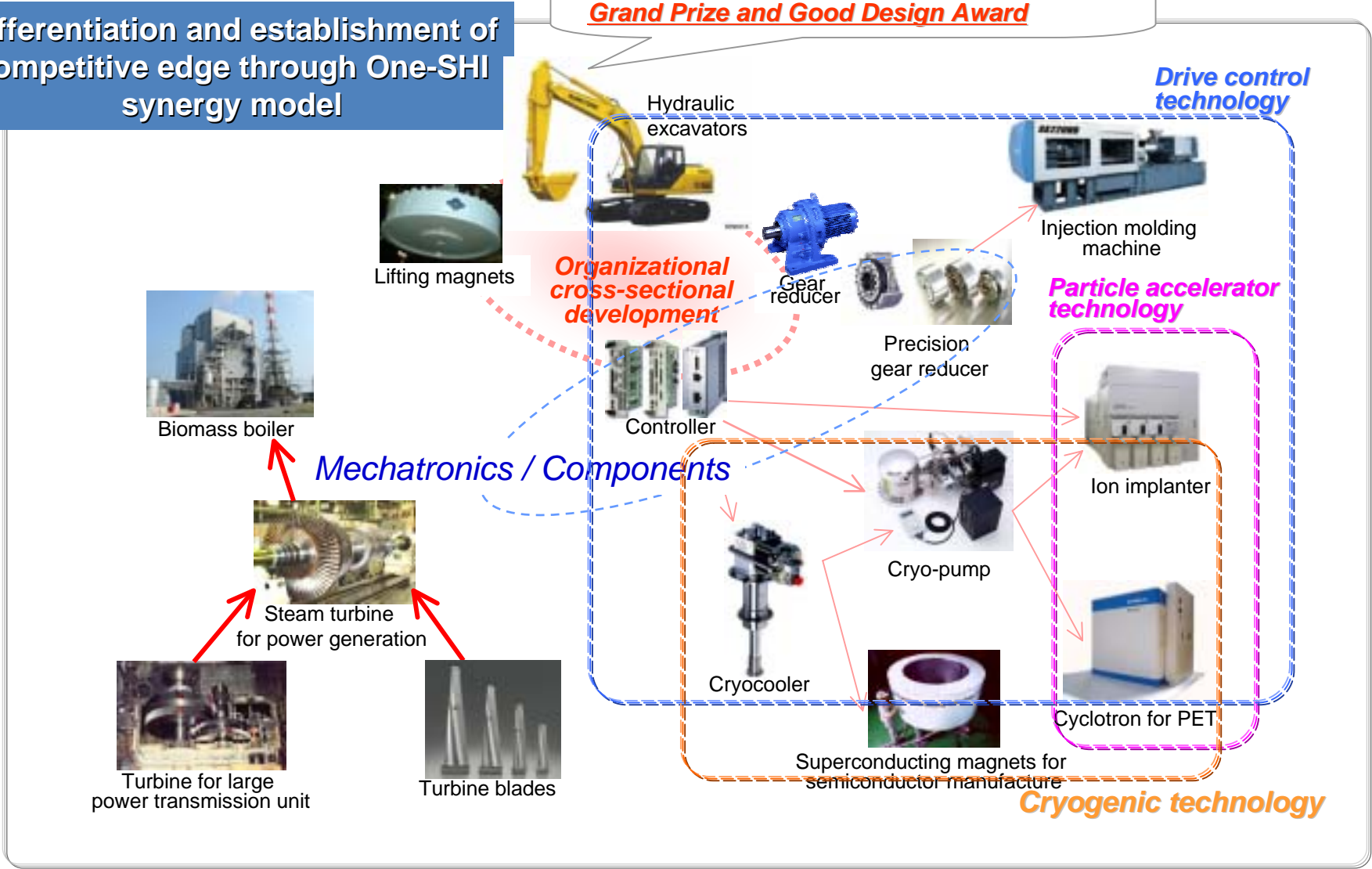


Investment in First-Class Products

Developing world-class first-class products through enhanced competitiveness

Differentiation and establishment of competitive edge through One-SHI synergy model

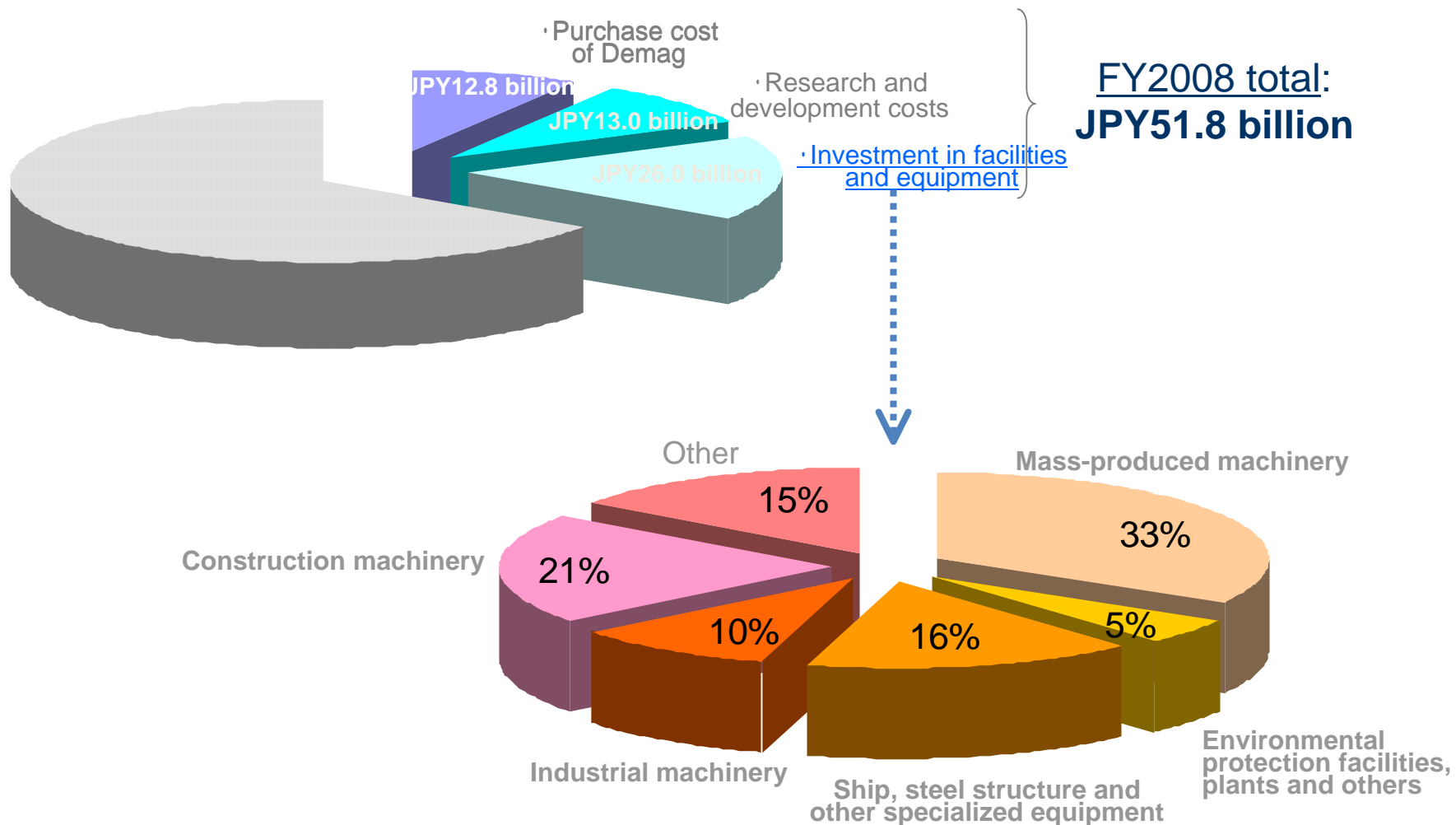
Double recognition by Energy Conservation Grand Prize and Good Design Award



FY2008 Priority Measures by Segment








FY2008 Investment Planning

Total investment budget for period FY2008 to 2010: JPY150 billion



Overview of Specific Measures by Segment for FY2008

Units: JPY billion

Segment		FY2007 Performance		Market Forecast	Measures	FY2008 Forecast	
		Sales	Operating Income			Sales	Operating Income
Mass-produced machinery	Power transmission & control	96.8	28.2		<ul style="list-style-type: none"> · Sales expansion in Asian, North American, and European sectors · Development of self-manufacturing process 	105.0	30.0
	Plastic machinery	58.9			<ul style="list-style-type: none"> · Ongoing pursuit of increased synergy with Demag · Enhance machinery for IT and automotive industries 	93.0	
	Precision control machinery	76.9			<ul style="list-style-type: none"> · Development of PET sector in Asia · Expansion of cyropump business · Expand mechatronics component business 	82.0	
Sub-total		232.6			Sub-total	280.0	
Environmental protection facilities, plants		91.2	6.9		<ul style="list-style-type: none"> · Increase presence in domestic market. · Expansion of Asian and North American markets · Improve project management ability 	100.0	8.0
Ship, steel structures and other specialized equipment		76.4	14.1		<ul style="list-style-type: none"> · Improve materials cost control · Reduce costs through serial construction of single ship type · Reactor vessels: Improve manufacturing capability 	80.0	11.0
Industrial machinery		81.2	12.1		<ul style="list-style-type: none"> · Further involvement in steel industry · Steam turbines: Expansion of Asian and North American markets · Forging machines: Expansion of products for automobile industry 	83.0	10.0
Construction machinery		179.4	16.3		<ul style="list-style-type: none"> · Hydraulic excavators: Expansion of China and Asia markets · Mobile cranes: Expand sales and product range 	197.0	16.0
Total		660.8	77.8		Total	740.0	75.0

Power Transmission Equipment

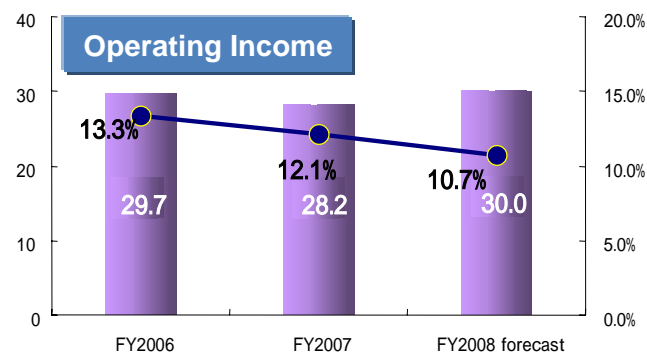
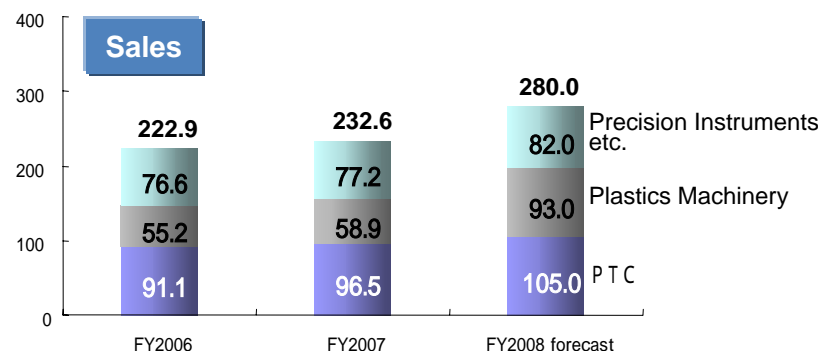
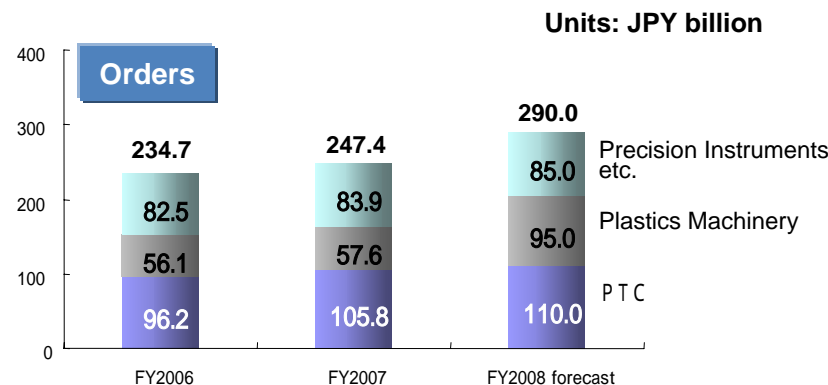
We look to expand sales of our power transmission equipment in Asia, Europe, and North and South America. We will also continue to develop the self-manufacturing in our China and Vietnam plants. We fully expect to see cost reduction in this segment through the completion of the Tangshan plant in China ahead of schedule.

Plastics Machinery

We seek to further synergy with Demag at the earliest opportunity, in addition to strengthening our sales capability in Asia, Europe, and North and South America and looking to increase our share of the IT sector. Finally, we aim to establish the company's competitive advantage in the automobile industry.



SE-HD Series for the automobile industry

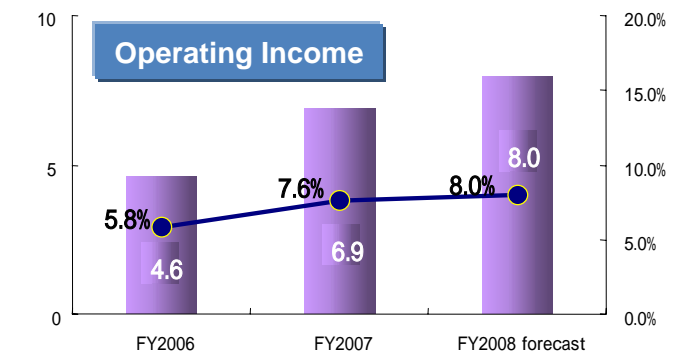
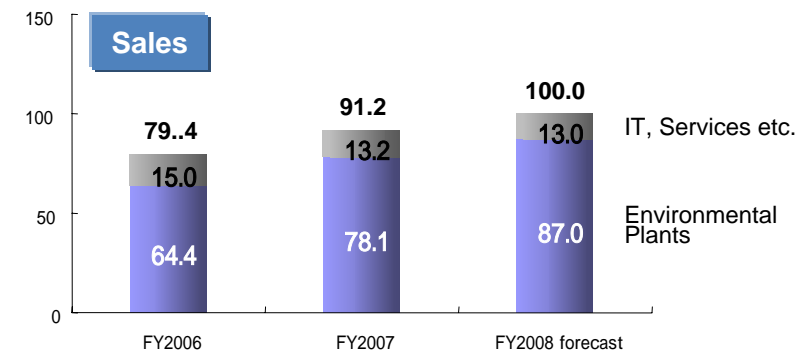
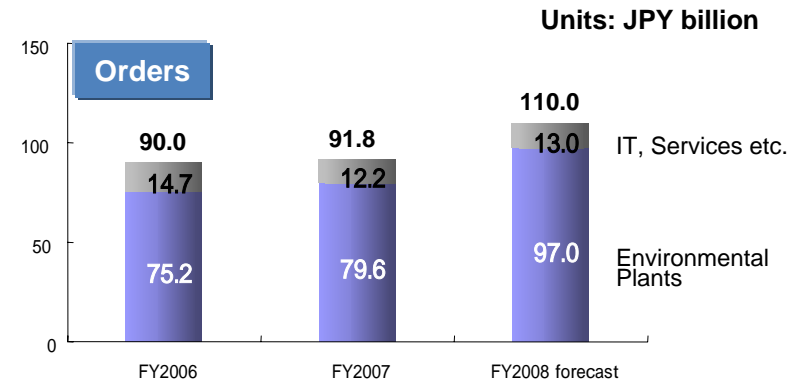


Energy Plants

Our plans for this segment include further penetration of the domestic paper, pulp, and chemical markets. We also seek to accelerate development of overseas markets, primarily in Asia and North America.

Water Treatment Plants

We will further deepen our involvement in existing markets (including food, paper and pulp, and steel). This is in addition to establishing a toehold for forays into new sectors through enhancing our product appeal.



Ships

We aim on maintaining orders through our focus on mid-sized oil tankers. We continue with our cost reduction efforts through improved productivity of TPS.

Steel Structures

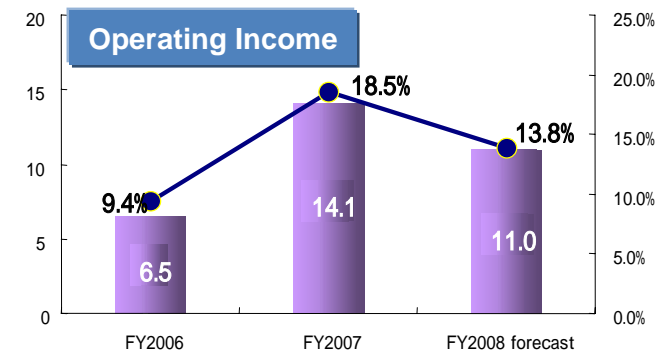
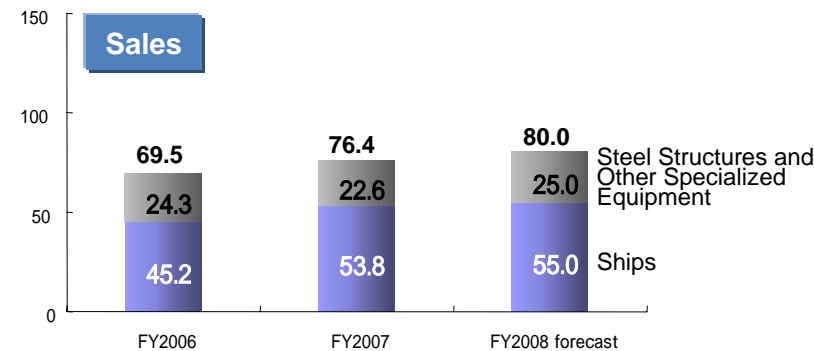
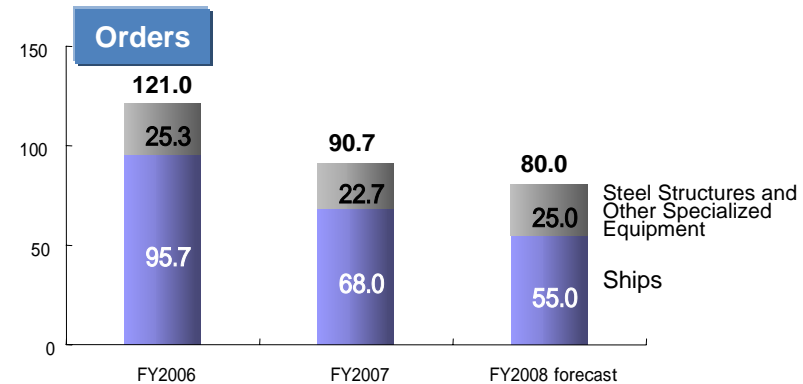
This area will see our focus on improving productivity of reactor vessels and continuing with efforts to reduce costs.

Together with consolidating our entry into the domestic market of agitating equipment for high performance resins, we also continue to develop the company's position in the international market.



100,000 dwt
Aframax-type Oil Tanker

Units: JPY billion



Material Handling Systems

We look to deepen our involvement in the domestic steel industry. This is in addition to Improving our production capacity to further ensure a stable supply of products and reduction of costs.

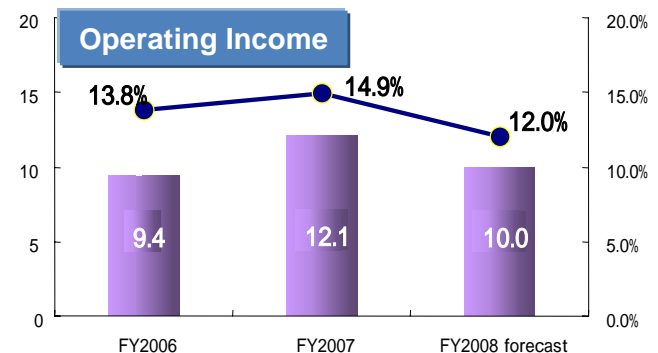
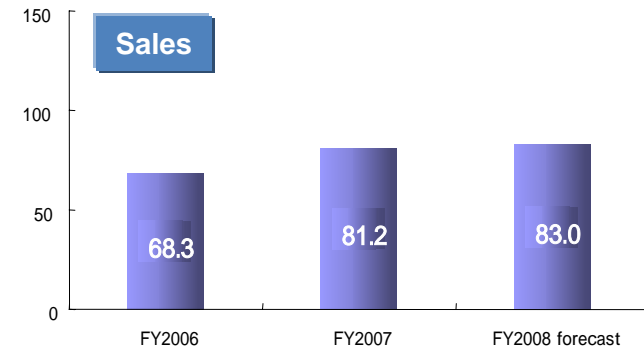
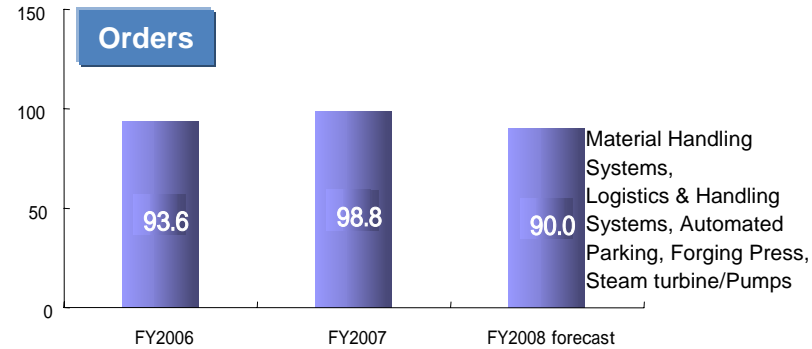
Steam turbine/Pumps

Together with expanding sales in India, North America, and South East Asia, we will also continue to reduce costs through an enhanced self-manufacturing capabilities and strengthening of the company's procurement capabilities.



Steam turbine for power generation

Units: JPY billion



Hydraulic Excavators

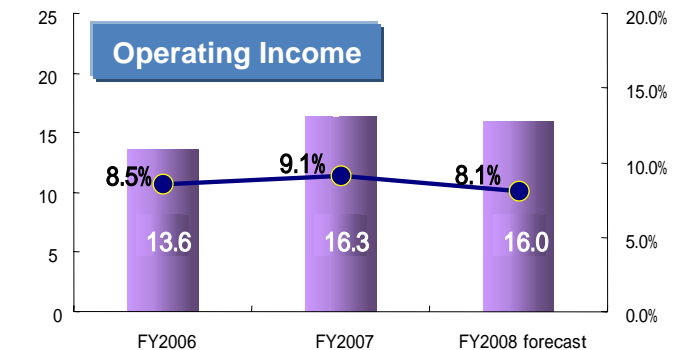
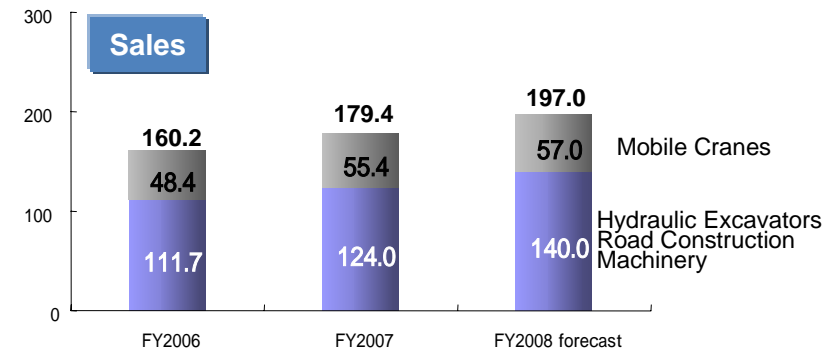
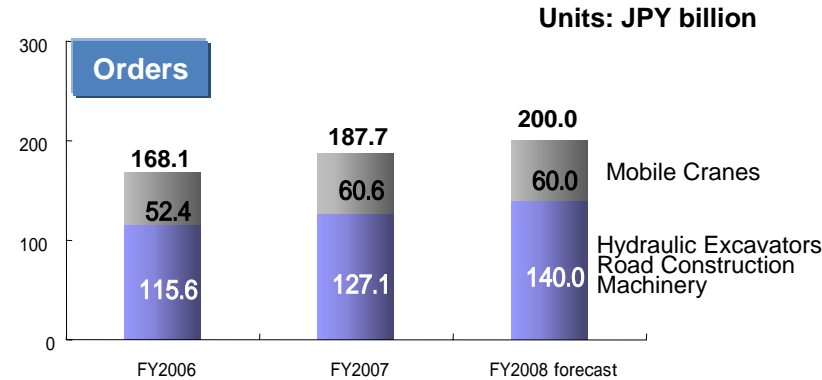
We look to continue the company's sales expansion in Asian markets such as in China and India. The completion ahead of schedule of the Tangshang plant in China, together with the establishment of a production system capable of producing 12,000 units per year at the Chiba plant in Japan, will result in more competitive pricing and cost reductions.

Mobile Cranes

Based on introduction of new products, we will look to increase our share of the North American market. Through start of full scale operations of our enhanced production facilities, we will also aim to increase our internal added value.



LEGEST Hydraulic Excavator

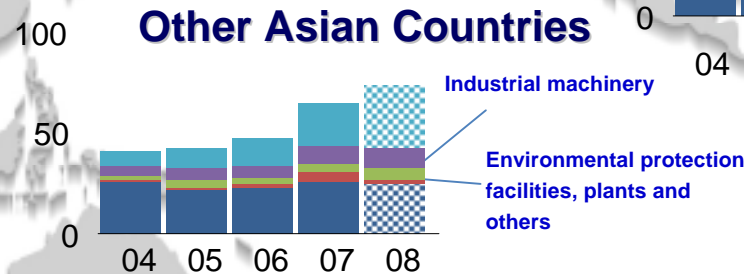
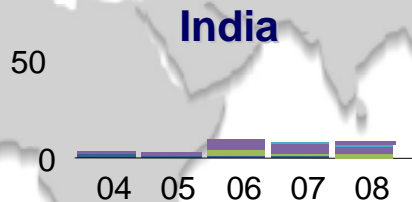
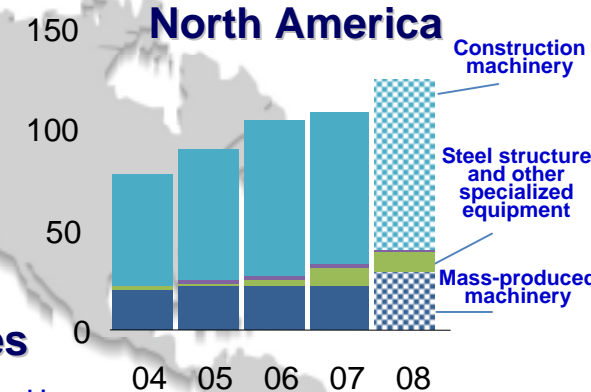
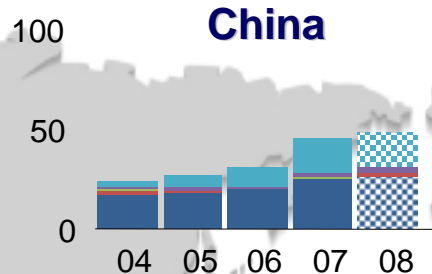
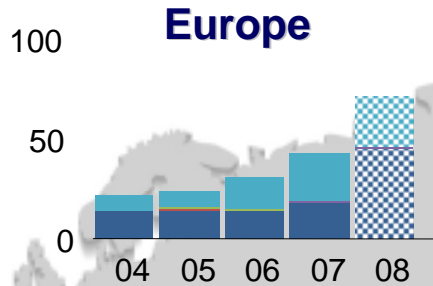


Global Sales Plan

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

Units: JPY billion

*Bar graphs do not include figures for ships

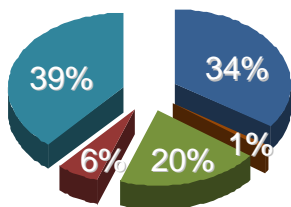


Overseas sales (ratio)
JPY230.3 billion (42%)

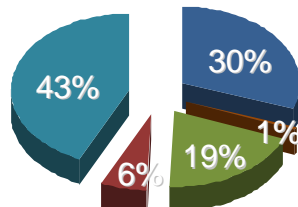
JPY276.1 billion (46%)

JPY331.8 billion (50%)

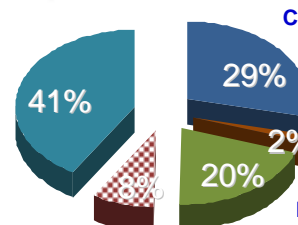
JPY392.0 billion (53%)



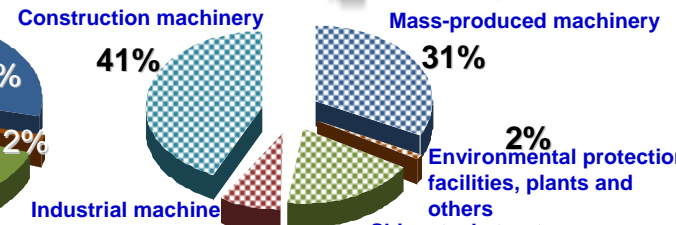
2005



2006



2007 (Actual)



2008 (Forecast)

M&A

Basis for Acquisition of Demag Plastics Group

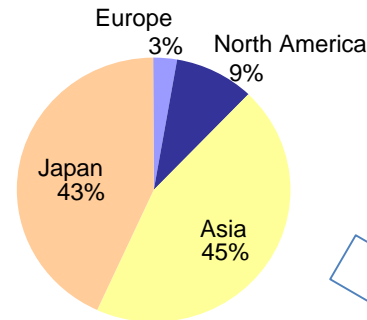
- ✓ Enhance brand strength and sales capability in global market
- ✓ Expand sales in European and BRICs markets
- ✓ Global leader in business scale

Model development status by region

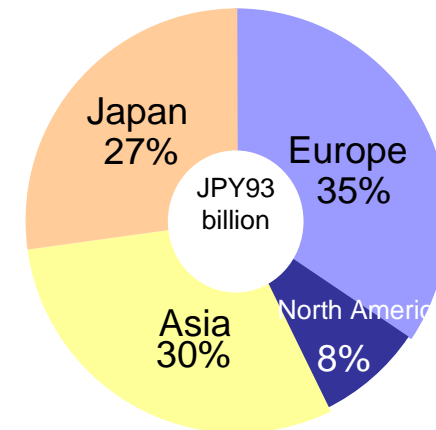
	Sumitomo Heavy Industries	Demag	
	Electric machine (Asia version)	Electric machine (European version)	Hydraulic machine
Europe/Russia			
Japan			
China/Asia			
North and South America			
India			

SHI Strengths

- Sales strength in Asia region
- Electric machine and high precision, fast cycle technology

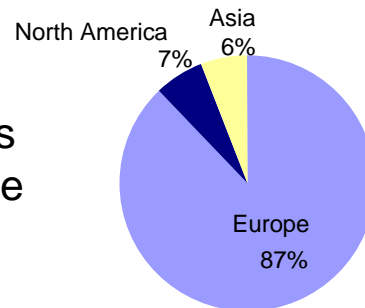


FY2008 sales of injection molding machines



Demag Strengths

- Brand strength in Europe and Russia; existing sales channels
- Strong presence in automobile and packaging markets



Basis

Due to the increasing size and intensification of semiconductor manufacturers, a dramatic increase in the amounts required for facilities investment, and response to the increasing speed of development, the company made the decision to integrate the customer base, technical abilities, and product development capabilities of Axcelis and SEN.

Proposal

Proposed purchase price: USD6.0/share; total price of USD630.0 million

A 48.5% premium was added to the closing price of USD4.04/share for Axcelis Technologies, Inc. on February 8, 2008.

Takeover plan

(1) Propose friendly takeover

(2) TPG, a leading global private investment firm, to participate as minority stockholder to use their experience and knowledge of the U.S. market in purchasing Axcelis and running the company after its acquisition.

Overview

February 4, 2008: Proposal for takeover made to Axcelis Technologies Inc. (Valued at USD5.20/share; total price of USD544.0 million)

February 11

Takeover proposal disclosed

February 25

Axcelis's rejection of our bid disclosed

March 10

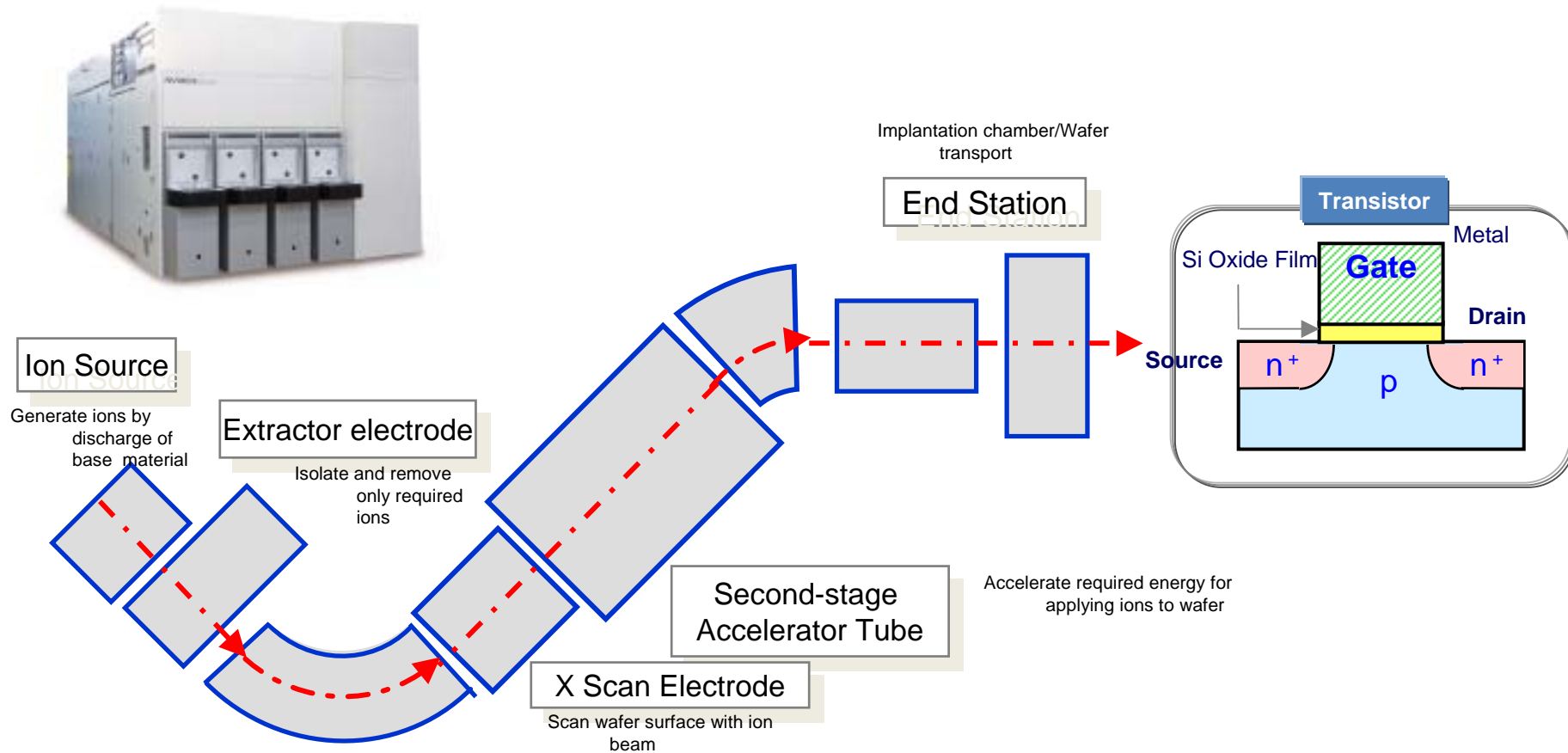
Increase in proposed purchase price (USD5.20/share raised to USD6.00/share)

Overview of SEN

Company name:	SEN Corporation, an SHI and Axcelis Company	
Established:	April 1983	
Sales:	SEN	(Ref.) Axcelis
FY2006	JPY32.9 billion	USD461 million
FY2007	JPY22.5 billion	USD404 million

What is Ion Implantation Equipment?

As part of the process of transistors and other solid-state devices, a thin board made from silicon monocrystal known as a wafer is required to be accurately dose the required kind and quantity of element at a stipulated depth. Ion implantation devices are capable of performing this operation with a high degree of accuracy and productivity. The element to be dosed is electronically charged and accelerated using a high voltage to be physically implanted within the wafer.

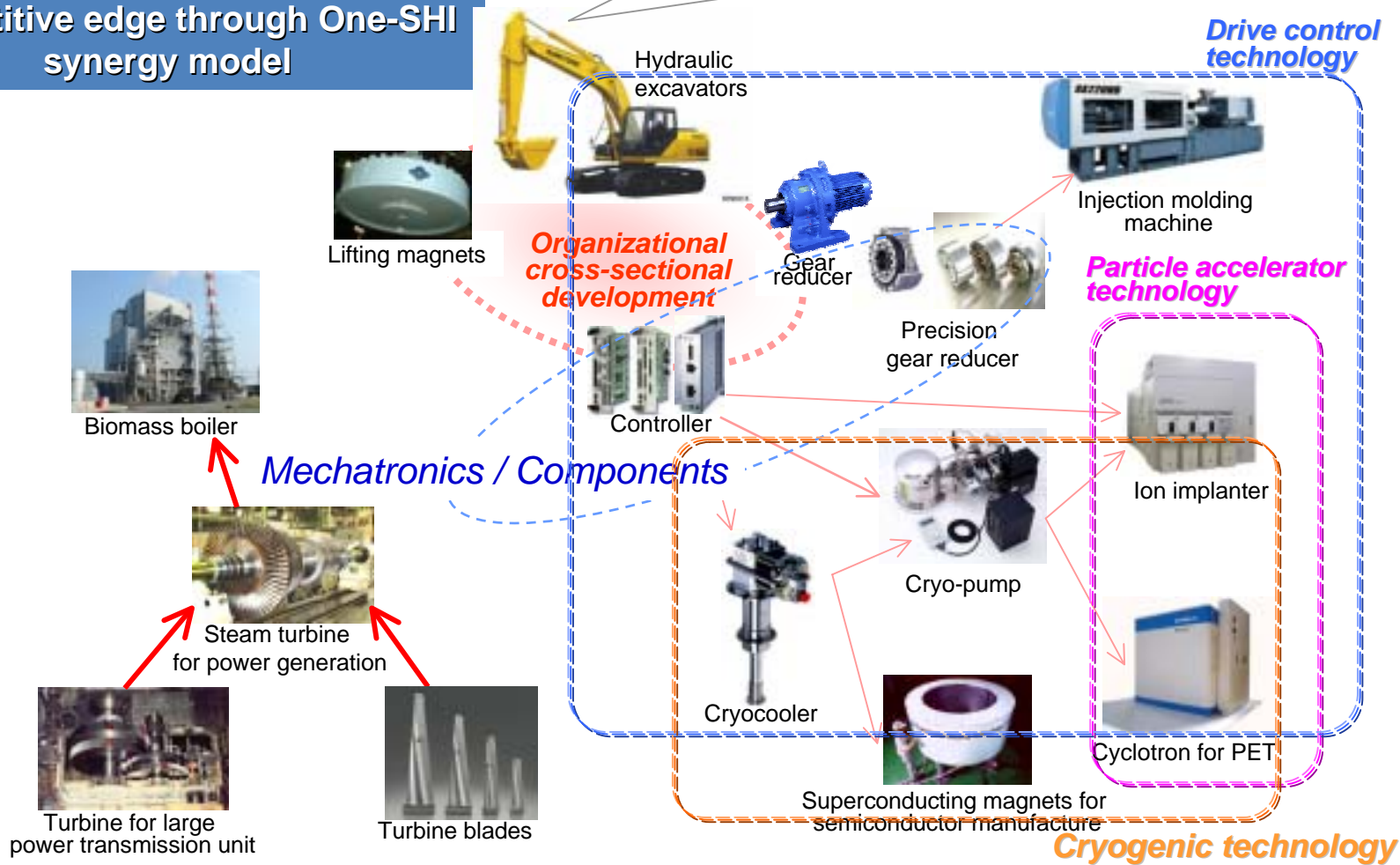


Investment in First-Class Products

Developing world-class first-class products through enhanced competitiveness

Differentiation and establishment of competitive edge through One-SHI synergy model

Double recognition by Energy Conservation Grand Prize and Good Design Award



Defense from Hostile Takeovers

Overview of the Company's Measures for Defense from Hostile Takeovers

The SHI board of directors meeting on May 13 resolved the implementation of the following defensive measures to protect the company from hostile takeovers

Aim of introduction of defensive measures against hostile takeovers

- To be used as a measure to protect and improve corporate value and shareholders' interests from abusive acquirers
- To ensure adequate time and information for study of any bids
- To ensure opportunity for negotiations with potential acquirers

Adopted Plan

- Advance warning-type takeover defensive measures

Trigger Mechanisms

- When any party acquires over 20% of voting rights or makes offer to acquire such an amount

Plan's Period of Effect

- For three years following end of next scheduled general shareholders meeting

Termination of Plan

- In the event of it being rejected at the next scheduled general shareholders meeting; a decision being made to abolish the measure at the next scheduled shareholders meeting; or a decision being made to abolish the measure at the next board of directors meeting

Creation of Corporate Value Committee

- Comprising a minimum of 3 members, including an outside board member, outside auditor, and outside expert

Confirmation of Shareholder Intentions

- Scheduled for discussion as a measure at next scheduled shareholders meeting

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.