

Sumitomo Heavy Industries, Ltd.

THIRD QUARTER CONSOLIDATED FINANCIAL REPORT

for the Nine-Month Period from April 1 to December 31, 2006

Note: All financial information has been prepared in accordance with generally accepted accounting principles in Japan. This document has been translated from the Japanese original as a guide to non-Japanese investors and contains forward-looking statements that are based on managements' estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. Amounts shown in this financial statement have been rounded down to the nearest million yen.

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS

Third Quarter of the Financial Year ending March 31, 2007

Presented January 30, 2007

Sumitomo Heavy Industries, Ltd.

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1. Matters related to preparation of quarterly financial information

(1) Adoption of simple accounting treatment methods

Based on standards for statutory tax rate, the Company uses fixed simple procedures. As for the other amount that has less impact, the Company partly uses fixed simple procedures.

(2) Changes in accounting policy since the most recent consolidated accounting period

None

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

Consolidated subsidiaries:	New	5	Removed	3
Equity method:	New	--	Removed	1

2. FY 2006 Third Quarter Consolidated Results (April 1, 2006 to December 31, 2006)

(1) Business Results

(Units: millions of yen)

	Nine Months		Previous Nine Months		Previous Full Term
	April 1 to Dec. 31, 2006		April 1 to Dec. 31, 2005		April 1, 2005 to March 31, 2006
		% change		% change	
Net Sales	410,649	11.4	368,782	5.9	551,339
Operating Income	39,823	38.4	28,769	(3.5)	47,505
Ordinary Income	41,467	44.2	28,758	(3.7)	47,585
Net Income	24,575	32.9	18,487	17.9	29,742
Net Income per Share (yen)	40.82		30.74		49.45
Fully Diluted Net Income per Share	--		--		--

*Note: Percentages for net sales, operating income, ordinary income and net income represent year-on-year changes.

(2) Financial Position

(Units: millions of yen)

	End of Third Quarter	End of Previous Third Quarter	End of Previous Full Year
	As of Dec. 31, 2006	As of Dec. 31, 2005	As of March 31, 2006
Total Assets	582,243	565,984	579,233
Shareholders' Equity	190,984	155,074	167,740
Equity Ratio (%)	32.6	27.4	29.0
Shareholders' Equity per Share (yen)	314.26	257.90	279.02

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

(Units: millions of yen)

	Full Year
	April 1, 2006 to March 31, 2007
Net Sales	595,000
Ordinary Income	60,000
Net Income	33,000

*Note: Projected net income per share for FY2006 (ending March 31, 2007):54.64yen

Consolidated Forecasts for the Full Year

There is no change in the forecasts announced November 9, 2006

*Note: Forecasts of future operating results represent the Company's rational judgment based on information available as of the release date. Consequently, actual results may differ from the forecasts because of changes in various factors, such as variations in the economic environment of the principal markets and product demand, currency exchange rate variations and domestic and overseas regulation.

Consolidated Business Results

In the third quarter, Japan's economy continued to expand thanks to strong corporate earnings achieved on the back of a weak yen and stable materials prices. Overseas economies were also robust, with fears of an economic slowdown in the US easing.

In this economic environment, the Group surpassed the targets laid out in its medium-term business plan, "Leap to Excellence '07," which was launched in the previous fiscal year, and business operations went forward smoothly.

Orders increased in all divisions, particularly in the Construction Machinery and Industrial Machinery segments, resulting in an 18% year-on-year increase to 508.3 billion yen. In addition, sales increased in all divisions, particularly in the construction machinery segment, leading to 11% year-on-year growth to 410.6 billion yen.

On the profit front, as a result of the sales growth operating income surged 38% year-on-year to 39.8 billion yen, ordinary income gained 44% to 41.5 billion yen and net income for the third quarter was up 33% to 24.6 billion yen.

Results for each segment are as follows.

Mass - Produced Machinery

The plastics machinery business launched new machines with aim of improving its market share, but a market slump kept orders and sales almost unchanged from the previous year's levels. The power transmission and control business aimed to offset the stagnant domestic market for robots by expanding sales of large-scale gears overseas. The robust market for cryocoolers and surface grinding machines also contributed to growth in orders and sales.

As a result, orders received for the entire segment grew 9% year-on-year to 175.1 billion yen, sales rose 3% to 159.1 billion yen and operating income stood at 19.6 billion yen.

Environmental Protection Facilities, Plants and Others

Orders received for our energy plant business continued to record growth in boilers for power generation, offsetting the decline in the water treatment plant business.

As a result, orders received for the entire segment rose 15% year-on-year to 72.0 billion yen, sales were almost unchanged from the previous year at 47.9 billion yen and operating income stood at 900 million yen.

Ship, Steel Structure and Other Specialized Equipment

As in the previous fiscal period, the ship business secured orders for six Aframax tankers and booked sales for the delivery of four tankers. However, the higher prices for the tankers resulted in growth in orders and sales. Further, orders for reactor vessels for petroleum and chemical plant recorded growth.

As a result, orders received for the entire segment rose 23% year-on-year to 69.6 billion yen, sales were up 13% to 41.4 billion yen and operating income amounted to 2.6 billion yen.

Industrial Machinery

In addition to a spate of large orders from domestic ship builders and steel manufacturers in the materials handling system business, the turbine and pump business benefited from firm economic conditions in Japan and overseas to record growth in orders and sales.

As a result, orders received for the entire segment were up 29% year-on-year to 69.0 billion yen, sales increased 17% to 46.5 billion yen and operating income amounted to 6.1 billion yen.

Construction Machinery

The hydraulic excavator business performed well both in Japan and overseas, and the segment also gained from the launch of machines conforming to gas emission standards. As a result, sales and orders grew, particular in Europe and Asia. With the North American market remaining vibrant, we succeeded in introducing new crane models, which led to a sharp rise in orders and sales.

Accordingly, orders received for the entire segment were up 26% year-on-year to 122.6 billion yen, sales increased 29% to 115.7 billion yen and operating income amounted to 10.5 billion yen.

Consolidated Financial Position

Total assets increased by 3.0 billion yen over the end of the last fiscal period to 582.2 billion yen due to a 24.7 billion yen increase in inventory, which outweighed a 7.2 billion yen decrease in cash and deposits and a 19.6 billion yen decrease in notes and accounts receivable. Interest-bearing debt decreased 23.5 billion yen compared to the end of the previous fiscal period to 102.0 billion yen, leading to a 4.2 point improvement in the debt-equity ratio over the end of the previous fiscal period to 17.5%. Net assets totaled 191.0 billion yen thanks to strong earnings, and the ratio of stockholders' equity to total assets stood at 32.6%.

I. Quarterly Consolidated Income Statements (Summary)

(Units: Millions of Yen)

	Nine Months		Previous Nine Months		Change	Previous Fiscal Year	
	April 1, 2006 to December 31, 2006		April 1, 2005 to December 31, 2005			April 1, 2005 to March 31, 2006	
	Amount	%	Amount	%	Amount	Amount	%
Net sales	410,649	100.0	368,782	100.0	41,867	551,339	100.0
Cost of goods sold	317,879	77.4	289,451	78.5	28,428	434,904	78.9
Gross profit	92,770	22.6	79,330	21.5	13,440	116,435	21.1
Selling, general & administrative expenses	52,947		50,562		2,385	68,930	
Operating income	39,823	9.7	28,769	7.8	11,055	47,505	8.6
Non-operating Income:							
Interest and dividend income	538		366		171	587	
Other	5,688		4,726		962	7,608	
Total Non-operating income	6,226		5,093		1,133	8,195	
Non-operating Expenses:							
Interest expenses	1,248		1,820		(572)	2,384	
Other	3,335		3,283		52	5,730	
Total Non-operating expenses	4,583		5,103		(520)	8,114	
Non-operating income/loss	1,643		(10)		1,654	81	
Ordinary income	41,467	10.1	28,758	7.8	12,708	47,585	8.6
Extraordinary gains	1,579		701		878	906	
Extraordinary losses	3,808		1,255		2,553	2,425	
Income before tax and adjustments	39,237	9.6	28,205	7.6	11,033	46,066	8.4
Corporate income taxes	14,169		9,416		4,753	15,871	
Loss (Gain) of minority shareholders	(494)		(302)		(192)	(454)	
Net income	24,575	6.0	18,487	5.0	6,088	29,742	5.4

II. Quarterly Consolidated Balance Sheets (Summary)

(Units: millions of yen)

	End of Third Quarter	End of Previous Consolidated Fiscal Year	Change	End of Previous Third Quarter
	As of Dec. 31, 2006	As of March 31, 2006		As of Dec. 31, 2005
	Amount	Amount		Amount
Assets				
Cash and deposits	36,752	43,917	(7,165)	34,007
Notes and account receivable	139,307	158,893	(19,586)	132,205
Inventories	117,720	92,981	24,739	115,128
Other	27,608	22,815	4,793	26,562
Allowance for doubtful accounts	(762)	(794)	32	(1,632)
Current assets	320,624	317,813	2,812	306,271
Tangible assets	184,254	181,480	2,773	180,121
Intangible assets	5,646	4,789	857	4,375
Investments and other assets	71,720	75,152	(3,432)	75,217
Fixed assets	261,619	261,421	198	259,713
Total assets	582,243	579,233	3,010	565,984
Liabilities				
Notes and accounts payable	141,195	142,778	(1,583)	129,893
Short-term bank loans	29,901	28,188	1,713	26,690
Commercial paper	15,000	20,000	(5,000)	20,000
Long-term debt due within one year	17,858	30,529	(12,671)	40,626
Other	89,329	78,052	11,276	75,993
Current liabilities	293,282	299,547	(6,265)	293,201
Bond	10,000	10,000	--	10,000
Long-term debt due after one year	29,196	36,787	(7,590)	43,347
Other	58,781	61,408	(2,627)	60,824
Long-term liabilities	97,977	108,195	(10,218)	114,171
Total liabilities	391,259	407,742	(16,482)	407,372
Minority interests	--	3,752	--	3,537
Stockholders' equity				
Common stock:				
Paid in capital	--	30,872	--	30,872
Capital surplus	--	16,808	--	16,805
Retained earnings	--	68,848	--	57,403
Revaluation reserve for land	--	42,142	--	42,215
Unrealized gains on securities	--	10,269	--	9,512
Foreign currency translation adjustments	--	(654)	--	(1,293)
Treasury stock	--	(544)	--	(439)
Total stockholders' equity	--	167,740	--	155,074
Liabilities, minority interest and stockholders' equity	--	579,233	--	565,984

Net Assets				
Common stock	30,872	--	--	--
Capital surplus	20,512	--	--	--
Retained earnings	92,169	--	--	--
Treasury stock	(873)	--	--	--
Stockholders' equity	142,681			
Unrealized gains on securities	9,410	--	--	--
Profit/loss on deferred hedge	(2,636)	--	--	--
Revaluation reserve for land	40,415	--	--	--
Foreign currency translation adjustments	(61)	--	--	--
Appraisal and Translation Differences	47,128			
Minority interests	1,175	--	--	--
Total net assets	190,984	--	--	--
Liabilities and net assets	582,243	--	--	--

III. Segment Information

1. Segment Information by Business

Current Nine Months (April 1, 2006 to December 31, 2006)

(Units: millions of yen)

Segment Item	A	B	C	D	E	Total	F	Consolidation
Net sales								
(1) Sales to external customers	159,125	47,875	41,395	46,520	115,734	410,649	--	410,649
(2) Internal sales between segments or exchanges	2,139	2,025	160	292	24	4,639	(4,639)	--
Total	161,264	49,900	41,554	46,812	115,758	415,288	(4,639)	410,649
Operating expenses	141,652	48,998	38,956	40,735	105,302	375,643	(4,817)	370,825
Operating income/loss	19,612	902	2,598	6,077	10,456	39,645	178	39,823

Segments:

- A: Mass-Produced Machinery
- B: Environmental Protection Facilities, Plants & Others
- C: Ship, Steel Structure & Other Specialized Equipment
- D: Industrial Machinery
- E: Construction Machinery
- F: Cancellation or general

Previous Nine Months (April 1, 2005 to December 31, 2005)

(Units: millions of yen)

Segment Item	A	B	C	D	E	Total	F	Consolidation
Net sales								
(1) Sales to external customers	153,016	48,234	37,590	39,914	90,027	368,782	--	368,782
(2) Internal sales between segments or exchanges	1,444	1,920	328	244	44	3,981	(3,981)	--
Total	154,460	50,154	37,918	40,158	90,071	372,762	(3,981)	368,782
Operating expenses	135,287	49,410	39,190	36,065	84,022	343,974	(3,961)	340,013
Operating income/loss	19,174	743	(1,272)	4,094	6,050	28,789	(20)	28,769

Segments:

- A: Mass-Produced Machinery
- B: Environmental Protection Facilities, Plants & Others
- C: Ship, Steel Structure & Other Specialized Equipment
- D: Industrial Machinery
- E: Construction Machinery
- F: Cancellation or general

Previous Full Year (April 1, 2005 to March 31, 2006)

(Units: millions of yen)

Segment Item	A	B	C	D	E	Total	F	Consoli- dation
Net sales								
(1) Sales to external customers	218,798	82,740	67,372	56,054	126,375	551,339	--	551,339
(2) Internal sales between segments or exchanges	2,059	2,902	421	335	56	5,774	(5,774)	--
Total	220,857	85,642	67,794	56,389	126,431	557,113	(5,774)	551,339
Operating expenses	191,519	81,365	68,273	50,542	117,898	509,598	(5,763)	503,834
Operating income/loss	29,338	4,277	(479)	5,847	8,533	47,515	(10)	47,505

Segments:

- A: Mass-Produced Machinery
- B: Environmental Protection Facilities, Plants & Others
- C: Ship, Steel Structure & Other Specialized Equipment
- D: Industrial Machinery
- E: Construction Machinery
- F: Cancellation or general

Notes:

1. Business segment depends on sales total segment.
2. Main products of each business segment:

Businesses	Main Products
Mass-Produced Machinery	Power Transmission & Control, Plastic Injection Molding Machines, Laser Processing Systems, Cryogenic equipment, Precision XY Stages, Ion Accelerators, Plasma Coating System for FPDs, Precision Forgings, Control Components, Defense Equipment
Environmental Protection Facilities, Plants & Others	Power Generation Systems, Industrial Waste Treatment Facilities, Water and Sewage Treatment Systems, Real Estate, Software
Ship, Steel Structure & Other Specialized Equipment	Ships, Pressure Vessels, Bridge
Industrial Machinery	Forging Machines, Material Handling Systems, Logistics System, Automated Parking System, Turbines, Pumps
Construction Machinery	Hydraulic Excavators, Mobile Cranes, Road Machinery

IV. Orders, Sales and Balance of Orders by Segment

Orders received

(Units: millions of yen)

Businesses	April 1, 2006 to December 31, 2006		April 1, 2005 to December 31, 2005		Y/Y Change	April 1, 2005 to March 31, 2006	
	Amount	%	Amount	%	%	Amount	%
Mass-Produced Machinery	175,080	34.4	160,869	37.3	8.8	219,141	36.3
Environmental Protection Facilities, Plants & Others	72,035	14.2	62,874	14.6	14.6	83,605	13.9
Ship, Steel Structure & Other Specialized Equipment	69,561	13.7	56,685	13.2	22.7	95,171	15.8
Industrial Machinery	68,974	13.6	53,580	12.4	28.7	68,693	11.4
Construction Machinery	122,626	24.1	97,077	22.5	26.3	136,385	22.6
Total	508,275	100.0	431,085	100.0	17.9	602,995	100.0

Sales

(Units: millions of yen)

Businesses	April 1, 2006 to December 31, 2006		April 1, 2005 to December 31, 2005		Y/Y Change	April 1, 2005 to March 31, 2006	
	Amount	%	Amount	%	%	Amount	%
Mass-Produced Machinery	159,125	38.8	154,535	41.9	3.0	220,989	40.1
Environmental Protection Facilities, Plants & Others	47,875	11.6	47,731	13.0	0.3	82,062	14.9
Ship, Steel Structure & Other Specialized Equipment	41,395	10.1	36,574	9.9	13.2	65,859	11.9
Industrial Machinery	46,520	11.3	39,914	10.8	16.6	56,054	10.2
Construction Machinery	115,734	28.2	90,027	24.4	28.6	126,375	22.9
Total	410,649	100.0	368,782	100.0	11.4	551,339	100.0

Balance of Orders received

(Units: millions of yen)

Businesses	April 1, 2006 to December 31, 2006		April 1, 2005 to March 31, 2006		Y/Y Change	April 1, 2005 to December 31, 2005	
	Amount	%	Amount	%	%	Amount	%
Mass-Produced Machinery	82,418	17.7	66,360	18.0	24.2	74,444	19.6
Environmental Protection Facilities, Plants & Others	97,563	20.9	73,536	19.9	32.7	87,136	23.0
Ship, Steel Structure & Other Specialized Equipment	180,042	38.6	151,907	41.2	18.5	142,706	37.6
Industrial Machinery	78,157	16.7	55,704	15.1	40.3	56,730	14.9
Construction Machinery	28,409	6.1	21,518	5.8	32.0	18,557	4.9
Total	466,589	100.0	369,025	100.0	26.4	379,573	100.0

Changes in Segment Affiliation

SHI Examination and Inspection Ltd. and Japan Electron Beam Irradiation Service Co., Ltd. have been transferred to the Mass-Produced Machinery segment from the first quarter of the current consolidated fiscal year. These companies have been transferred from the Ship, Steel Structures and Other Specialized Equipment segment and the Environmental Protection Facilities, Plants and Other segment, respectively, with which they were formerly affiliated.

We have therefore shown segmentation following these changes for the previous fiscal year and for the third quarter of the previous fiscal year as well.