Annual Report 2007

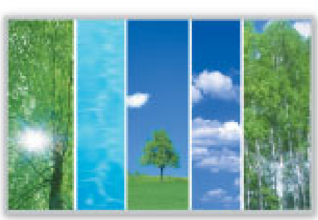
Year ended March 31, 2007

Leap to Excellence

To be a Knowledge-Based Company that supplies markets with first-class products through systematic means
To Integrate Our Business vertically and pursue synergies
To Achieve the Three Numerical Targets, for which active investment will be undertaken
To Strengthen and Expand key component businesses

Sumitomo Heavy Industries, Ltd.

A QUICK LOOK AT SHI



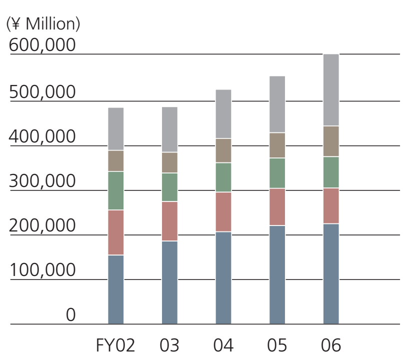
Financial Highlights

SUMITOMO HEAVY INDUSTRIES, LTD. and Consolidated Subsidiaries

	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2002	FY2003	FY2004	FY2005	FY2006	FY2006
Summary of Income (For the year):						
Net sales	¥481,289	¥482,765	¥521,310	¥551,339	¥600,256	$5,086,918
Mass-produced machinery	153,228	184,489	205,091	218,798	222,906	1,889,032
Environmental protection facilities, plants & others	100,310	87,691	87,937	82,740	79,397	672,852
Ship, steel structure & other specialized equipment	85,598	63,438	65,288	67,372	69,491	588,909
Industrial machinery	46,758	45,988	54,008	56,054	68,286	578,697
Construction machinery	95,393	101,158	108,985	126,375	160,177	1,357,429
Operating income	17,213	40,231	48,773	47,505	64,224	544,275
Mass-produced machinery	14,358	26,046	30,415	29,338	28,844	244,439
Environmental protection facilities, plants & others	3,820	4,567	7,094	4,277	4,494	38,080
Ship, steel structure & other specialized equipment	(3,416)	1,547	478	(479)	6,714	56,902
Industrial machinery	(485)	2,908	4,834	5,847	9,527	80,736
Construction machinery	2,969	5,150	5,961	8,533	14,396	122,000
Elimination	(32)	13	(9)	(10)	250	2,117
Operating Income Margin	3.6	8.3	9.4	8.6	10.7	
EBITDA (Note 2)	29,322	50,344	58,055	56,577	74,873	634,517
Net income	2,688	16,262	22,792	29,742	37,352	316,538
Cash Flows (For the year):						
Cash flows from operating activities	¥ 29,499	¥ 75,775	¥ 45,451	¥ 50,023	¥ 56,789	$ 481,262
Cash flows from investing activities	(1,074)	(7,929)	(6,087)	(7,024)	(12,461)	(105,601)
Free cash flows (Note 3)	28,425	67,846	39,364	42,999	44,328	375,661
Cash flows from financing activities	(22,116)	(56,666)	(46,490)	(48,812)	(41,193)	(349,092)

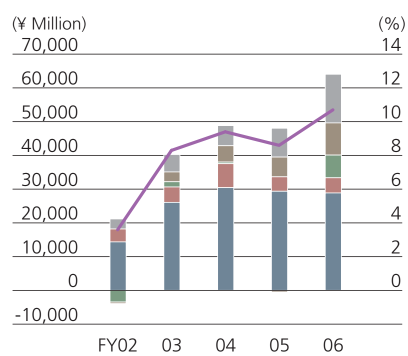
Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥118=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2007.
2. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization
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) = $\frac{\text{(Operating income + Interest and dividend received) x 55\% (= 1 – Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$
6. Net assets are presented following enforsement of the new Japanese Corporate Law in 2006. Net assets comprise shareholders' equity as previously defined, plus minority interests and share subscription rights.

Net Sales



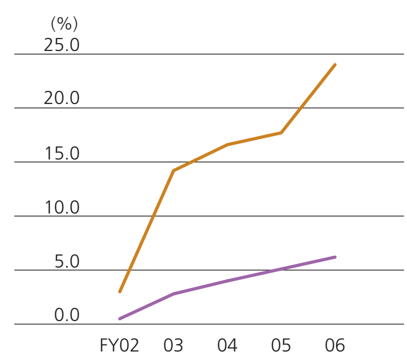
- Mass-produced machinery
- Environmental protection facilities, plants & others
- Ship, steel structure & other specialized equipment
- Industrial machinery
- Construction machinery

Operating Income, Operating Income Margin



- Mass-produced machinery
- Environmental protection facilities, plants & others
- Ship, steel structure & other specialized equipment
- Industrial machinery
- Construction machinery
- Operating Income Margin (Right scale)

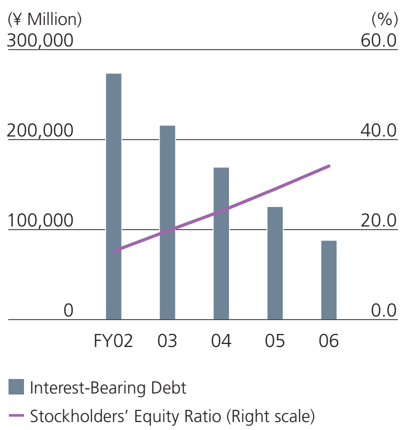
ROA, ROE



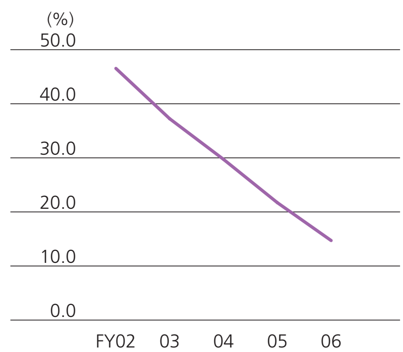
- ROA
- ROE

	FY2002	FY2003	FY2004	FY2005	FY2006	FY2006
	Millions of yen					Thousands of U.S. dollars (Note 1)
Financial Position (At year-end):						
Total assets	¥588,010	¥580,291	¥569,771	¥579,233	¥600,890	$5,092,287
Interest-bearing debt	273,544	215,807	169,228	125,504	88,045	746,149
Stockholders' equity	89,331	114,526	137,157	167,740	—	—
Total net assets (Note 6)	—	—	—	—	206,010	1,745,847
	Yen					U.S. dollars (Note 1)
Amounts Per Share:						
Net income (Note 4)	¥ 4.57	¥ 27.01	¥ 37.80	¥ 49.45	¥ 61.99	$0.53
Stockholders' equity	151.86	190.25	227.90	279.02	338.95	2.87
Cash dividends	—	—	3.00	5.00	7.00	0.06
	%					
Financial Indexes:						
EBITDA margin	6.1	10.4	11.1	10.3	12.5	
Stockholders' equity ratio	15.2	19.7	24.1	29.0	34.1	
ROA (Return on assets)	0.5	2.8	4.0	5.1	6.2	
ROE (Return on equity)	3.0	14.2	16.6	17.7	24.0	
Interest-bearing debt ratio	46.5	37.2	29.7	21.7	14.7	
ROIC (Note 5)	2.6	6.5	8.5	8.8	12.2	

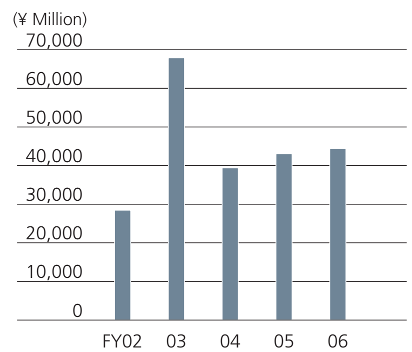
Stockholders' Equity Ratio, Interest-Bearing Debt



Interest-Bearing Debt Ratio



Free Cash Flows



To our Shareholders, Customers and Employees

Top-Line Growth and Expansion through First-Class Products

I am convinced that winning the long-term trust of customers through rigorous adherence to our philosophy of "creation of value for customers" will spur sustained development of the SHI Group and build enterprise value, meeting the expectations of all our shareholders, employees and host communities. By providing products of a quality that our rivals cannot match, we can build customer satisfaction, and at the same time drive our growth by leveraging the trust that such products generate. My ambition is to transform SHI into a company that always supplies the market with internationally recognized first-class products in all its business categories.

As a result of our commitment to honing market competitiveness and maximizing profitability in the previous medium-term management plan launched in fiscal 2002, nearly all of our businesses are now positioned to generate profits. We aim to build on this success in our current medium-term management plan "Leap to Excellence '07", launched in fiscal 2005, by shifting focus from bottom-line management to top-line growth, and by achieving stable high growth and expansion as a player in global markets. We have already achieved our initial targets a year ahead of schedule, and have effectively relaunched the current plan with new, more ambitious targets for the final year.

The Group's fundamental mission is to provide first-class products — meeting our customers' needs with the highest possible quality levels. If a business is operating in the red, I believe that is because it cannot offer appealing products or services, or satisfy the requirements of its customers. We are passionate about raising quality levels and cutting costs through reform of our manufacturing methods and by strengthening our "key component" businesses and developing new products and markets through business integration. Creating products that brighten the lives of our customers is the key to growing sales and earnings. Even products for industries that in Japan that have matured can find global markets if we look hard enough. I believe supplying first-class products to meet needs wherever they arise in global markets must become the basis of the growth strategy of the Group.

Chairman
Yoshio Hinoh

President and CEO
Yoshinobu Nakamura

Fiscal 2006 in Retrospect

(Summary of the fiscal period April 2006 to March 2007)

Highlights of our business performance in fiscal 2006:

- Earnings increased for the fourth consecutive term
- Operating income and net income all hit record highs
- Orders received and net income hit record highs for the fourth consecutive term
- Interest-bearing debt was cut to ¥88.0 billion
- ROIC* (after tax) was 12.2%

* ROIC: Return on Invested Capital

This performance was driven chiefly by growth in our mainstay power transmission equipment markets and improved profitability in our traditional businesses of shipbuilding and heavy machinery, which outweighed weakness in demand from manufacturers of electronic components and optical disks, sectors which have suffered investment cutbacks lately, and slumping public-sector infrastructure investment in Japan. These achievements have brought greater stability to the Group's overall operations, and herald our gradual return to a growth trajectory. In fiscal 2006, we undertook various measures to achieve our targets under the following priority policies.

Further Strengthening Mainstay Businesses

Creation of first-class products with global competitiveness is the prerequisite for sustainable growth for the Group. In this belief, we aggressively marketed our lineups during the term and invested in development of promising new products. We launched new models in the power transmission, injection molding machine and construction machinery categories. We also pursued vertical integration of our businesses to enable "fusion" of machine types based on our strength in components.

Growth in Orders Received and Earnings in Heavy Machinery Businesses

Against a background of buoyancy in industries such as shipbuilding, steelmaking, energy technology and automaking, our heavy machinery businesses (material handling systems, turbines and pumps, forging presses) performed well, making a significant contribution to earnings improvement for the whole Group. We made investments to better respond to customer needs, enabling us to maintain improved earnings levels at these businesses.

Adding Impetus to Overseas Sales

In the power transmission equipment business, we upgraded overseas production bases-for example, by completing a motor manufacturing plant in Vietnam-and strengthened marketing and service centers. In plastic injection molding machines, we likewise built up our business capabilities in overseas markets, by establishing a molding technology center in China and upgrading customer support operations in local markets. These initiatives strengthened our business in overseas markets.

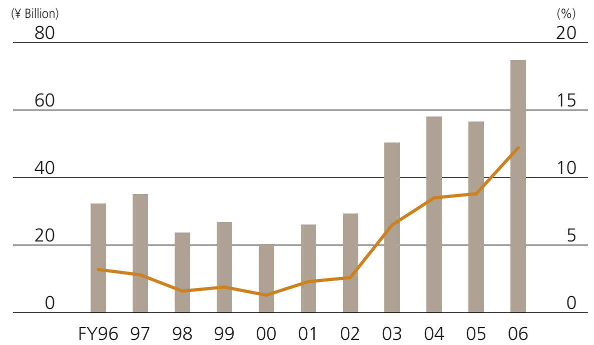
Improving Human Resources Training

In addition to upgrading our established employee-education programs targeting senior managers and future Group leaders, we expanded such programs geared to nurturing expertise in specific fields, as part of our commitment to fostering the talent we need to create first-class products.

Introducing Internal Control Systems

We are systematically putting into place new control mechanisms enabling us to meet related obligations under Japan's Corporation Law and the Financial Products Exchange Law, and to address revision and toughening of these new legal requirements, as well as changes in social norms that could affect our operations. We have also deepened our commitment to meeting compliance standards.

●EBITDA/ROIC



■EBITDA (Left scale) — ROIC (Right scale)

*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 2008)

Fiscal 2006 was the middle year in this three-year plan, and as such was an important period for evaluating progress towards its targets. Our achievement of initial targets one year ahead of schedule admittedly owed much to favorable market conditions, but I am confident that the commitment of every single one of the Group's employees played a significant role. "Leap to Excellence '07" was intended to harness the collective expertise of Group employees, not just the special talents of certain individuals, and, as such, our goal was transformation into a knowledge-intensive company that systematically provides its customers with first-class products. First-class products means products that brighten our customers' lives and which cannot be rivaled by other companies. If our customers are pleased by our products, that means there will be a market for them somewhere. Our quest is better product quality, not greater market scale. Greater scale can only come from better product quality. This is the thinking that drives our earnings growth and business expansion.

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

- Transformation into a knowledge-intensive company that systematically provides its customers with first-class products: launch new core products
- A business model based on vertical integration: fusion of PTC (power transmission & controls) and mechatronics businesses
- Expand and strengthen key component businesses

- Numerical Targets (fiscal year ending March 31, 2008)

ROIC (after tax):	10%
Operating income:	¥60 billion
Interest-bearing debt:	¥150 billion

Progress in fiscal 2006:

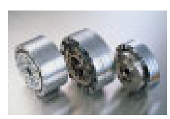
Achievement of targets for ROIC, operating income and interest-bearing debt one year ahead of schedule

ROIC:	12.2%
Operating income:	¥64.2 billion
Interest-bearing debt:	¥88.0 billion

Our Core Product Lineups

Each of our businesses nominates and aggressively markets established the core products that drive the growth of the Company, and also develops new products. This policy has strengthened our product appeal-a case in point being our speed reducers for robot applications in our power transmission equipment business. By simultaneously fusing this innovative product with our precision control technologies, we have built up a business in motion control drives. In our injection molding machines business, in addition to supplying automotive manufacturers, we have launched ultra high-speed injection molding machines for the IT sector. In precision machinery, we expanded overseas sales of our cyclotron for Positron Emission Tomography (PET), and launched a cryopump for next-generation semiconductor manufacturing devices.

In the Industrial machinery segment, we have marketed industrial steam turbines in overseas markets to meet increased demand for power-generation facilities using biomass, while in construction machinery, we launched new products compatible with the third tier exhaust emission standards recently issued in Japan to correspond to Western standards. As we continue to enhance the appeal of our products and aggressively penetrate new overseas markets, building up a synergistic value chain for our products, we are steadily realizing our ambition of vertical integration under the Group's "One-SHI" concept.


F-Cyclo® speed reducer for precision control applications

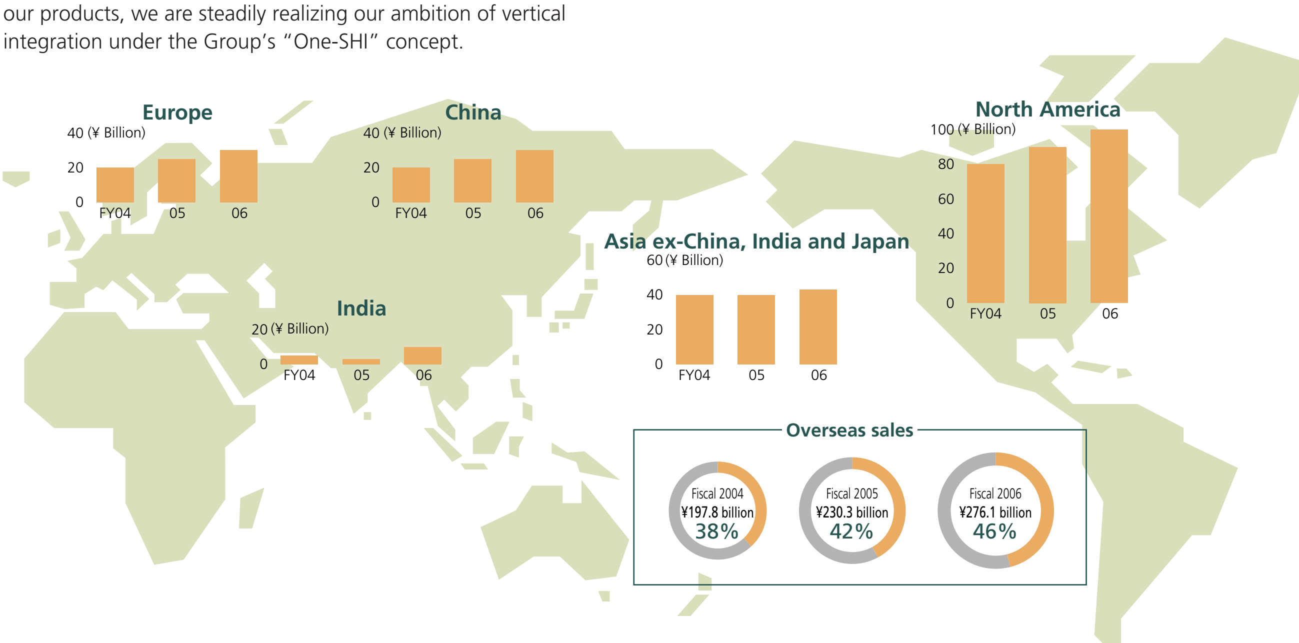

SICERA® cryopump system


HM-12S compact cyclotron for PET use


LEGEST hydraulic excavator

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 elsewhere. 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 set up a new plastic molding technology development center in Shanghai , enabling us to support our customers more effectively. The overseas proportion of total sales is steadily growing, and we expect this trend is to accelerate going forward.



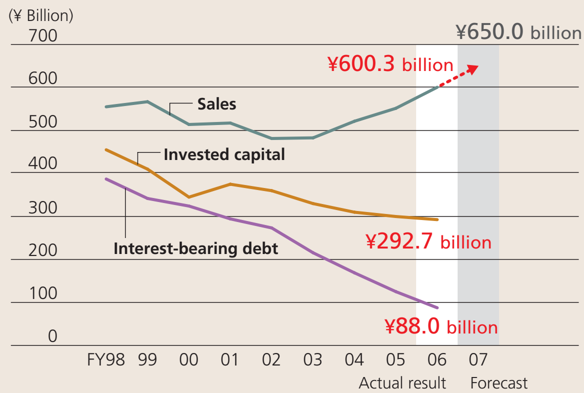
Building on our Momentum and Aiming still Higher

Plan for fiscal 2007 (April 2007 to March 2008)

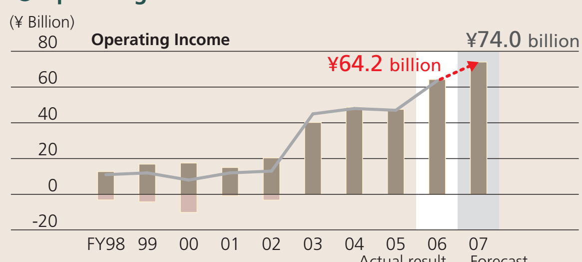
An enterprise never stops growing or expanding. At the SHI Group, we are setting ever-higher targets in an effort to transform ourselves into a company known globally for excellence, while creating peerless technologies and a resilient cost structure. In fiscal 2006, we beat all our initial forecasts, enabling us to meet all the initial targets in the "Leap to Excellence '07" medium-term management plan. Ahead of the next medium-term management plan, we have set a new sales target for fiscal 2007 of ¥650 billion, and an operating income target of ¥74 billion.

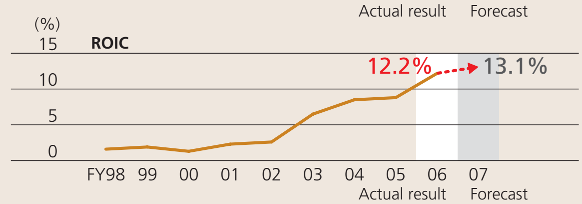
New targets for fiscal 2007
Sales: ¥650 billion, Operating income: ¥74 billion

● Sales and Invested Capital



● Operating Income and ROIC



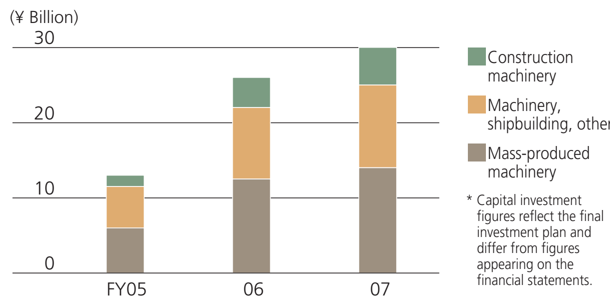


Although the outlook for our markets remains robust, we face a range of challenges such as global business expansion, cutting costs through innovative production, and further raising product appeal. We are carefully watching trends in our markets, and bringing to bear all Group capabilities as we prepare ourselves for our next great advance.

We are also aggressively investing in capital facilities on the back of our strong cash flow position. We are vigorously increasing our scale of operations and cutting costs by upgrading overseas business bases and raising production capacity.

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. We are also putting in place mechanisms for administering and evaluating internal control systems affecting our financial statements. In environmental initiatives, we are continuing our Companywide commitment to reducing usage volumes for electricity and paper as a measure to combat global warming, and are adopting "green" logistics to streamline transportation operations.

● Capital Investment



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 aggressively taking measures to prevent environmental pollution, reduce generation of waste, and promote energy-saving, resource-saving and recycling.

We have declared a dividend for the year of ¥7 per share, a ¥2 increase from fiscal 2005. We plan to pay a dividend of ¥10 per share in fiscal 2007, subject to our earnings performance and financial position.

We would like to thank our shareholders for their continued support.

Finally, we regret to announce that the Company was deemed by one of Japan's high courts to have violated Japan's Antitrust Law with regard to construction of a steel-structure bridge and municipal organic waste treatment recycling facilities. As a result, we have been ordered to pay a fine of ¥160 million by Japan's Fair Trade Commission in relation to construction of the municipal organic waste treatment recycling facilities and sluices. We take this matter very seriously, and will make every effort to renew our commitment to compliance requirements and ensure that this kind of incident does not recur.

Chairman

Yoshio Hinoh

President and CEO

Y. Nakamura

Medium-Term Management Plan “Leap to Excellence ’07”

Achievement of all Targets One Year ahead of Schedule

The Sumitomo Heavy Industries Group is working to achieve the objectives of the “Leap to Excellence ’07” three-year medium-term management plan introduced in fiscal 2005. Under the previous medium-term management plan, called “Powerful Sumitomo Heavy Industries Group,” the Company was able to reform its operating 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 achieving true excellence by global standards in the fields we operate in.

Plan Targets
(1) To be a knowledge-based company that systematically supplies markets with first-class products
(2) To integrate our businesses vertically and pursue synergies
(3) To achieve the following three numerical targets through aggressive future investment:
① Fiscal 2007 Return on Invested Capital (ROIC) above 10%: ROIC > Weighted Average Cost of Capital (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

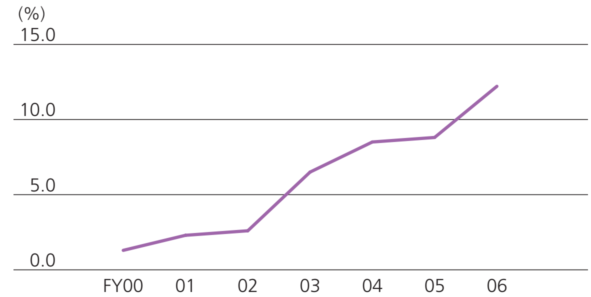
To achieve these targets, we have reformed our operating stricture restructuring and are implementing measures to strengthen our capabilities for managing the group as a whole.

In fiscal 2006, we achieved the following figures, a year ahead of schedule:
ROIC: 12.2%
Operating income: ¥64.2 billion
Outstanding interest-bearing debt: ¥88.0 billion

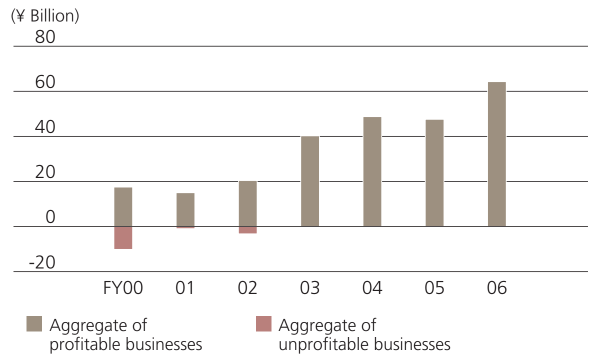
Operating and Net Income
In fiscal 2006, we posted increases in operating ordinary and net income at all our operations except Mass-Produced Machinery. As a result, operating, ordinary and net income hit all-time highs, net income for the fourth consecutive term.

Interest-Bearing Debt
We were able to reduce our balance of interest-bearing debt by an amount that far exceeded our target, due to aggressive repayment of outstanding loans on the back of an improved earnings performance and stricter cash flow management.

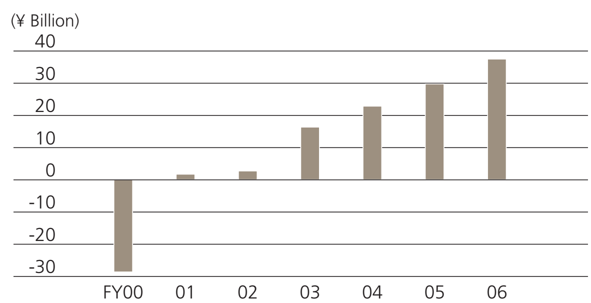
● ROIC (After Tax)



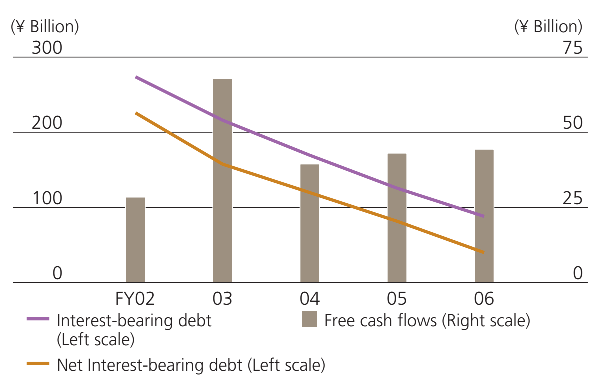
● Operating Income



● Net Income



● Interest-Bearing Debt



Deepening Synergies, Strengthening Core Products

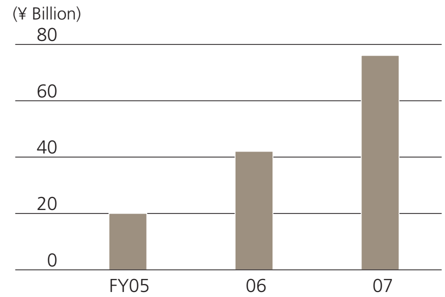
We launched the motion control drive business unit as one of the strategies implemented under our synergy model. By combining the technologies of our power transmission controls, which enjoy an overwhelming competitive advantage in terms of performance, and our specialty precision controls, we are targeting the actuator market.

Regarding individual products, each business unit nominates products to become the focus of development investments. For example, in power transmission and controls, we have expanded our line-up of compact gear boxes 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 aim to steadily continue development of promising products to build up our core portfolio.

Targets for Fiscal 2007

Having met our targets in the "Leap to Excellence '07" plan a year ahead of schedule, we have set the following new objectives for fiscal 2007:
Sales: ¥650 billion
Operating income: ¥74.0 billion

Core Product Sales



Cyclo® Speed Reducer for Precision Control

Air Actuator

Control Board, Controller

The Next Medium-Term Management Plan

We aim to translate our significantly improved profitability into investment for the next stage of our growth. For fiscal 2010 we have the following targets:
Sales: ¥800 billion
Operating income: ¥100 billion

We will provide more detail on these targets later. With customer-oriented product excellence as our watchword, we plan to aggressively advance into overseas markets going forward.

Special Feature (Products)

Circulating Fluidized Bed Boilers

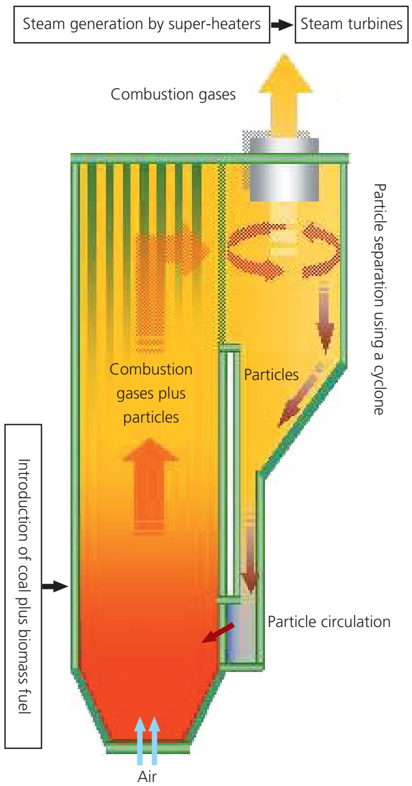
Circulatory Fluidized-Bed (CFB) boilers can be used with a wide range of fuels, contributing to more efficient use of energy resources and reduction of CO_2 emissions

SHI/Foster Wheeler Circulating Fluidized Bed Boiler

SHI's Circulating Fluidized Bed (CFB) boiler has been adapted to handle a wide range of types of coal, including low-grade coal (with high water content and low calorific value), which have traditionally proved difficult to burn efficiently and stably. In recent years, we have also broadened the range of waste-based fuels, such as biomass (using woodchips, etc) and waste tires (used in place of fossil fuels) that can be burned in CFB boilers. This system is making a name for itself as a means of combating global warming and enabling more efficient use of resources.

Combustion Process

The CFB boiler is able to efficiently combust a wide range of fuels using a method in which air is blown from the bottom part of the boiler, and high-temperature particles (ash from the fuel) mix evenly in the air with the fuel. The fuel particles that rose with the combustion gas are separated with a cyclone, causing them to return to the bottom of the boiler again. This increases combustion efficiency.



Features

- **Suitable for a wide range of fuels**

  Can handle difficult-to-combust fuels such as low-grade coal, waste construction materials, waste tires, waste plastics, coal waste and paper sludge.

- **Fuel based on waste materials**

  No need to pulverize fuel materials, as materials ground down to a particle size of 10 mm or less can be used. Prior separation of wire from waste tires is also unnecessary as the system can smoothly extract it.

- **Lower combustion temperature**

  Because combustion efficiency is high, a combustion temperature of 850-900°C will suffice, lower than with other systems. This enables NOx generation to be curbed.

SHI has a technological alliance with Foster Wheeler Ltd. (of the US), which leads the world in CFB boiler technological capability and market share. Using our independently developed techniques, we have achieved stable particle circulation and ash emission. With our wide-ranging expertise in the configuration and positioning of heat exchangers-superheaters-and our know-how in the selection of raw materials, our system can be used to generate high-temperature, high-pressure steam, over long periods, enabling high-efficiency power generation by steam turbines.

Note 1: Biomass

Biomass refers to organic, non-fossil-based, fuels from biological sources such as woodchips from lumber, forest undergrowth, processed wood products and old construction materials, and sludge. CO_2 generated by the combustion of biomass was originally contained in the atmosphere and absorbed by plants by photosynthesis, and is therefore recyclable and does not raise original CO_2 levels in the atmosphere. This recyclable energy source, which makes it possible to reduce consumption of fossil fuels such as oil, is used as a fuel that does not add to CO_2 levels. Because its CO_2 content does not vary, it is known as carbon-neutral.

Systems delivered

Biomass: (woodchips, sludge) co-combustion CFB boilers

Summit Myojyo Power / Itoigawa plant

Steam-generation capacity: 196t/h

Hokuetsu Paper Mills / Kanto plant (Katsuta)

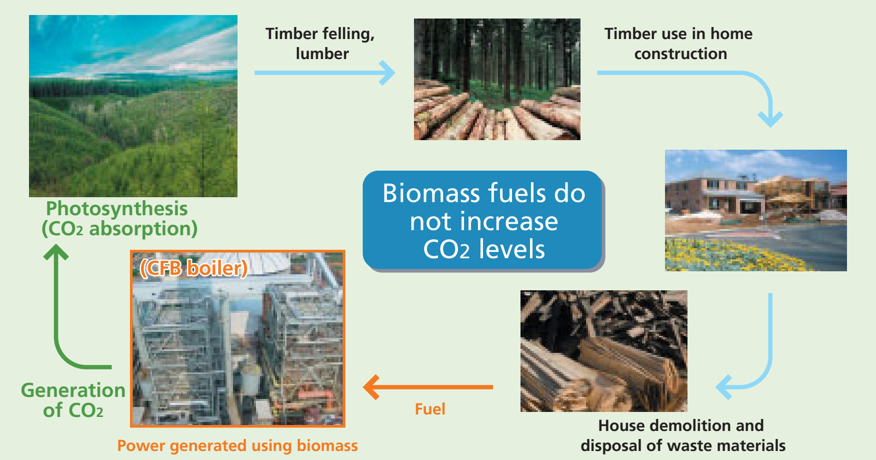
Steam-generation capacity: 195t/h

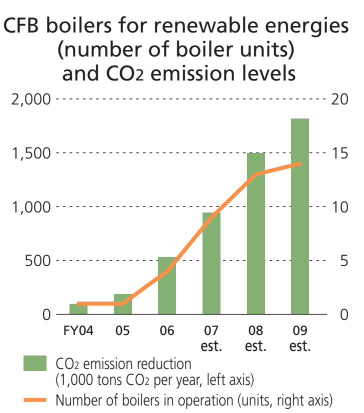
Nippon Paper / Fuji plant (under construction)

Steam-generation capacity: 230t/h

Contributing to Reduced CO_2 Emissions

When power is generated efficiently using renewable energy sources such as such as biomass, CO_2 emissions volumes are lower than when fossil fuels are used. This contributes to combating global warming. The figure below shows by how much CO_2 emissions can be reduced through introduction of SHI's CFB boilers. In theory, total CO_2 volumes in the air do not change as the materials that absorb the gas are used as fuels (carbon neutrality).

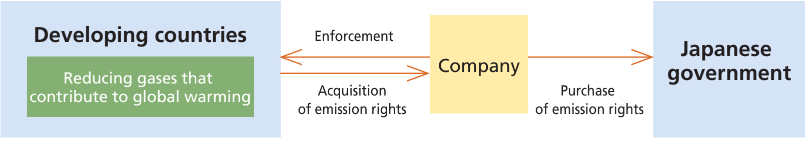




Globalizing the Technology

Based on our solid track record in introducing power generation facilities using renewable energy in Japan, we aim to launch this technology in overseas markets. We expect to see steadily growing demand for CFB boilers using renewable energy in the rest of East Asia and in North America, where significant growth is expected in power demand and pressure is also rising for reductions in CO_2 emissions. We also expect to be able to develop new businesses using the Clean Development Mechanism* in line with the growth of the emissions trading industry.

●Clean Development Mechanism



Note 2: Clean Development Mechanism
A tool for combating global warming (Kyoto mechanism). Advanced countries carry out projects to combat global warming in developing countries, and if CO_2 emissions are reduced, the volume is set off against the reduction targets of the advanced country in question.

Waste fuel (waste tires, plastic waste) co-combustion CFB boilers

Oji Paper Co., Ltd. / Nichinan plant
Steam-generation capacity: 130t/h

Chuetsu Pulp & Paper / Futatsuka plant
Steam-generation capacity: 130t/h

Low-grade coal CFB boilers (sold overseas)

Dragon Special Resin Co.,Ltd., China
Steam-generation capacity: 3x220 t/h

Review of Operations

Mass-Produced Machinery

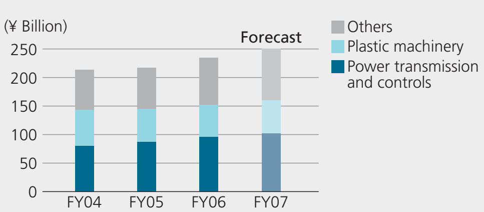
Main Products

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

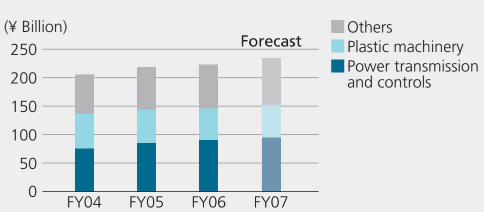
Major Units

Sumitomo Heavy Industries Mechatronics, Ltd.
SEN Corporation, an SHI and Axcelis Company
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.

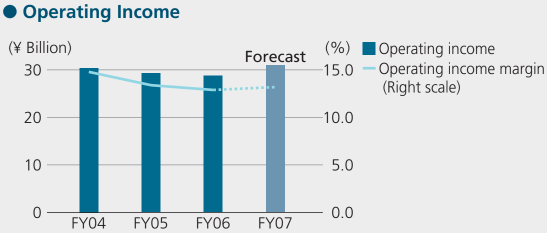
● Orders



● Sales



● Operating Income



Segment Overview

■Business Environment

Capital investment in industrial machinery is active both at home and abroad, and the selling environment for power transmission equipment has been favorable. Demand has been particularly strong for large-scale power transmission equipment for overseas customers. Investment in plastic injection molding machines has declined as a result of a fall in the market prices of LCD screens and electronic components, but demand from makers of cell phones and vehicle electronics has remained firm.

In the market for medical equipment, overseas demand has been growing strongly, particularly from East Asian countries. Overall, the operating environment for this segment has remained good both in Japan and overseas.

■Review and Analysis of Results for Fiscal 2006

Operating results were strong for the power transmission and control business, both domestically and overseas, due to active new product introduction, and an expansion of business thanks to the establishment of a global supply chain, among other measures.

In the plastics machinery business, there was a fallback in demand from the automotive and electronic component industries, causing a slight decline in both orders and sales compared with the previous term. Orders received for cryocoolers and cyclotrons for medical treatment, however, recorded growth, primarily from overseas customers.

As a result, total segment orders rose 7% year-on-year, to ¥234.7 billion, sales rose 1% to ¥222.9 billion. Operating income, however, declined 4% to ¥28.8 billion.

■Outlook for Fiscal 2007

Market prices for industrial machinery, notably in the automotive field, are expected to remain at a favorable level worldwide. In the IT and other cutting-edge technology fields, new capital investment can be anticipated, led by spending on increased production capacity. In the medical equipment field, demand is likely to grow in the emerging economies of Asia. For the segment as a whole, year-on-year increases are projected in orders, sales, and earnings.

Overall Conditions in Major Units

Power Transmission and Controls

Business Performance for Fiscal 2006

Due to the slowdown in capital spending, orders received in Japan rose only slightly compared with the level of the previous year. Orders from overseas, however, surged on the overall strength of economies abroad, especially in Europe and the United States.

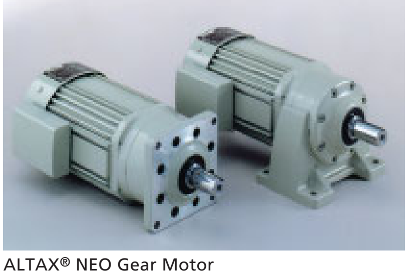
By product, demand for large gearboxes for cement mills remained buoyant, and small to medium-sized gearmotors achieved growth across a broad array of sectors, including factory automation and material handling machines for the distribution and logistics industry. Precision speed reducer units drew a good number of orders for applications in industrial robots.

Strategies for Fiscal 2007

We anticipate that capital investment will pick up again in Japan, and this should generate higher demand, while demand from Europe, China, Southeast Asia and the United States will remain strong. We will strive to strengthen our global operation bases, sales channels and marketing divisions by primarily focusing on the BRIC countries, and we will create higher customer value by entering new sectors and, in particular, introducing new products.

Our technical expertise in precision speed reducer units will be upgraded to satisfy increasingly challenging demands from customers. We aim to cut delivery times for small gearmotors featuring greater compactness and quieter operation to secure a larger share of the small gearmotor market. We will also promote the medium-sized to large gearmotors and gearboxes that we launched on the market during the previous year, and will bolster our sales force so that we can provide customers with more advanced solutions.

In addition, we will improve the production capacity of our motor plant in Vietnam to put in place a structure that enables a consistent supply of products.



ALTAX® NEO Gear Motor

RHYTAX® Drive

Plastics Machinery

Business Performance for Fiscal 2006

The market situation has remained very strong since fiscal 2003, and total shipments for the reporting term by domestic manufacturers numbered about 18,000 units. The factors behind the positive operating environment include the steady growth enjoyed by the cell phone, information technology, and office equipment industries, especially in East Asia, as well as the Japanese automobile industry. We have established new bases for enhancing customer services in East Asia, notably in Shanghai. We exhibited our fully electric injection molding machines at the National Plastic Expo 2006 (NPE2006)* held in Chicago. The SE-DU Series of general-use, small, fully electric injection molding machines in particular were well received following their launch in the previous fiscal year, as we introduced technologies that distinguish our products as being able to meet ever diversifying and complex market needs. 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. Our Group has constantly maintained the leading market share in Japan by shipment, and our customers have used our technologies to make significant strides in productivity enhancement and cost reduction.

*NPE2006: international plastics fair; the largest plastics and rubber fair in the United States

Strategies for Fiscal 2007

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 2007 will aim to consolidate its position as a technology and solution leader, while expanding sales networks in the key BRIC 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 machinery manufacture.

Fully Electric Controlled Injection Molding Machine "SE-DU"

Quantum Equipment

Business Performance for Fiscal 2006

In fiscal 2006, the Quantum Equipment Division received record orders.

As a result of our commitment to overseas sales activities over the past several years, especially in the East Asian region, we recorded our highest ever total value of orders from China for small cyclotrons for positron emission tomography (PET) examinations*1. China is experiencing rapid growth in advanced medical treatment in line with the increased number of wealthy patients.

We secured large orders for Plasma coating system for FPDs from the photovoltaic panel industry, a market that is expected to grow further. As in the preceding year, manufacturers of organic electroluminescence-related devices placed orders for mass-production equipment. Supported by the strength of China's steel demand and domestic capital investment, the lifting magnet*2 business maintained the healthy progress it showed in the preceding year, to achieve record order volumes.

*1. PET (positron emission tomography) is a highly effective screening test for cancer. The cyclotrons are used to produce the diagnostic agent.

*2. Lifting magnets are used to lift scrap iron and metal.

Strategies for Fiscal 2007

Our small cyclotrons for PET examinations and lifting magnets hold the leading shares in their respective markets in Japan. We will be working hard to promote overseas sales of these products to ensure continued growth.

In the medical sector, we will be expanding the area of our sales activities, primarily with the aim of boosting recognition in the East Asian region. We will be conducting aggressive sales promotion campaigns for our lifting magnets in China, and have good hopes of registering growth in orders, given that infrastructure development continues to proceed at a striking pace in that country.

In view of the buoyancy of demand for silicon wafers, we anticipate that sales growth for single crystal silicon ingot manufacturing equipment will outstrip the growth of the previous year.

Laser Systems

Business Performance for Fiscal 2006

Overall demand for LCD panels rose in the mobile LCD domain, but orders for laser annealing systems turned sluggish in the face of falling prices. In the printed circuit board industry, we witnessed a number of new investments, mainly for the cell phone market, particularly in China. To respond to the demands of this market, we launched new high-speed laser drills. We also received strong orders for laser processing systems, reflecting robust capital spending in the automobile and general machinery industries.

Orders for semiconductor packages rose during the first half of the fiscal year under review, buoyed by the introduction of encapsulation machines* with 120 ton presses. However, with client companies limiting their investment during the second half of the year, overall orders for semiconductor packages increased only 6% compared with the previous year. We have commercialized compression molding machines as encapsulation machines to handle advanced packages, and they have earned a stellar reputation in the market for their molding quality.

*Semiconductor encapsulation machines are used to enclose semiconductor chips within a resin coating.

Strategies for Fiscal 2007

In the market for printed circuit boards, we anticipate that active capital investments will continue, boosting orders for our high-speed laser drills. We will seek to win orders for laser annealing systems designed for customers in the LCD and semiconductor industries, in anticipation of their resumption of capital investments. Meanwhile, we will broaden our lineup of products for the automotive and general machinery industries, which are enjoying sustained growth.

In semiconductor packages, although the level of capital spending by major semiconductor manufacturers is still uncertain, we expect steady capital spending by domestic and overseas users that subcontract post-processing. We will continue to promote 120 ton press machines, and will seek to win more substantial orders by improving the capacity of our compression molding machines.

PET RADIO-TRACER PRODUCTION SYSTEM "HM-12S"

Semiconductor encapsulation machines "SX120"

Cryogenic Equipment

Business Performance for Fiscal 2006

In fiscal 2006, this business recorded a year-on-year increase in sales, to ¥14 billion. Fully leveraging the capabilities of this division's overseas network, we commenced the development and production of new compressors locally at our research and production facilities around the world for our mainstay 4KGM cryocooler*. As a result, we have developed a structure that enables us to respond to the diversified needs of customers.

Our superior global operations were also used to launch a full-scale sales promotion for "SICERA™", a cryopump (one of our core products), a super-vacuum pump that is currently selling strongly and has the potential to grow still further, as the first step in our expansion of products used for semiconductor and liquid crystal manufacturing equipment.

*The 4KGM is so-called because it can cool materials down to 4 degrees Kelvin (i.e. 4 degrees above absolute zero), or minus 269 degrees Celsius.

Strategies for Fiscal 2007

In fiscal 2007, we hope to maintain our clear competitive edge in cryocooler components and will take firm steps to expand the cryopump business.

The markets are changing at a dramatic pace, and we must respond to these changes promptly and provide global support for customers. We will improve the quality of our global operations and further integrate our production and sales operations both in Japan and overseas. We will also make efforts to enhance product development capacity and boost sales, services, product quality and cost competitiveness so that we can continue to provide products and services that meet the needs of our customers.

Mechatronics

Business Performance for Fiscal 2006

Since the first half of the previous term, supply had outstripped demand in the flat panel display (FPD) market, which includes our mainstay liquid crystal display (LCD) market. As a consequence, orders and sales in this business remained flat on a year-on-year comparison. Nonetheless, we embarked on a strategy of combining control technology based on our extensive knowledge and experience in equipment and machinery with mechanical, measurement, and drive technologies. Thanks to this, we were able to extend our product range from our specialty high-end products to mid-range products. We also established a sales base in Kansai as one of our initiatives to strengthen our marketing activities, and this is now starting to make its presence felt.

Meanwhile, we are making steady progress in efforts to provide control components to other business units for the purpose of expanding the vertically integrated value chain within our Group.

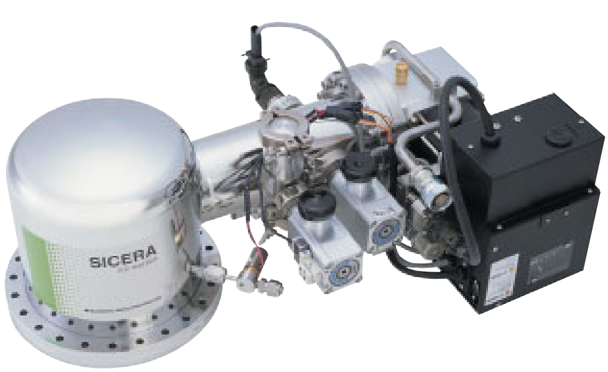
Strategies for Fiscal 2007

Although the markets for semiconductors and displays (including FPDs) is likely to remain sluggish in the first half of the current term, we can expect sustainable growth in the second half, spurred by rising demand for large-screen TVs, personal computers and mobile phones. We predict that capital investment will rise to fulfill the requirements of finer design rules for semiconductor devices, use of larger diameters for LCD substrates, and process reforms with the aim of cost cutting.

As for the overseas market, we already have experience in the delivery of web control* devices for LCD manufacturing in China, Taiwan and Korea, and we aim to expand further throughout East Asia. We will also launch our mainly domestic business in precision positioning devices on the global market.

We seek to attain synergy in our mechatronics technology, which fuses mechanical and electric control systems. We will continue to expand our business in new and existing markets by developing mechatronics products.

*Web control is a positioning control system for running films and sheets



Cryopump "SICERA™"

SA-300 Series
Air Guided Type Planar XY Stage for Small Travel

Environmental Protection Facilities, Plants & Others

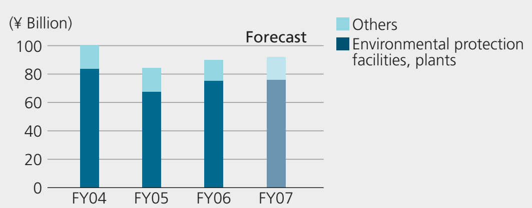
Main Products

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

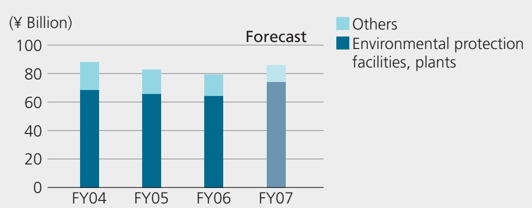
Major Units

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

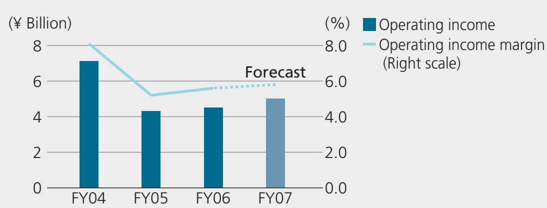
● Orders



● Sales



● Operating Income



Segment Overview

Business Environment

This segment serves customers in both the public and private sectors, but as public-sector demand shrinks, we are transforming the structure of this business to focus on the private sector. Demand from the private sector centers on the segment's main products, CFB (circulating fluidized-bed) boilers, as the movement to reduce CO_2 emissions gathers momentum, and sales of these products are trending favorably. In the water-related environmental market, we are concentrating more marketing efforts on our waste-water treatment facilities for private-sector customers, and we have good hopes of growing this into a promising new market.

Review and Analysis of Results for Fiscal 2006

The energy plant business received a strong inflow of orders for multi-fuel boilers, but sales for the entire segment declined slightly due to a fall in sales by the water treatment business. Orders received by the segment as a whole came to ¥90.0 billion, up 8% over the previous business term, sales were down 3% at ¥79.4 billion, and operating income was up 8% at ¥4.5 billion.

Outlook for Fiscal 2007

Rapidly rising concern over the need to protect the global environment is causing constant growth in the market for biomass-related products, and the Company's energy plant business, centered on biomass boilers for electric power generation, is expected to enjoy a continued a good inflow of orders. We spun off our water treatment business in the reporting period and reorganized it as a separate subsidiary, and are in the midst of a steady process of converting its business structure, focusing on private-sector demand with the aim of ensuring stronger and more reliable earnings.

Overall Conditions in Major Units

Energy-Related Plants

Business Performance for Fiscal 2006

Reflecting rising awareness of the need to reduce CO_2 emissions and promote the use of alternatives to fossil fuels, orders for boilers and power generation plants that employ renewable energy remained strong.

This trend has gradually spread to the Asia-Pacific region. In Korea, we received the first order for a co-firing combustion boiler utilizing tire-derived fuel (TDF), a renewable fuel made from waste tires.

All projects delivered during the fiscal year under review employ renewable energy. This is evidence that our circulating fluidized-bed (CFB) boiler (Sumitomo CFB Boiler) constitutes a highly efficient and reliable system that can handle a wide array of renewable energy types. In addition, the world's first boiler system that uses no coal with the high multi-fuel combustion rate of waste tires is operating smoothly, attracting interest from a number of industries worldwide.

Strategies for Fiscal 2007

We anticipate that investment in the Japanese paper and pulp industry will gradually decline.

As initiatives to cut CO_2 emissions have also become more common in other industries apart from the paper and pulp sector, we will expand business to these other industries.

Coupled with economic growth, demand for power generation systems is rising in East Asia and North America. And with rising awareness of the need to reduce CO_2 emissions in Asian countries, emissions trading is growing steadily. In this environment, we expect that demand for CFB boilers will continue to grow, and we will adopt an aggressive and sustained approach to developing overseas markets, focusing primarily on East Asia and North America.

We will also bolster our development capacity to create new effective uses for fuels, satisfying the particular needs of each market. In addition, we will develop highly effective and reliable CFB boiler systems.

For more detailed information on the CFB boiler system, please refer to the product features section on Page 10.

Water Treatment Plants

Business Performance for Fiscal 2006

Our water treatment plant business consists primarily of two domains: facilities for the private sector and facilities for the public sector. Private-sector demand is expanding at a remarkable pace, supported by Japan's booming economy. By contrast, public-sector demand continues to decline, due to the scaling back of public works, and we are experiencing severe price competition in this market.

In response, we are endeavoring to improve the competitiveness of our products and develop new products and technologies for the private sector. Through these initiatives, we seek to strengthen and expand our existing operations, while also rapidly building new businesses that can take us into new markets or fields and become mainstays of the future. In the public-sector domain, we are making steady progress, with a focus on developing and expanding sales of unique component equipment. This business is being enhanced by the application of the technologies developed in our private-sector wastewater treatment business.

This operating environment has created a need for rapid management decision-making and flexible operations. Recognizing this, we spun off this business on January 1, 2007, establishing Sumitomo Heavy Industries Environment, Ltd.

Strategies for Fiscal 2007

Domestic demand remains active, and we anticipate expansion in our business for the private sector. In contrast, the market for public-sector clients is becoming increasingly difficult.

In fiscal 2007, we will continue bolstering the competitiveness of our products, while developing new products and technologies. We will also take steps to cut costs to expand our components business, and stabilize this business as an independent company.

The photograph shows the rainwater treatment facilities installed at the Company's coal yard and ore yard. The coagulation settling tank, which is the main component of these facilities employs the super-fast coagulation agent Sumi-Thickener, which allows excellent water treatment despite the space-saving nature of the facilities.


CFB Boiler


Sumi-Thickener

Ship, Steel Structure & Other Specialized Equipment

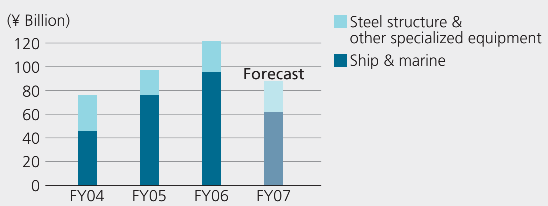
Main Products

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

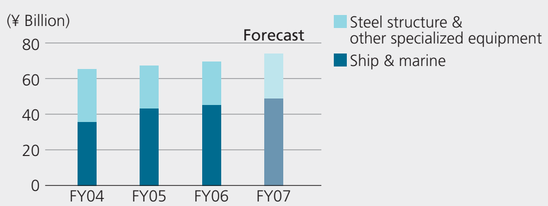
Major Units

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

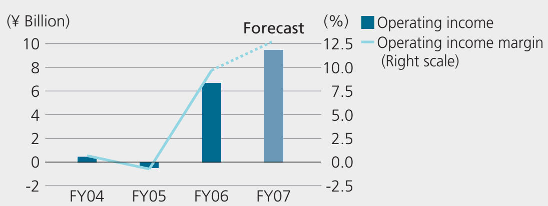
● **Orders**



● **Sales**



● **Operating Income**



Segment Overview

■Business Environment

Amid rising demand for oil, the market for petroleum refinery construction is showing increased vigor. Against the background of high oil prices, petroleum companies are taking an aggressive stance on investment in the construction of new refineries and the expansion of existing facilities. Orders for ships are flowing in at a brisk pace not only due to the active shipping market, but also as a result of changes in the mandatory specifications for hull painting. Demand for new shipbuilding is projected to remain strong for the foreseeable future.

■Review and Analysis of Results for Fiscal 2006

Orders for the shipbuilding business posted a two-ship increase over the previous term, to 13 ships. On the sales side, delivery of eight tankers was made. These results were due to marketing activities being concentrated in medium-sized tankers to match market needs to our shipbuilding capacity under a favorable market environment. Orders for reactor vessels recorded strong growth due to active capital investments in the oil and petrochemical industries, amidst expanding demand for energy and high oil prices.

As a result, segment orders as a whole rose 27% year-on-year, to ¥121.0 billion, sales rose 6% to ¥69.5 billion, and operating income increased to ¥6.7 billion as compared with an operating loss of ¥1.0 billion for the previous term.

■Outlook for Fiscal 2007

Demand for oil continues to grow, and consequently investment in new petroleum refining facilities is likely to maintain a favorable pace for some time to come. Reactor vessels for use in refining heavy oil are a specialty of SHI, and a steady inflow of inquiries can be expected. As for ships, we have decided to restrict our order acceptance to medium-sized Aframax tankers, and in view of the strong demand for freight shipping, we can expect ship prices to maintain a high level.

Overall Conditions in Major Units

Reactor Vessels

Business Performance for Fiscal 2006

During fiscal 2006, global demand for oil continued to increase, primarily in the United States and China. A significant number of new oil refineries were constructed, and the capacities of existing facilities were expanded around the world. Amid these favorable business conditions, we received record orders, mainly for petroleum coke drums*, desulfurization reactors, and contact reform reactors. In particular, orders for coke drums, our key products, jumped to 26 units in total. A notable trend in these products was the shift to larger and more multiple equipment to upgrade treatment capacity. For example, we delivered two separate portions of petroleum coke drums to a state-owned oil company in Chile and successfully assembled them for a major on-site project.

*Petroleum coke drums are vessels used to separate heavy oil into light oils and a solid carbon residue known as "coke."

Strategies for Fiscal 2007

Given rising global demand for petrochemical products — primarily from China and India — crude oil prices are likely to remain high. Consequently, we anticipate the continuous construction of new plants and the expansion of existing plants. We will seek to achieve sustainable growth, mainly by strengthening sales promotion for our competitive coke drums. The prices and delivery time for our products have been impacted by high material prices and delayed deliveries caused by strong global demand for non-ferrous and precious metals. To overcome these disadvantages, we will endeavor to provide products and services that meet the needs of customers by further improving our operational and manufacturing processes.

Ships (Sumitomo Heavy Industries Marine & Engineering Co., Ltd.)

Business Performance for Fiscal 2006

New shipbuilding orders worldwide in 2006 rose to a record 93 million tons, thanks to a robust marine transport market — which benefited from the healthy growth of the global economy that began in 2003 — and to the placement of last-minute orders ahead of the enactment of the revised international regulations on shipping. Orders went to South Korean shipbuilders (38 million tons); Chinese shipbuilders (24 million tons); and Japanese shipbuilders (21 million tons). Orders received by Chinese shipbuilders have grown strongly, accompanying the rapid development of shipbuilding facilities in that country, surpassing orders received by their Japanese counterparts for the first time. Vessel prices also reached record highs, reflecting stronger demand for ships.

We now concentrate on handling medium-sized tankers in order to differentiate ourselves from our competitors. In this environment, we took orders for 13 Aframax tankers and delivered eight. In January 2007, we established a European office in Piraeus, Greece, the first overseas office of Sumitomo Heavy Industries Marine & Engineering.

Strategies for Fiscal 2007

With the global economy expected to grow steadily in fiscal 2007, driven primarily by the robust economies of the BRIC countries and the United States, we expect the marine transportation market to remain firm. However, competition in the shipbuilding market appears set to increase gradually during fiscal 2007, given growing shipbuilding capacity in China and South Korea. In response, we will continue to develop unique ships that create higher customer value. We will also bolster sales operations and improve the quality and productivity of our products. Although prices of materials such as steel are likely to continue to rise, we will take steps to further improve our performance for fiscal 2007 through extensive cost-cutting derived from production innovation.


Coke Drum


105,200MTDW Oil Tanker

Industrial Machinery

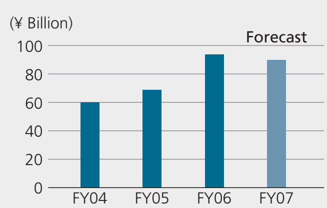
Main Products

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

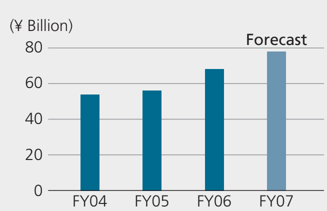
Major Units

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

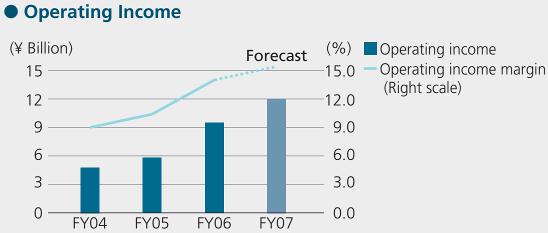
● **Orders**



● **Sales**



● **Operating Income**



Segment Overview

■Business Environment

Supported by the strength of economies around the world, demand for heavy machinery is brisk. Our sales of material handling systems have benefited from the vigorous investment in production facilities expansion by Japanese shipyards, and capacity utilization is maintaining a high level. In the field of steam turbines for power generation, investment in new power plants is particularly brisk in India, and demand for metal forging presses from makers of automotive components is growing. Overall, the business environment for this segment is favorable.

■Review and Analysis of Results for Fiscal 2006

The material handling systems business expanded, centered on large cranes, as we raised our capacity to handle investment in increased capacity for the domestic shipbuilding and steel companies. This resulted from detailed market analysis and timely expansion of production facilities.

The turbine and pump business was favorable thanks to increased investment in biomass generation plant as well as oil and petrochemical plant, primarily in overseas markets. Sales by the forging press business rose on sustained production of forging presses for the automotive industry.

This resulted in 36% year-on-year growth in orders for the segment as a whole, to ¥93.6 billion, sales growth of 22% year-on-year to ¥68.3 billion, and a 63% growth in operating income to ¥9.5 billion.

■Outlook for Fiscal 2007

Against the backdrop of vigorous capital investment by shipbuilders and steelmakers, demand for material handling systems is expected to remain favorable. Sales of turbines and pumps will benefit from growing demand for equipment used in biomass power generation and in petroleum plants, and the market scale as a whole is projected to increase. We anticipated continued brisk orders for forging presses in view of the strong business situation of the automotive industry.

Overall Conditions in Major Units

Material Handling Systems (Sumitomo Heavy Industries Engineering & Services Co., Ltd.)

Business Performance for Fiscal 2006

We achieved a record level of orders in fiscal 2006, reflecting strong capital investment by steel manufacturers and shipbuilders, which constitute the primary clientele of the material handling machinery and systems business unit.

Steel manufacturers are facing supply capacity shortfalls which they are addressing by increasing their production capacities and shifting their production to high-grade steel.

Continuous Ship Unloader

Consequently, they are vigorously replacing and expanding their material handling equipment, thanks to which we received orders for continuous ship unloaders for raw materials and a large number of steel making cranes.

With a large backlog of orders and rallying vessel prices starting to exert positive effects on shipbuilder performance, the shipbuilding industry made substantial investments to replace cranes to upgrade production capacity, and to install new equipment to meet the needs of diversification in ship block construction. We received substantial orders for high-capacity Goliath cranes and Jib cranes.

In overseas markets, we bolstered sales activities in the East Asian market, winning orders for Jib cranes from China and the Philippines.

Strategies for Fiscal 2007

As in the preceding year, the capital investment trend in the Japanese steel and shipbuilding industries will be positive. Overseas demand is likely to remain bullish overall, led by China, Taiwan and South Korea.

With our basic stance of "seeking the leading position in customer services with lifecycle solutions", we will intensively cultivate the Japanese and other priority markets in the East Asian region, with active sales promotion of products and services.

We will also continue our strong investments in crane manufacturing facilities and build up our value chain to provide powerful products and establish a strong sales force.

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

Business Performance for Fiscal 2006

With the growing emphasis on environmental preservation, power generation using renewable energy sources is expanding on a global scale with the aim of reducing carbon dioxide emissions. The biomass power generation market is expanding, chiefly in India, Southeast Asia and Latin America. Markets for power generation using solar energy and waste heat are also growing in North America. Orders for large multistage turbines raised by 145% as compared with those in last year, to contribute to soaring order volumes in the entire turbine business.

Circumstances were also favorable for the pump business. With economic growth in China and India and rising oil prices, there is an increase in oil, petrochemical and LNG plant construction projects in the Middle East and Southeast Asia. In particular, the entire world is stepping up its investment in heavy oil reformers thanks to booming demand for high value-added oil products. These factors prompted a surge in orders for process pumps. Those for one of the core models, namely barrel-type high pressure multistage pumps, raised by 130% as compared with those in last year. We successfully expanded this business in line with our medium-term management plan.

Strategies for Fiscal 2007

We will ascertain current customer needs through the use of special roving marketing groups, and by leveraging our overseas sales network. We will also focus on marketing initiatives targeting key customers through close collaboration between sales and technical staff. Such activities will enable us to obtain a sufficient volume of profitable orders each year.

To improve the performance of our products, we will carry out reliability verification of new large models and develop more advanced components for our turbines and while further enhancing the performance of our pumps on the basis of flow analysis.

We will also proceed with reform of our manufacturing methods to bolster production capacity and reconstruct the product architecture with the aim of achieving significant cost savings.

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

Business Performance for Fiscal 2006

Driven by export demand, domestic automobile production for fiscal 2006 surpassed that of the previous year. Overseas output of domestic automobile manufacturers has also been rising, and the production of forged parts has continued to shift overseas. To respond to the growth in demand for forged parts, automakers and forging companies installed new facilities in Japan and overseas as they did last year, with the consequence that the Company received substantial orders for forging presses of all sizes.

In the steel industry, Japanese companies are aggressively expanding production to meet the rising demand in the automobile, shipbuilding, and machine industries. In fiscal 2006, the majority of the orders we received were for modifications to existing production lines to bolster output capacity.

Strategies for Fiscal 2007

Conditions in the automobile and steel industries are likely to remain positive, and we believe our operating environment will generally hold firm during the current term. Our Forging Press business is undertaking a number of projects to improve its product lineup to meet customers' diverse needs. We will take measures to meet the demand stemming from our customers' expansion of overseas production, as well as measures to cope with the buoyant overseas market. The Industrial Machinery business will center on the remodeling and servicing of existing equipment, and we will strive to achieve customer satisfaction in after-sales services.

Sumitomo Heavy Industries Techno-Fort is committed to the integrated operation of production and services, and to maintaining the lead in technological fields where our proprietary technologies are strong. With our slogan of "Combine expertise and passion to compete successfully," we aim to build a system that consistently delivers strong profits, enabling us to enjoy further growth under the next medium term plan.

Barrel Type Multistage Pump [Model: BTBF]

Multistage Steam Turbine [Model: C10]

6500t Press

Construction Machinery

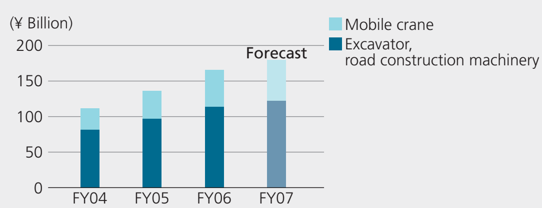
Main Products

Hydraulic Excavators
Mobile Cranes
Road Machinery

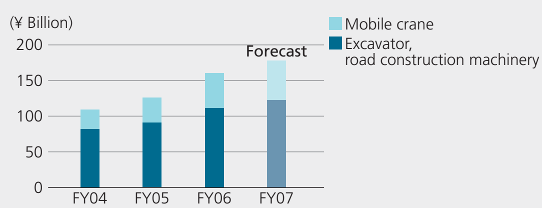
Major Units

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

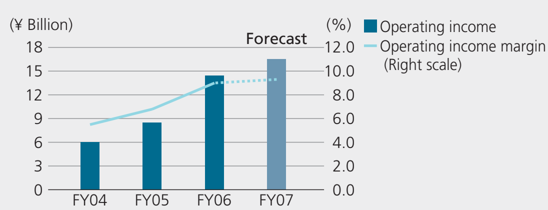
● **Orders**



● **Sales**



● **Operating Income**



Segment Overview

■Business Environment

We are fielding a large number of inquiries, from Europe and China in particular, as a result of strong demand for building construction. Our launching of a new-model hydraulic excavator that conforms to the Phase III exhaust gas emission restrictions has been a significant factor in boosting our earnings. Brisk activity in North America in the construction of plants and commercial buildings, as well as the building of expressways, has led to a strong growth in orders for mobile cranes.

■Review and Analysis of Results for Fiscal 2006

The hydraulic excavator business was favorable, both domestically and overseas, due to measures such as the introduction of a new model of hydraulic excavator to the market to address the Phase III exhaust gas emission restrictions and increased production capacity. Of particular note was that the growth in both sales and orders was concentrated in Europe and East Asia.

Both orders and sales in the mobile crane business recorded strong growth amid the continued dynamism of the North American market, due to the ongoing introduction of new models and expansion of production at North American sites.

This resulted in a 22% year-on-year increase in orders for the segment as a whole, to ¥166.1 billion, a 27% year-on-year growth in sales to ¥160.2 billion, and a 69% growth in operating income to ¥14.4 billion.

■Outlook for Fiscal 2007

In the current term, business in this segment is likely to remain favorable both in Japan and overseas. We plan to concentrate our marketing efforts on Europe and East Asia in the case of hydraulic excavators, and on North America in the case of mobile cranes. We will be investing in increased production capacity and launching new models in response to the rising level of demand with the aim of realizing higher sales and a reliable earnings structure.

Overall Conditions in Major Units

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

Business Performance for Fiscal 2006

Domestic demand for construction machinery soared from the previous year's level on buoyant capital investment in the private sector. We worked vigorously to market new models of the mainstay hydraulic excavators that comply with the latest emission regulations and, as in the preceding year, we focused on hydraulic vehicles used for specialized applications, such as models fitted with lifting magnets*1 and those adapted for forestry applications. Through these efforts, we successfully increased the number of new vehicles sold.

In the road machinery business, contracting domestic demand resulted in a decline in sales of asphalt finishers*2. Nonetheless, this business expanded its market share from the level of the previous year.

In overseas markets, we strengthened our tie-up with our sales partner CNH Global N.V. to expand hydraulic excavator exports to the North American market, which remains robust, as well as new unit sales to Europe. Exports of hydraulic excavators to the recovering Chinese market jumped sharply.

With respect to our production system, we expanded production capacity at the Chiba Works to meet the high demand for hydraulic excavators.

*1. Lifting magnets are used to move scrap iron and steel.

*2. Asphalt finishers are machines used to lay the final asphalt layer on a road surface.

Strategies for Fiscal 2007

In response to bullish demand for hydraulic excavators, the Chiba Works embarked on an initiative to gear itself up to consistently produce 10,000 units per year. In domestic terms, we will be proactive in sales promotion for our new-model hydraulic excavators in a bid to boost their market share. We will be bringing to market a new model asphalt finisher that conforms to the latest emission regulations.

Overseas, we will continue to strengthen ties with CNH to expand sales of hydraulic excavators in the North American and European markets. In addition, we will be strongly promoting Sumitomo-brand construction machinery to the growing Chinese market and emerging markets elsewhere in the world.

Hydraulic Excavator SH200-5 LEGEST

Crane Business (Link-Belt Construction Equipment Company)

Business Performance for Fiscal 2006

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), a joint venture between Hitachi Construction Machinery Co., Ltd. and the Company for sales in the North American market.

The North American mobile telescopic and crawler crane markets experienced double digit growth over the 2005 levels. Overall market demand for mobile telescopic and crawler cranes exceeded availability, and Link-Belt continues to benefit from the strength of demand. Link-Belt's sales for fiscal 2006 increased by approximately 46% over the previous term. The introduction of new models in market classes previously served, as well as in new market classes, has also contributed to the increased sales volume. While Link-Belt's production increased in 2006, production capacity continues to be constrained somewhat by component availability. Link-Belt initiated a Lean Sigma® program late in 2004 that has allowed it to improve efficiencies in production.

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

Strategies for Fiscal 2007

The continuing strength of Link-Belt is the introduction of new models that not only meet the customer's requirements and expectations, but exceed them. Link-Belt's continuing goal is to be the leader in customer service and satisfaction.

The fiscal 2007 outlook for the North American crane market is for continued strong growth in the mobile telescopic and crawler crane segment. As in 2006, the challenge for increasing production volumes in 2007 will be the availability of components. Link-Belt is working closely with vendors to provide an uninterrupted supply of material and components to meet production needs, aiming at increased sales and improvement in market share. Link-Belt will continue the Lean Sigma® program, which, through continuous improvement activities, will offer better quality, cost and delivery of Link-Belt's products.

Another of Link-Belt's strategies is the expansion of its presence in the global market. In April 2007 the company exhibited a mobile telescopic crane at the Bauma Trade Fair in Germany, the largest construction equipment show in the world.

A Link-Belt "Crane-Fest"

Research and Development

1. R&D Strategy

To continuously create first-class products under the "Leap to Excellence '07" plan, we have designated the cream of our lineups in each business area as "core products" and have launched Groupwide initiatives to further develop them. With a goal of achieving value for our customers, we are making priority investments throughout the product cycle from planning to development and marketing.

We have designated the following as growth areas where we are stepping up technological development and innovating new products: Semiconductor and Liquid Crystal Production Equipment, Information Technology Related Equipment, Medical Equipment, and Actuators.

We have clustered on our leading-edge R&D and business bases in the Yokosuka area southwest of Tokyo, and are accelerating the pace of development. At the R&D Center, development resources are focused on both new products as well as key and basic technologies to help us create the next generation of new products and strengthen our product-innovation capabilities.

Total R&D expenditures during the term came to ¥8.6 billion in fiscal 2006. We intend to increase these expenditures in the future, to further extend our technological lead.

As a yardstick of R&D efficiency, sales of new products accounted for 30% of total sales on a non-consolidated basis. We will continue to launch new products.

2. Main R&D Milestones

(1) Growth Areas

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

In the plastic injection molding machine business, we added light-guiding panel modules to our SE-HP range of ultra high-speed all-electric injection molding machines, to meet market demand for thinner light-guiding panels. The upgraded product was warmly received by the market. To enable formation of 0.3mm-thin light-guiding panels, we added our proprietary injection and temperature control technologies to the high-speed, high-response injection functions, yielding a very high level of filling performance. We also developed and launched our new NANO-PRESS H system capable of meeting the high productivity requirements needed by optical glass element formation. We added the SLR-400T to our range of CO_2 laser drills for printed circuit boards, continuing our drive for higher-quality processing in laser-drilling machines. We impressed the market with our further development - lowering running costs – of our ELA series of laser annealing systems for leading LCD manufacturers.

In semiconductor encapsulating systems, we launched the new SX120 model for frame–widening in the transfer-molding process, and continue to develop this series. In the COMP series of compression molding technologies, we completed the development of molds using substrates divided into several blocks, and continue to develop ways to broaden the transfer area to meet demand for lower running costs.

In encapsulation for organic electroluminescent (EL) devices, we supplied pilot mass-production lines using our Reactive Plasma Deposition method.

In cryogenic equipment and its applications, a newly developed cryopump system "SICERA™" optimized for next-generation semiconductor-manufacturing equipment, has now been adapted for volume production lines. Development of a series of the cryopumps is underway. 4K pulse-tube cryocoolers are under evaluation for medical and measuring equipment applications and extensive work to further reduce vibration continues.

In precision positioning stages, we focused development efforts on platforms for large stages for LCD use. In motion components, we expanded our product ranges for high-performance drivers and controllers for precision processing for advanced semiconductor and LCD manufacturers. We launched new products in our range of Air Sonic high-speed, high-precision air actuators, which we have developed as an original machine component, and as well as air dancers for them.

Orders were robust for clean transportation equipment for high-performance film for LCD-manufacturing lines. We continued to develop our lineup of Automatic Guided Vehicles (AGVs) and enhance their functionality.

Medical Equipment

We launched the ultra-compact HM-7 cyclotron system for Positron Emission Tomography (PET) for cancer diagnostics. In proton therapy devices for cancer treatment, efforts were focused on increasing output and reducing the number of days of treatment.

Actuators

In our core competence of motion control and drive products, we are developing new high-value-added products as successors to our F4C-D and F2C-C series of Cyclo® speed reducers with enhanced rotation control and output torque to meet high rotational accuracy and low backlash specifications. In electro-motor products, we developed a low-noise motor for stage-setting devices. This product, with an Interior Permanent Magnet motor with built-in high-performance magnets, is designed to meet demand for compact, high-performance, silent models. We also focused efforts on the market for industrial magnetic motors, which we expect to show strong growth going forward. In speed reducers for industrial applications, one of our core products, we launched a low-noise model in our SFC series of orthogonal speed reducers for cooling towers and condenser drives. We were able to achieve significant noise reduction by using three-dimensional gear-tooth modification, enabling this product to be used for meeting noise reduction needs in systems located close to residential areas. We will continue to develop basic technologies to meet the high level of demand for orthogonal gearmotors.

(2) Other Businesses

Environmental Equipment, Ships, and Logistics

In our water-treatment plant business, we continue to develop new units and component systems for water processing facilities. We are also developing energy recovery and solutions based on our core competence of fermentation technologies, and have launched and commercialized a camera for visually monitoring the behavior of microorganisms inside reactor tanks.

In energy plant, we are developing application technologies for our circulating fluidized-bed boilers for new fuels based on woodchip biomass, waste tires and waste plastics. We have found a new way of smoothly extracting and recycling steel wire from waste tires due to the adoption of specially-designed furnace bases. We also have developed resource recovery technologies for rare metals derived from waste materials using rotary kilns.

In ship and marine operations, we have continued to develop energy-saving hull forms, and new environment-friendly tankers that meet tougher safety rules. We are studying ways of improving construction methods to improve productivity and reduced lead times, by making more efficient use of a wide range of information processing technologies.

Turning to logistics and parking systems, we are developing products 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 have completed trial operations of an above-ground version of our "Sumipark® Ground" "puzzle-type" parking facility, in which space-saving is achieved by more efficient use of available spaces, and plan to commercialize this new system.

Other Industrial Equipment

In forging presses, we are expanding marketing of the 1,600 ton press using the "i-CL@B®" large wet-type clutch break system, which was well received by our customers. We have launched a compact model of the "i-Tr@nsfer®", 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, and it and established models are operating satisfactorily. We have also developed the "i-H@nd®" charge device for use with this system, and plan further function upgrades. At the same time we have completed a series of new more simple and compact presses jointly with a customer, and have completed their serialization as items of production equipment. Repeat orders have already been placed for all models.

In the field of industrial power-generation turbines, we have received an order for the C11-type 67MW turbine incorporating a 22-inch long-blade system that we have developed, and have already begun design and manufacturing. In the process pumps, we are upgrading the functions of our high-pressure multistage cylindrical case pumps to expand their range in line with progress in light petrochemical applications.

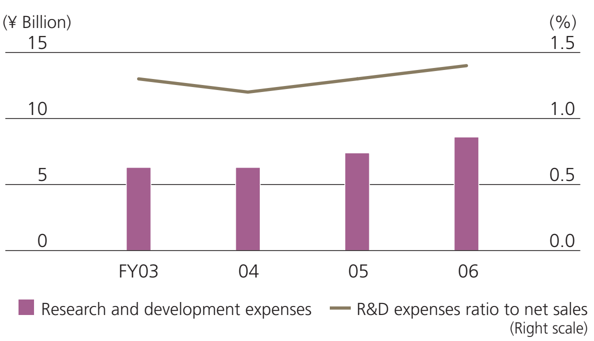
R&D activities in construction machinery have focused on products that offer IT compatibility, ease of operation, energy-saving and environment-friendly qualities. In hydraulic excavators, we launched models in the SH200-5 and SH240-5 mainstay medium-sized ranges with engines that meet the (latest) Tier 3 emission regulations. These are next-generation vehicles with high levels of operability, economic viability and environment-friendliness under the motto "real performance." We have also built this environment-friendly engine into our large hydraulic excavators for large-scale general civil engineering, road construction and aggregate crushing, and launched models in the Japanese and overseas markets.

In road-paving equipment, we continued development of our new HA90C large asphalt-finisher, mainly targeting overseas markets, are developed the HA45C-6 (JP2045) asphalt-finisher using the crawler method for mountainous areas and soft-soil environments. We also further upgraded the "J-paver®" series of 3-stage extendable screeds.

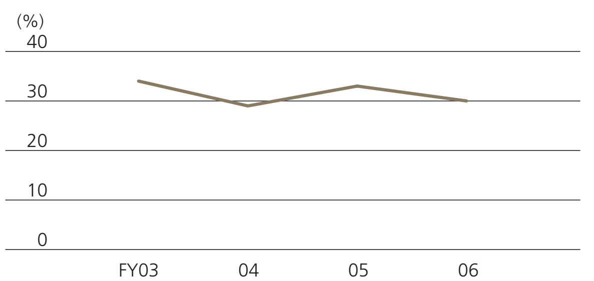
COMP-3

NANO-PRESS H

●Research and Development Expenses



●Proportion of New Products in Total Sales



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 Division, 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.

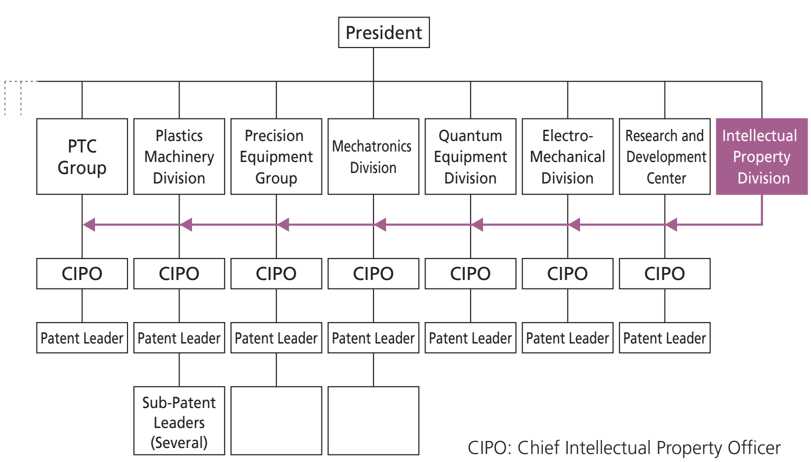
(2) Special Cross-Departmental Meetings

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

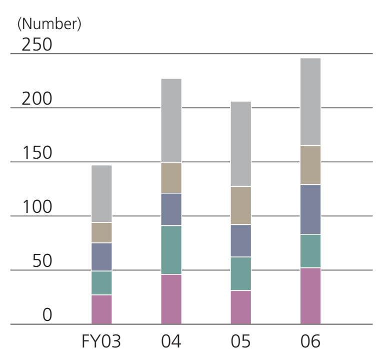
In tandem with the internationalization of the business activities of the Sumitomo Heavy Industries Group, we have been calling on all operating divisions and other relevant divisions to take active steps to file patent applications overseas. As a result, as of May 2007 as many as 1,376, or 39%, of the total of 3,512 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 by SHI



*PCT indicates the contracting states to the Patent Cooperation Treaty

Corporate Governance and Compliance

Our Definition of Corporate Governance

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.

1. The Current State of Corporate Governance at SHI

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

The Company's Board of Directors consists of ten directors, of whom one is an external director. The Board works to maintain, and, where necessary, improve the degree of transparency of the Company's management, and to fulfill the function of oversight of the day-to-day execution of the Company's business. In addition to its mandatory duty of stipulating the Company's rules relating to those matters for which such stipulation is required under Japan's Corporation Law, the Board also discusses issues of importance to the Company's management, both issues of an urgent nature and matters of a long-term nature. The Articles of Incorporation of the Company specify that the number of members of the Board shall be no more than 12.

The Executive Officers, numbering 16, of whom seven are simultaneously directors of the Company, are charged with the responsibility for supervising the day-to-day operations of the Company. They sit on the Executive Officers Committee. All the presidents of the principal member companies of the SHI Group attend meetings of the Group Management Council together with the Company's President in order to supervise the progress of business performance at the consolidated level and ensure that the management policies laid down by the Board of Directors are also followed by the separate managements of Group companies.

The Company has also set up the Corporate Management Committee, composed of Executive Officers who are stationed at the Company's Head Office, which acts as an advisory body to the President. The Management Strategy Committee deliberates on matters of importance, including matters to be referred to the Board of Directors for further deliberation, and reports directly to the President on the conclusions arising from its deliberations.

The Board of Corporate Auditors, comprising four corporate auditors, of whom two are outside auditors, is charged with responsibility for checking the conduct of the Company's directors and executive officers in the discharge of their duties, from the perspectives of legal correctness and ethical appropriateness. In addition, the Group Corporate Auditing Committee, comprising corporate auditors of the Company and of its subsidiaries and affiliates within the Group, meets regularly to allow the exchange of information among the members to ensure the efficient functioning of auditing 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 established the Corporate Auditor's Dept., a secretariat body to assist the Board of Corporate Auditors, under the direct control of the Board of Corporate Auditors.

We have set up a Directors Recommendation Committee to recommend candidates for new members of the Board of Directors: the committee recommends candidates for directors, directors with specific responsibility for particular business operations, and representative directors.

2. The Structure of the Company's Internal Control System, and its Basic Internal Control Policies

The Company has laid down the following policies to be followed in order to ensure that business operations are conducted in the correct manner.

(1) Objectives

The Company regards a properly functioning internal control system as an indispensable precondition for the improvement of the Group's enterprise value and the sustainable expansion of its business scale and operational reach. The structure of the internal control system, and the basic principles observed in its operation, are set out below.

(2) Basic Principles

1) The performance of their duties by the Company's directors must be in conformity with both the law of the land and the stipulations contained in the Company's Articles of Incorporation. To ensure this, the following system has been put in place.
   ①The Board of Directors shall determine the basic policies regarding an internal control system which, in turn, will serve as the foundation on which good corporate governance is made possible. Once it is set up, the Board shall verify that it functions effectively, and shall subsequently make unceasing efforts to improve it still further.
   ②Outside directors shall be appointed to the Board of Directors to introduce a more objective, external perspective on matters under deliberation.
   ③The statutory auditors shall audit the performance of their duties by the directors.
2) Matters relating to the performance of duties
   ①Regarding the safekeeping and management of information relating to the performance of their duties by members of the Company's management, these shall be conducted in accordance with the document and electronic record safekeeping standards laid down by the Company and the Company's regulations relating to the handling of confidential information, and the documents and/or electronic files in question shall be available for perusal at any time by any director(s) or corporate auditor(s) of the Company. Minutes of meetings of the Company's Board of Directors shall be held in safekeeping at the Company's Head Office for a period of 10 years.
   ②Matters relating to the management of loss risk
      a) The internal control system conducts management of every conceivable risk in all sections of the Company.
      b) Regulations covering risks relating to separate categories such as environmental matters, legal compliance, damage earthquakes, fires, and so on, information technology, export regulations and other categories are drawn up by the relevant section in charge at the Company's Head Office. The said sections also take charge of educating staff in risk management and contingency measures, including the issuing of practical guidelines.
      c) In line with the stipulations in the Company's "Guidelines for Information Activities in Emergencies," staff on site in the event of an emergency must immediately inform the Company's top management and take appropriate emergency countermeasures.
   ③System for ensuring the efficient performance of their duties by directors
      a) The Company has adopted the executive officer system, in which the directors focus their efforts on examining matters of importance and implementing swift decision-making, and supervise the day-to-day management of the Company's business operations by the executive officers.
      b) Medium-term management plans and budgets for individual business years are put into action after they have been carefully debated and decided on by dedicated deliberative bodies. Additionally, at the monthly meetings of the Executive Officers Committee, officers responsible for particular business operations are required to report on progress made under the medium-term management plan and in line with the annual budget, and to report any problems encountered.
      c) The Corporate Management Committee has been set up as an advisory body to the President. To permit fast and effective decision-making in relation to matters of importance to management, based on examination of the matter in question from multiple viewpoints, the Corporate Management Committee examines the issue in question prior to its submission to the President and the Board of Directors.
   ④System for ensuring that the executive officers and other employees perform their duties in compliance with the law and in conformity with the Company's articles of incorporation
      a) The Ethics Committee, chaired by the Company's President, decides the Company's basic policies in the field of compliance, and the Internal Control Group-via the internal control sections that have been set up within every department of the Company — ensures that these policies are followed rigorously.
      b) Copies of the Company's Ethics Regulations and Compliance Manual are distributed to all directors, executive officers, and other employees, and special seminars are held regularly to keep all staff up to date with requirements related to ethical practice and legal compliance. When deemed necessary, directors, executive officers, and employees in managerial posts are required to submit an agreement in writing to observe specific

compliance requirements.

c) An in-house whistle-blower hotline has been set up to enable directors or other members of the Company's staff to report suspected illegal (non-compliant) or unethical acts. All members of the Company are actively encouraged to make use of this system, which enables the management to discover problems at an early stage.

⑤System for ensuring the correct conduct of business at the parent company and all other Group companies

a) The management of Sumitomo Heavy Industries, Ltd., the parent company, is responsible for ensuring that the management of the Group as a whole is conducted in accordance with the Group management principles that have been laid down, which embody the principles of good corporate governance, and that the management is conducted efficiently.

b) The medium-term management plans and annual budgets of the Group's main member companies shall not be implemented without prior examination at the Head Office of the Company. Once underway, the progress of business performance shall be regularly checked against the targets under the plan/budget, and any problems encountered shall be reported by the president of the company in question to the Executive Officers Committee of the parent company and to the Group Management Council, allowing the Company's management to obtain an accurate grasp of the overall business situation of the Group.

c) To ensure the legal and ethical correctness of the conduct of business by the entire Group, internal control sections have been set up in all the principal companies of the Group. In addition, the central internal control section (Internal Control Group), located at the Head Office of the parent company, exercises overall supervision over internal control activities throughout the Group.

d) Statutory auditors of the main Group companies shall be appointed by the parent company. In addition, the Company's auditing departments conduct audits of the business performance of the principal Group companies to ensure that a uniform standard of effective auditing is applied throughout the entire Group.

e) In line with the stipulations in the Company's "Guidelines for Information Activities in Emergencies," in the event of an emergency, the management and/or staff of the Group company in question must immediately inform the Company's top management and take appropriate emergency countermeasures.

3) Matters relating to the performance of auditing duties by the Company's corporate auditors

①Matters relating to the provision of administrative staff to assist the Company's corporate auditors in the event that the auditors request the appointment of such staff

A Corporate Auditor's Dept. shall be set up, under the control of the Statutory Auditors.

②Regarding the independence of the employees in the Corporate Auditor's Dept. from the direct chain-of-command starting with the Board of Directors or any individual director

Personnel matters with respect to the staff working in the Corporate Auditor's Dept., including relocation to other posts and evaluation of performance and/or job skills, shall be decided by a three-way conference attended by the statutory auditors, the directors, and the executive officers.

③Regarding the system whereby directors and employees report to the statutory auditors,

a) In order to effectively audit the job performance of the Company's directors and executive officers, the corporate auditors shall attend meetings of the Board of Directors, the Executive Officers Committee, and other important management meetings, and shall be accorded sufficient opportunity to peruse ringisho (documents for approval) and other documents of material importance to the conduct of business operations.

b) Directors, executive officers, and employees shall, without delay, report to the corporate auditors in the event of any of the matters listed below arising with respect to the Company or other Group companies.

* Acts in contravention of the law or of the Company's articles of incorporation, or suspected danger of such acts
* The discovery of a fact(s) or situation that threatens to cause significant harm to the Company, or a suspected danger of such a circumstance; or the discovery of an illegal act
* Any matter whose deliberation is delegated on an extraordinary basis by the Board of Directors to individual executive officers
* Any other matter with respect to which a corporate auditor or auditors shall specifically request a report

④Other systems for ensuring that the corporate auditors are able to carry out auditing effectively

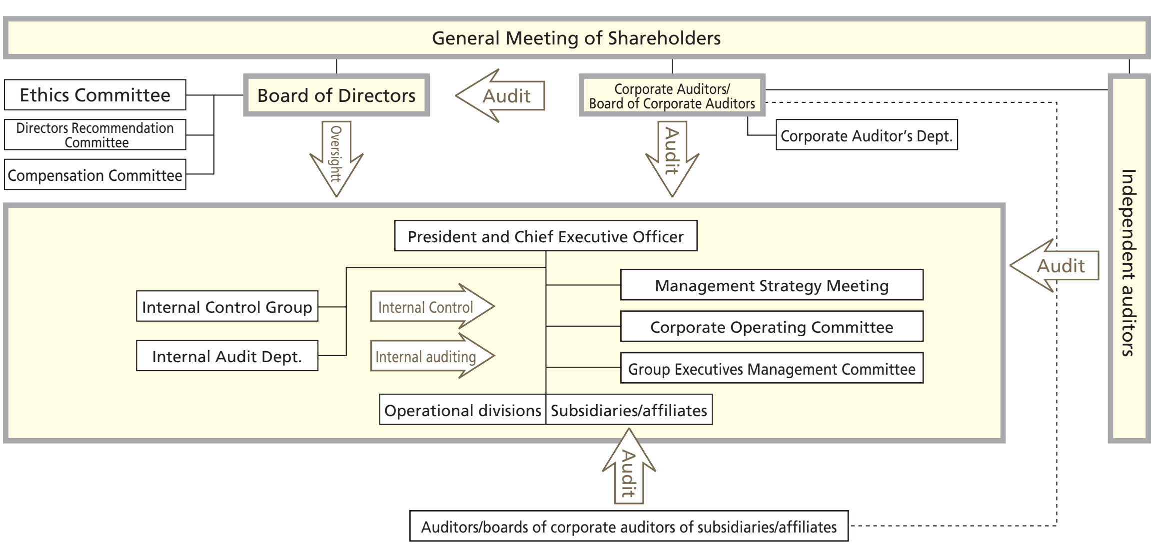
a) The directors and executive officers shall fully cooperate with the corporate auditors to ensure that the corporate auditors are able to conduct their audits effectively through liaison and cooperation with the internal audit dept. and internal control group, as well as the corporate auditors of other group companies and the external auditing companies whose auditing services are utilized by the other Group companies.

b) In the event that the corporate auditors of Group companies other than the parent company shall discover acts in contravention of the law or of the Company's articles of incorporation, or suspected danger of such acts, or in the event that they shall discover a fact(s) or situation that threatens to cause significant harm to the Group as a whole, or a suspected danger of such a circumstance; or in the event that they shall discover an illegal act, they shall immediately report the facts of the case to the corporate auditors of the parent company.

(3) Revisions to the above policies

The above policies may be revised whenever deemed necessary by the management of the Company. Revisions shall be made by resolution of the Board of Directors of Sumitomo Heavy Industries, Ltd.

●Our Corporate Governance System



Measures for Environmental Preservation

The corporate mission of the Sumitomo Heavy Industries Group includes the recognition of its responsibility to contribute to regional development, a better environment, and safety. The Group as a whole is seriously tackling the issue of environmental preservation, based on our understanding that the protection of the global and regional environment, and the promotion of a recycling economy, are part of the social responsibilities of an enterprise. Especially since fiscal 2005, we have started activities to help prevent further global warming. These Group-wide measures include reduction of electricity consumption and paper usage, and the active utilization of “green” logistics systems.

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 the Works has created and is operating environmental management systems in compliance with ISO14001, the international standard for environmental management systems, 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 management programs and targets for activities are being set up based on the assessment results.

Environmental Accounting

Environmental accounting-complying with the Environmental Accounting Guidelines established by the Ministry of the Environment — has been implemented to clarify the money spent and amounts invested by the Company in environmental activities, and to achieve greater efficiency in environmental preservation. The total amount of environmental preservation costs for fiscal 2006 was about ¥2.9 billion, of which approximately ¥1.25 billion was spent on capital investments in facilities and equipment to decrease the volume of materials with a heavy environmental burden, and to save energy.

Expenses for environmental preservation have increased with each passing year. For the reporting term, total environmental preservation costs and capital investments increased ¥950 million and ¥700 million, respectively, over the previous year.

Reducing Environmental Load

We are working on new initiatives to contribute to the prevention of global warming-one of the most serious environmental problems we face. To help reduce CO_2 emissions, which are the major cause of global warming, the Company set a goal for fiscal 2007 of cutting electricity consumption by 10% from the fiscal 2004 level. For fiscal 2006, we achieved a reduction of 1.5% from the fiscal 2004 level. We have accelerated introduction of energy-saving equipment in fiscal 2007, to better position us to meet these targets.

We have also set higher targets and taken initiatives for the reduction of paper usage and the promotion of green logistics.

In addition, to prevent environmental pollution, we are working on initiatives to reduce emissions of organic chlorine compounds and volatile organic compounds (VOCs).

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, i.e. for landfills or incineration; 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 2006. 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 FY2006	27,970 tons (down 9% from the FY2001 level)
Volume of waste disposed of in FY2006	3,007 tons (down 66% from the FY2001 level)

Developing Environmentally-Friendly Products

It is one of the missions 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, while 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

(¥ 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	1,095	924
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	103	228
	(1)-2 Environmental preservation	Monitoring of electricity demand, investment in energy conservation, temperature management	974	93
	(1)-3 Resource recycling	Recycling of industrial waste, provision of waste leaving site, recycling of thinners, collection, transport, treatment and disposal of waste	18	602
(2) Upstream and downstream manufacturing processes		Use of low-sulfur heavy oil, “green purchasing” of office goods	0	12
(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	35	109
(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® speed reducers, development of new tube heat exchangers	124	589
(5) Compensation for environmental damage		Surcharges for air pollutant loads, contributions by regional enterprises for green areas and compensation for damage from pollution	0	6

(¥ 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	1,254
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 furnace systems, development of water supply and sewerage facilities, development of methods of reducing noise from Cyclo® speed reducers, development of new tube heat exchangers	713
Amount of sales of valuable articles related to (1)-3	Metal scrap left over after the effective use of remnant materials	282

FINANCIAL SECTION

Eleven-Year Summary

Eleven-Year Summary

SUMITOMO HEAVY INDUSTRIES, LTD. and Consolidated Subsidiaries

	FY1996	FY1997	FY1998	FY1999
Summary of Income (For the year):				
Net sales	¥606,537	¥556,786	¥554,488	¥566,668
Cost of sales	505,636	460,254	464,286	473,798
Selling, general and administrative expenses	78,367	75,743	80,572	80,162
Research and development expenses	9,763	8,121	8,983	12,206
Operating income	22,534	20,789	9,630	12,709
EBITDA (Note 2)	32,297	35,128	23,800	26,910
Net income (loss)	5,923	4,613	(12,298)	(6,328)
Cash Flows (For the year):				
Cash flows from operating activities	¥ 12,503	¥ 516	¥ 11,348	¥ 39,117
Cash flows from investing activities	(15,254)	(4,198)	(9,050)	(1,969)
Free cash flows (Note 3)	(2,751)	(3,682)	2,298	37,148
Cash flows from financing activities	(1,539)	(1,933)	19,709	(48,765)
Cash and cash equivalents at the end of year	41,018	35,403	57,410	45,173
Financial Position (At year-end):				
Total assets	¥740,091	¥748,017	¥723,673	¥657,149
Total current assets	559,900	566,559	542,689	474,059
Property, plant and equipment	128,396	128,757	124,757	128,784
Interest-bearing debt	363,894	365,923	387,199	341,912
Net interest-bearing debt	322,876	330,520	329,789	298,617
Stockholders' equity	76,123	78,909	72,975	64,829
Total net assets (Note 6)	—	—	—	—

Amounts per Share of Common Stock:

	FY1996	FY1997	FY1998	FY1999
Net income (loss) (Note 4)	¥ 10.06	¥ 7.83	¥ (20.88)	¥ (10.74)
Stockholders' equity	129.30	134.04	123.96	110.12
Cash dividends	3.0	3.0	—	3.0

Financial Indexes:

	FY1996	FY1997	FY1998	FY1999
Operating income margin	3.7	3.7	1.7	2.2
EBITDA margin	5.3	6.3	4.3	4.7
R&D expenses ratio to net sales	1.6	1.5	1.6	2.2
Return on assets (ROA)	0.8	0.6	(1.7)	(1.0)
Return on equity (ROE)	7.8	5.8	(16.9)	(9.8)
Stockholders' equity ratio	10.3	10.5	10.1	9.9
Interest-bearing debt ratio	49.2	48.9	53.5	52.0
D/E ratio (Times)	4.8	4.6	5.3	5.3
ROIC (Note 5)	3.2	2.8	1.6	1.9

Investment in Plant and Equipment, and Others:

	FY1996	FY1997	FY1998	FY1999
Capital expenditures	¥ 20,732	¥ 16,208	¥ 14,763	¥ 12,606
Depreciation and amortization	15,378	15,805	14,170	14,201
Number of employees	14,842	14,357	13,840	13,748

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥118=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2007.
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) = $\frac{\text{(Operating income + Interest and dividend received) x 55\% (= 1 – Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$
6. Net assets are presented following enforcement of the new Japanese Corporate Law in 2006. Net assets comprise shareholders' equity as previously defined, plus minority interests and share subscription rights.

						Millions of yen	Thousands of U.S. dollars (Note 1)
FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2006
¥513,753	¥517,138	¥481,289	¥482,765	¥521,310	¥551,339	¥600,256	$5,086,918
434,544	430,399	400,460	378,422	407,512	434,904	464,071	3,932,802
71,724	72,564	63,616	64,112	65,025	68,930	71,961	609,841
8,688	6,777	5,800	6,263	6,317	7,441	8,599	72,875
7,485	14,175	17,213	40,231	48,773	47,505	64,224	544,275
20,402	26,078	29,322	50,344	58,055	56,577	74,873	634,517
(28,612)	1,650	2,688	16,262	22,792	29,742	37,352	316,538
¥(16,957)	¥ 38,808	¥ 29,499	¥ 75,775	¥ 45,451	¥ 50,023	¥ 56,789	$ 481,262
29,560	(3,343)	(1,074)	(7,929)	(6,087)	(7,024)	(12,461)	(105,601)
12,603	35,465	28,425	67,846	39,364	42,999	44,328	375,661
(21,403)	(32,785)	(22,116)	(56,666)	(46,490)	(48,812)	(41,193)	(349,092)
36,496	40,846	47,661	57,678	49,108	43,644	47,523	402,740
¥579,772	¥634,904	¥588,010	¥580,291	¥569,771	¥579,233	¥600,890	$5,092,287
394,252	371,049	329,231	321,400	316,166	317,813	332,509	2,817,876
119,135	199,758	196,104	258,891	253,605	261,421	268,381	2,274,411
324,324	294,552	273,544	215,807	169,228	125,504	88,045	746,149
287,609	254,402	225,571	157,353	119,592	81,587	39,890	338,053
30,049	87,494	89,331	114,526	137,157	167,740	—	—
—	—	—	—	—	—	206,010	1,745,847
						Yen	U.S. dollars (Note 1)
¥ (48.60)	¥ 2.80	¥ 4.57	¥ 27.01	¥ 37.80	¥ 49.45	¥ 61.99	$ 0.53
51.04	148.63	151.86	190.25	227.90	279.02	338.95	2.87
—	—	—	—	3.0	5.0	7.0	0.06
						%	
1.5	2.7	3.6	8.3	9.4	8.6	10.7	
4.0	5.0	6.1	10.4	11.1	10.3	12.5	
1.7	1.3	1.2	1.3	1.2	1.3	1.4	
(4.9)	0.3	0.5	2.8	4.0	5.1	6.2	
(95.2)	1.9	3.0	14.2	16.6	17.7	24.0	
5.2	13.8	15.2	19.7	24.1	29.0	34.1	
55.9	46.4	46.5	37.2	29.7	21.7	14.7	
10.8	3.4	3.1	1.9	1.2	0.7	0.4	
1.3	2.3	2.6	6.5	8.5	8.8	12.2	
						Millions of yen	Thousands of U.S. dollars (Note 1)
¥ 14,305	¥ 15,549	¥ 14,406	¥ 10,562	¥ 8,175	¥ 10,285	¥ 17,257	$ 146,250
12,916	11,902	12,118	10,112	9,282	9,072	10,649	90,250
12,411	12,457	11,777	11,282	11,149	11,319	12,561	

Analysis of Financial Conditions and Results of Operations

(1) Analysis of Results of Operations for the Fiscal Year (Consolidated)

(i) Sales

Sales were ¥600.3 billion, up ¥48.9 billion from the previous fiscal year, which is due to the increase in sales by ¥33.8 billion and ¥12.2 billion in the Construction Machinery Group and the Industrial Machinery Group, respectively, from the previous fiscal year.

As for sales by region, domestic sales were ¥324.1 billion, up ¥3.1 billion from the previous fiscal year due to the increase in sales of forging presses and material handling systems business in the Industrial Machinery Group. Sales in North America were ¥112.3 billion, up ¥17.4 billion from the previous fiscal year due to the increase in sales of mobile cranes in the Construction Machinery Group. Sales in Asia were ¥83.8 billion, up ¥10.3 billion from the previous fiscal year due to the increase in sales of hydraulic excavators in the Construction Machinery Group. Sales in other regions were ¥80.0 billion, up ¥18.1 billion from the previous fiscal year due to the increase in sales from shipbuilding for the Central and South America markets in the Ship, Steel Structure & Other Specialized Equipment Group.

(ii) Cost of sales

With the increase in sales, cost of sales increased by ¥29.2 billion from the previous fiscal year to ¥464.1 billion. Cost to sales ratio was 77.3%, which is an improvement of 1.6 points from the previous fiscal year due to the improvement of the ratio in the Ship, Steel Structure & Other Specialized Equipment Group and the Industrial Machinery Group.

(iii) Selling, general and administrative expenses

Selling, general and administrative expenses were ¥72 billion, up ¥3 billion from the previous fiscal year. The main items that recorded an increase were labor costs and R&D costs.

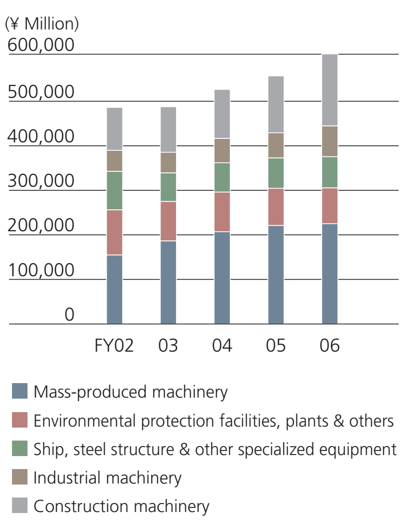
(iv) Nonoperating profit and loss

Nonoperating profit and loss resulted in a profit of ¥1.1 billion, up ¥1 billion from the previous fiscal year. Nonoperating income was almost at the same level as the previous fiscal year. On the other hand, nonoperating expenses decreased by ¥1 billion from the previous fiscal year mainly because the interest expenses decreased by ¥0.7 billion to ¥1.7 billion from the previous fiscal year with the decrease in interest-bearing debt. Foreign currency influence included in the nonoperating profit and loss was a loss of ¥0.7 billion, which is an unfavorable change by ¥0.8 billion from the previous fiscal year.

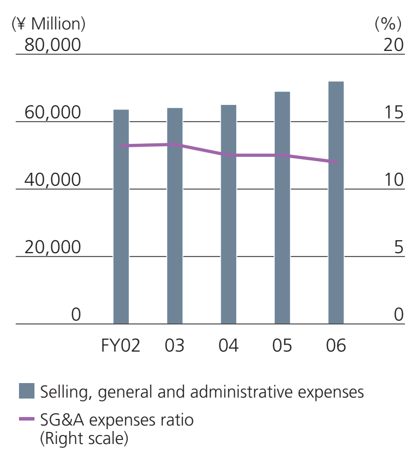
(v) Extraordinary gains and losses

Extraordinary gains and losses resulted in a loss of ¥2.4 billion, which is an unfavorable change by ¥0.9 billion from the previous fiscal year. Extraordinary gains were ¥1.7 billion, up ¥0.8 billion from the previous fiscal year due to an increase in the gain on sale of securities by ¥0.5 billion from the previous fiscal year. Extraordinary losses were ¥4.1 billion, up ¥1.7 billion from the previous fiscal year mainly because the loss from business reorganization of ¥1.9 billion and the loss from business transfer of ¥1.3 billion were recorded.

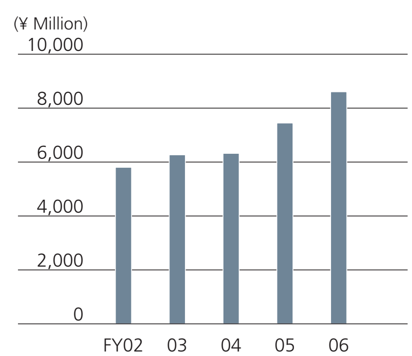
● Net Sales



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



● R&D Expenses



(2) Analysis of Financial Conditions for the Fiscal Year (Consolidated)

(vi) Corporate taxes, etc. (the total of corporate tax, inhabitant tax, business tax and income tax-deferred)

Corporate tax, etc., were ¥25 billion, up ¥9.1 billion from the previous fiscal year due to the increase in income before corporate taxes recorded at each company.

(vii) Minority interest

Minority interests were ¥0.6 billion, up ¥0.2 billion from the previous fiscal year due to the favorable operational results of each company.

(viii) Net income

Net income for this fiscal year was ¥37.4 billion, up ¥7.6 billion from the previous fiscal year.

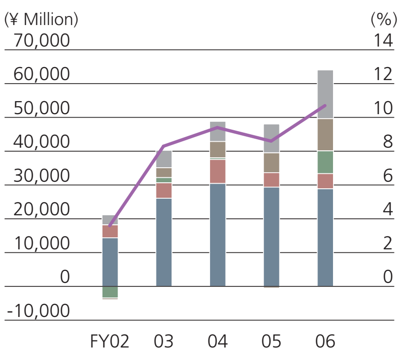
(i) Source of capital and liquidity of fund

The Company Group has applied borrowings and internal funds to the operating fund and equipment fund. As for the fund raising through borrowing, the total of interest-bearing debts as of the end of this fiscal year of consolidated accounts amounted to ¥88.0 billion, down ¥37.5 billion from the end of the previous fiscal year of consolidated accounts. The Company Group has introduced CMS (Cash Management System) to promote fund efficiency of the Company Group as a whole by centralizing at the Company fund related tasks of subsidiaries and affiliated companies.

Cash and deposits at the end of this fiscal year of consolidated accounts was ¥48.2 billion, which is equivalent to the sales for 1.0 month. This amount is at the level to secure improved fund efficiency and appropriate fund liquidity. In addition, the Company secures extremely affluent fund liquidity by concluding with multiple financial institutions commitment line agreements totaling ¥26.8 billion when such agreements concluded in Japan and overseas countries are combined.

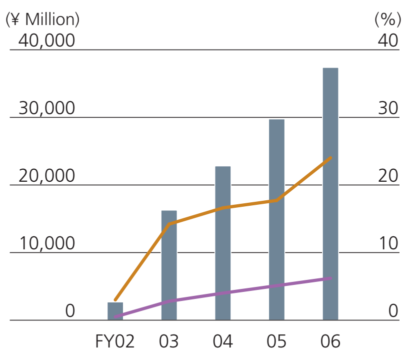
Based on the viewpoint of securing necessary funds stably, the Company has established as the current basic policy the maintenance of well-balanced long-term fund raising. The ratio of interest-bearing long-term debt in the interest-bearing debt at the end of this fiscal year of consolidated accounts was 58%, a 3-point decrease from the previous fiscal year.

● Operating Income, Operating Income Margin



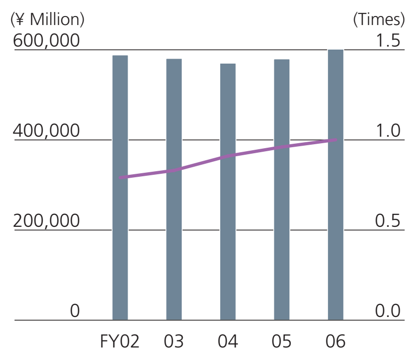
- Mass-produced machinery
- Environmental protection facilities, plants & others
- Ship, steel structure & other specialized equipment
- Industrial machinery
- Construction machinery
- Operating Income Margin (Right scale)

● Net Income, Net Income Margin, ROE



- Net income
- Net income margin (Right scale)
- ROE (Right scale)

● Total Assets, Total Assets Turnover



- Total assets
- Total assets turnover (Right scale)

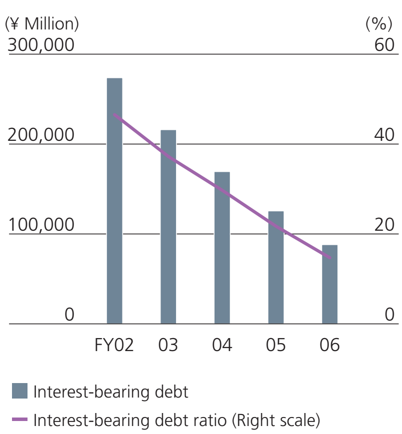
(ii) Conditions of assets, liabilities and net assets

Cash and deposits became ¥48.2 billion, up ¥4.2 billion from the previous fiscal year because the collection of receivables was further promoted. Trade receivables became ¥158.4 billion, down ¥0.5 billion from the previous fiscal year because the collection of receivables was further promoted. Net property, plant and equipment became ¥185.1 billion, up ¥3.7 billion from the previous fiscal year because the capital investment was promoted. Investment securities became ¥60.8 billion, up ¥5.8 billion from the previous fiscal year due to the increased book value for the companies to which the equity method is applied.

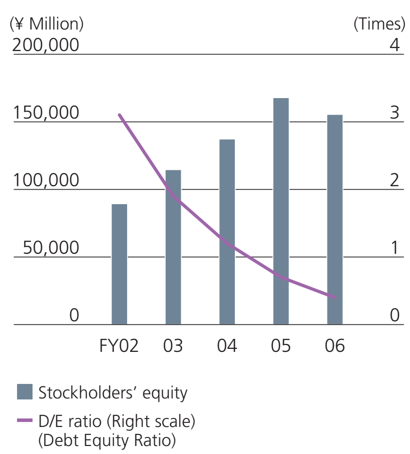
Notes payable, trade was ¥150.9 billion, up ¥8.1 billion from the previous fiscal year because trade volume increased due to an increase of backlog by ¥103.8 billion from the previous fiscal year. Interest-bearing debts were ¥88.0 billion, down ¥37.5 billion from the previous fiscal year because repayment was promoted to improve financial strength. Advance payments received on contracts was ¥40.5 billion, up ¥8.5 billion from the previous fiscal year resulting from an increase in the amount recorded in the Ship, Steel Structure & Other Specialized Equipment Group.

Net assets were ¥206.0 billion, up ¥38.3 billion from the total assets for the previous fiscal year because net income of ¥37.4 billion was recorded and capital surplus increased by ¥3.7 billion due to the stock exchange with consolidated subsidiaries, etc., in this fiscal year. As a result, capital-to-asset ratio as of the end of this fiscal year of consolidated accounts was 34.1%, up 5.1 points from the previous fiscal year.

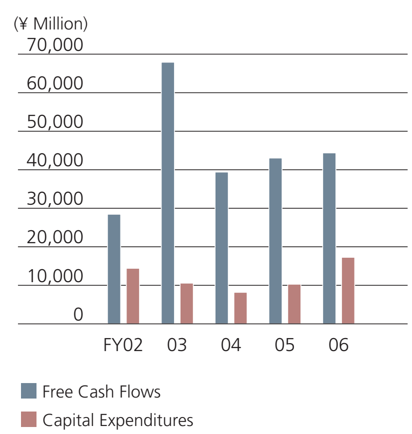
Interest-Bearing Debt, Interest-Bearing Debt Ratio



Stockholders' Equity, D/E Ratio



Free Cash Flows, Capital Expenditures



Business Risk

Risks that could adversely affect the business performance or financial position of the Group are as follows.

All statements below regarding future events represent judgments made by the management of the Group as of March 31, 2007.

(1) Macroeconomic Factors

Demand for capital equipment, which accounts the more than half of Group sales, may be influenced by economic trends in both Japan and various overseas markets where the Group sells its products. Any contraction in demand triggered by a slump in the major markets for our products in Japan, the rest of East Asia, North America and Europe could have an adverse impact on the business performance or financial position of the Group.

(2) Exchange-Rate Fluctuation

The Group's business includes production and marketing of products in countries all around the world. Yen translations are applied in the consolidated financial statements for transactions (involving overseas sales, expenses, assets and liabilities) undertaken in local currencies. Due to exchange rate effects, the Group may suffer adverse impact on transaction values after yen translation even if there is no such change in local currency terms. As of March 31, 2007, the Group had an order backlog, chiefly in its shipbuilding business, of US$1.3 billion. To minimize the impact of exchange-rate fluctuations on our business performance, the Company uses forward exchange contracts to hedge against risk. However, it is not possible to eliminate all risk using this method. For this reason, the Company could suffer adverse impact on its business performance from exchange-rate fluctuations.

(3) Price Rises and Delivery Difficulties for Raw Materials and Parts

As the global economy picks up, there have been significant rises in prices for oil, iron, copper and other raw materials, meaning that prices of materials used in our products could rise in tandem. As our suppliers near the limits of their delivery capacity, it is becoming difficult to secure the necessary volumes of certain raw materials and parts. In parallel with its cost-cutting measures, the Group seeks to pass price rises on to end-users and adjusts production schedules, after factoring rising raw-material prices into its estimates. However, rising costs and procurement difficulties could still have adverse impact on the Group's business performance.

(4) Overseas Businesses

The Group conducts its business on a global scale, with a focus on mass-produced machinery and construction machinery for markets in North America, Asia, and Europe. To meet expanding overseas demand, the Company is upgrading its marketing networks and production facilities. However, wherever we operate, our markets are subject to political change and unpredictable legal and regulatory change. This could have adverse impact on the business performance of our overseas units.

(5) Product Quality

The Group manufactures a wide range of products in line with very strict quality control standards. However, total defect elimination is impossible, and we cannot rule out having to undertake repair work, under guarantee at our own expense, in the event of product flaws. The Group has taken out insurance to cover product-defect liability, but we cannot guarantee that these policies will cover the full sums of compensation that may become payable in liability settlements. Repairs under guarantee and product compensation payments can generate significant costs for the Group, and this can adversely affect the business performance and financial position of the Group.

(6) Impact of Impairment Accounting

Based on the Law Concerning Revaluation of Land (Ordinance No. 34, issued March 31, 1998) and the Law to Partially Modify the Law Concerning Revaluation of Land (Ordinance No. 19, March 31, 2001), the Company revalued land used by its businesses on March 31, 2002. The difference between the market value of the land at the end of the term before the revaluation and the book value after a revaluation was ¥22.0 billion, a decline of 22%. If land values continue to fall, we may have to recognize impairment losses on fixed assets. Such a situation could adversely affect the business performance of the Group.

(7) Environmental Protection Measures

Under the Group's environmental policy, we take a range of measures to reduce our environmental footprint such as avoidance of environmental risk factors and minimizing waste. We have taken every measure to prevent environmental pollution, but cannot rule out responsibility for instances of environmental pollution due to unforeseen events. Should we be responsible for incidence of environmental pollution, significant costs could be generated, negatively affecting the business performance of the Group.

(8) Natural and Other Disasters

The Group has in place inspection, training and communications mechanisms for minimizing the occurrence and fallout of disasters such as fires, earthquakes, typhoons and other wind and flooding damage. However the Group's business activities could be adversely affected if such disasters cause material damage to our operations or injury to our staff. We cannot guarantee that our casualty insurance would be sufficient to cover all such events.

Financial Statements-Consolidated Balance Sheets

March 31, 2007 and 2006

ASSETS	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Current assets:			
Cash and deposits (Note 2)	¥ 48,155	¥ 43,917	$ 408,096
Trade receivables:			
Notes receivable	17,553	16,208	148,751
Accounts receivable	140,823	142,685	1,193,418
Allowance for doubtful receivables	(776)	(794)	(6,578)
Inventories (Note 3)	100,519	92,981	851,853
Deferred income taxes (Note 6)	10,342	7,844	87,647
Prepaid expenses and other current assets	15,893	14,971	134,689
Total current assets	332,509	317,812	2,817,876
Property, plant and equipment:			
Land (Note 5)	111,468	114,115	944,641
Buildings and structure	116,568	115,143	987,866
Machinery and equipment	114,186	115,551	967,679
Construction in progress	3,714	3,525	31,474
	345,936	348,334	2,931,660
Accumulated depreciation	160,791	166,854	1,362,636
Net property, plant and equipment	185,145	181,480	1,569,024
Investments, long-term loans and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	26,714	23,612	226,392
Long-term loans receivable and Investment securities (Note 11)	34,115	31,457	289,107
Deferred income taxes (Note 6)	7,288	7,400	61,764
Other assets	16,712	19,774	141,621
Allowance for doubtful receivables	(1,593)	(2,302)	(13,497)
Total Investments, long-term loans and other assets	83,236	79,941	705,387
	¥600,890	¥579,233	$5,092,287

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY / NET ASSETS	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Short-term bank loans (Note 5)	¥ 21,711	¥ 28,188	$ 183,989
Long-term debt due within one year (Note 5)	14,285	30,529	121,062
Commercial paper (Note 5)	15,000	20,000	127,119
Trade payable:			
Notes payable	53,515	52,865	453,518
Accounts payable	97,359	89,913	825,077
Advance payments received on contracts	40,502	31,976	343,238
Accrued income taxes	15,264	9,129	129,353
Allowance for loss on reorganization of business (Note 1)	596	—	5,052
Allowance for loss on business transfer (Note 1)	161	—	1,367
Accrued expenses and other current liabilities	38,820	36,946	328,976
Total current liabilities	297,213	299,546	2,518,751
Long-term liabilities:			
Long-term debt due after one year (Note 5)	37,049	46,787	313,979
Employees' severance and retirement benefits (Note 13)	24,110	22,578	204,322
Allowance for retirement benefits for directors, corporate auditors and executive officers (Note 1)	896	921	7,590
Allowance for loss on product liability (Note 1)	262	—	2,221
Deferred income taxes on revaluation reserve for land (Note 1)	32,306	33,505	273,779
Other long-term liabilities	3,044	4,403	25,798
Total long-term liabilities	97,667	108,194	827,689
Minority interests	—	3,752	—
Contingent liabilities (Note 8)			
Stockholders' equity (Notes 1 and 7):			
Common stock			
Authorized-1,200,000 thousand shares in 2006	—	30,872	—
Issued-602,626 thousand shares in 2006	—		—
Capital surplus	—	16,808	—
Retained earnings	—	68,848	—
Revaluation reserve for land, net of income taxes (Note 1)	—	42,142	—
	—	158,670	—
Unrealized gains on securities, net of income taxes	—	10,269	—
Foreign currency translation adjustments	—	(654)	—
Treasury stock at cost, 1,439,859 shares in 2006	—	(544)	—
Total stockholders' equity	—	167,741	—
Total liabilities, minority interest, and stockholders' equity	¥ —	¥579,233	$ —
Net assets (Notes 1 and 7)			
Common stock:			
Authorized 1,200,000 thousand shares in 2007	30,872	—	261,624
Issued 605,726 thousand shares in 2007			
Capital surplus	20,518	—	173,879
Retained earnings	104,950	—	889,411
Treasury stock at cost, 1,832,402 shares in 2007	(996)	—	(8,441)
Total owners' equity	155,344		1,316,473
Unrealized gains on securities, net of income taxes	11,195	—	94,875
Unrealized losses on hedging derivatives, net of income taxes	(1,652)	—	(14,001)
Adjustment regarding pension obligations of consolidated overseas subsidiaries	(772)	—	(6,542)
Revaluation reserve for land, net of income taxes	40,411	—	342,464
Foreign currency translation adjustments	166	—	1,404
Total valuation and translation adjustments	49,347	—	418,200
Minority interests	1,318	—	11,174
Total net assets	206,010	—	1,745,847
Total liabilities and net assets	¥600,890	—	$5,092,287

See accompanying notes.

Consolidated Statements of Income

Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Net sales (Note 9)	¥600,256	¥551,339	$5,086,918
Costs and expenses (Note 9):			
Cost of sales	464,071	434,904	3,932,802
Selling, general and administrative expenses	71,961	68,930	609,841
	536,032	503,834	4,542,643
Operating income (Note 9)	64,224	47,505	544,275
Other income (expenses):			
Income			
Interest and dividend income	866	587	7,335
Equity in earnings of unconsolidated subsidiaries and affiliated companies	4,584	4,303	38,847
Other - net	2,775	3,305	23,505
Expenses			
Interest expense	(1,666)	(2,384)	(14,115)
Loss on disposal of property, plant, equipment	(1,012)	(836)	(8,577)
Other - net	(4,429)	(4,894)	(37,536)
Special gains (losses):			
Gains			
Gain on sale of securities	1,398	906	11,851
Gain on business transfer	294	—	2,494
Losses			
Loss from reorganization of business	(1,870)	—	(15,844)
Loss on business transfer	(1,270)	—	(10,760)
Loss on breach of antimonopoly law	(746)	(705)	(6,325)
Impairment losses of fixed assets (Note 4)	(208)	(229)	(1,762)
Loss on sale of property, plant and equipment	—	(687)	—
Loss from write-down of investment securities	—	(471)	—
Provision for retirement benefits to directors, corporate auditors and executive officers	—	(257)	—
Loss on liquidation of subsidiaries	—	(70)	—
Loss from write-down of shares of affiliated company	—	(7)	—
Income before income taxes and minority interests	62,940	46,066	533,388
Income taxes (Note 6):			
Current	26,463	15,736	224,265
Deferred	(1,493)	135	(12,649)
Total	24,970	15,871	211,616
Minority interests	(618)	(453)	(5,234)
Net income	¥ 37,352	¥ 29,742	$ 316,538

	Yen		U.S. dollars (Note 1)
	2007	2006	2007
Amounts per share of common stock:			
Net income	¥61.99	¥49.45	$0.53
Diluted net income	—	—	—
Cash dividends applicable to the year	¥ 7.00	¥ 5.00	$0.06

See accompanying notes.

Consolidated Statement of Stockholders' Equity

Year ended March 31,

	Number of shares of common stock (Thousand)	Millions of yen						
		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	¥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)

See accompanying notes.

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2007

	Millions of yen					
		Owners' Equity				
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock	Sub-total
Stockholders' equity at March 31, 2006 as previously reported	602,626	¥30,872	¥16,808	¥ 68,848	¥(544)	¥115,984
Reclassification due to adoption of new accounting standards at April 1, 2006						
Net assets at April 1, 2006	602,626	¥30,872	¥16,808	¥ 68,848	¥(544)	¥115,984
Dividends (*Note)				(1,503)		(1,503)
Dividends				(2,104)		(2,104)
Net income				37,352		37,352
Acquisition of treasury stock					(457)	(457)
Disposal of treasury stock			182		78	260
Difference from transfer of Revaluation reserve for land				1,731		1,731
Stock exchange with consolidated subsidiaries	3,100		3,521		(73)	3,448
Increase from increase of consolidated subsidiaries with change in scope of consolidation				633		633
Correction of capital allotment after merger of parent company and consolidated subsidiaries			7	(7)		—
Changes in items other than owners' equity in the period (net)						
Total changes in the period	3,100	—	3,710	36,102	(452)	39,360
Balance at March 31, 2007	605,726	¥30,872	¥20,518	¥104,950	¥(996)	¥155,344

	Millions of yen							
	Valuation and translation adjustments							
	Unrealized holding gains on other securities	Gain/loss on deferred hedge	Adjustment of pension obligation of overseas subsidiaries	Revaluation reserve for land	Foreign exchange translation adjustments	Sub-total	Minority interests	Total
Stockholders' equity at March 31, 2006 as previously reported	¥10,269	—	—	¥42,142	¥(654)	¥51,757	—	¥167,741
Reclassification due to adoption of new accounting standards at April 1, 2006							3,752	3,752
Net assets at April 1, 2006	¥10,269	—	—	¥42,142	¥(654)	¥51,757	¥3,752	¥171,493
Dividends (*Note)								(1,503)
Dividends								(2,104)
Net income								37,352
Acquisition of treasury stock								(457)
Disposal of treasury stock								260
Difference from transfer of Revaluation reserve for land								1,731
Stock exchange with consolidated subsidiaries								3,448
Increase from increase of consolidated subsidiaries with change in scope of consolidation								634
Correction of capital allotment after merger of parent company and consolidated subsidiaries								
Changes in items other than owners' equity in the period (net)	926	(1,652)	(772)	(1,731)	820	(2,409)	(2,434)	(4,843)
Total changes in the period	926	(1,652)	(772)	(1,731)	820	(2,409)	(2,434)	34,517
Balance at March 31, 2007	¥11,195	¥(1,652)	¥(772)	¥40,411	¥ 165	¥49,347	¥1,318	¥206,010

*Note: The dividends were made with the approval of the general stockholders' meeting held on June 29, 2006.

See accompanying notes.

	Thousand of U.S. dollars					
		Owners' Equity				
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock	Sub-total
Stockholders' equity at March 31, 2006 as previously reported	602,626	$261,624	$142,438	$583,456	$(4,611)	$ 982,907
Reclassification due to adoption of new accounting standards at April 1, 2006						
Net assets at April 1, 2006	602,626	$261,624	$142,438	$583,456	$(4,611)	$ 982,907
Dividends(*Note)				(12,737)		(12,737)
Dividends				(17,827)		(17,827)
Net income				316,538		316,538
Acquisition of treasury stock					(3,869)	(3,869)
Disposal of treasury stock			1,540		657	2,197
Difference from transfer of Revaluation reserve for land				14,672		14,672
Stock exchange with consolidated subsidiaries	3,100		29,840		(619)	29,222
Increase from increase of consolidated subsidiaries with change in scope of consolidation				5,370		5,370
Correction of capital allotment after merger of parent company and consolidated subsidiaries			62	(62)		
Changes in items other than owners' equity in the period (net)						
Total changes in the period	3,100		31,442	305,955	(3,831)	333,566
Balance at March 31, 2007	605,726	$261,624	$173,879	$889,411	$(8,441)	$1,316,473

	Thousand of U.S. dollars							
	Valuation and translation adjustments							
	Unrealized holding gains on other securities	Gain/loss on deferred hedge	Adjustment of pension obligation of overseas subsidiaries	Revaluation reserve for land	Foreign exchange translation adjustments	Sub-total	Minority interests	Total
Stockholders' equity at March 31, 2006 as previously reported	$87,029	—	—	$357,135	$(5,546)	$438,619	—	$1,421,527
Reclassification due to adoption of new accounting standards at April 1, 2006							31,794	31,794
Net assets at April 1, 2006	$87,029	—	—	$357,135	$(5,546)	$438,619	$31,794	$1,453,321
Dividends(*Note)								(12,737)
Dividends								(17,827)
Net income								316,538
Acquisition of treasury stock								(3,869)
Disposal of treasury stock								2,197
Difference from transfer of Revaluation reserve for land								14,672
Stock exchange with consolidated subsidiaries								29,222
Increase from increase of consolidated subsidiaries with change in scope of consolidation								5,370
Correction of capital allotment after merger of parent company and consolidated subsidiaries								
Changes in items other than owners' equity in the period (net)	7,847	(14,001)	(6,452)	(14,672)	6,950	(20,419)	(20,621)	(41,040)
Total changes in the period	7,847	(14,001)	(6,452)	(14,672)	6,950	(20,419)	(20,621)	292,526
Balance at March 31, 2007	$94,875	$(14,001)	$(6,452)	$342,463	$ 1,404	$418,200	$11,174	$1,745,847

*Note: The dividends were made with the approval of the general stockholders' meeting held on June 29, 2006.

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes and minority interests	¥62,940	¥46,066	$533,388
Adjustments to reconcile net income before income taxes to net cash provided by operating activities:			
Depreciation	10,649	9,072	90,250
Impairment losses of fixed assets	208	229	1,762
Gain on sale of property, plant and equipment	(227)	(89)	(1,920)
Loss on sale of property, plant and equipment	68	686	578
Loss on disposal of property, plant and equipment	1,012	836	8,577
Gain on sale of investment securities	(1,398)	(906)	(11,851)
Loss on sale of investment securities	3	1	25
Loss from write-down of investment securities	136	471	1,153
Loss from liquidation of subsidiaries	—	70	—
Loss from write-down of shares of affiliated company	—	7	—
Loss from reorganization of business	1,870	—	15,844
Gain on business transfer	(294)	—	(2,494)
Loss on business transfer	1,270	—	10,760
Loss on breach of antimonopoly law	746	705	6,325
Increase in employee' severance and retirement benefits	(329)	1,315	(2,785)
Increase in provision for retirement benefits to directors, corporate auditors and executive officers	(21)	292	(180)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(4,584)	(4,303)	(38,847)
Decrease in allowance	616	(5,227)	5,221
Interest and dividend income	(866)	(587)	(7,335)
Interest expenses	1,666	2,384	14,115
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	10,394	3,028	88,084
Increase in deposits received	(4,119)	3,544	(34,903)
(Increase) decrease in inventories	(7,213)	(1,634)	(61,128)
Increase in notes and accounts payable	7,106	6,533	60,217
Other-net	(3,028)	5,958	(25,661)
Sub-total	76,605	68,451	649,195
Interest and dividend received	1,617	679	13,701
Interest expenses	(1,535)	(2,258)	(13,007)
Payment for income taxes	(19,898)	(16,849)	(168,627)
Net cash provided by operating activities	¥56,789	¥50,023	$481,262

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash flows from investing activities:			
Net decrease in time deposits	¥ (10)	¥ 278	$ (84)
Payments for securities	(5,577)	(1,295)	(47,261)
Proceeds from sale of securities	4,017	1,280	34,046
Disbursement for investment in affiliated company	—	(1,080)	—
Proceeds from liquidation of subsidiaries	—	1,528	—
Payments for purchases of property, plant and equipment	(16,657)	(11,497)	(141,162)
Proceeds from sale of property, plant and equipment	1,769	2,202	14,989
Proceeds from refund of investment	—	1,462	—
Payments for long-term loans receivable	(43)	(44)	(361)
Collection of long-term loans receivable	148	332	1,253
Proceeds from business transfer	5,895	—	49,957
Other-net	(2,003)	(190)	(16,978)
Net cash used in investing activities	(12,461)	(7,024)	(105,601)
Cash flows from financing activities:			
Net decrease in short -term loans	(6,516)	(18,074)	(55,217)
Net increase in commercial paper	(5,000)	8,500	(42,373)
Proceeds from long-term debt	4,500	17,990	38,136
Payments for long-term debt	(30,482)	(52,540)	(258,319)
Payments for redemption of bonds	—	(1,000)	—
Proceeds from sale of treasury stock	379	8	3,215
Disbursement for acquisition of treasury stock	(454)	(352)	(3,847)
Cash dividends paid	(3,607)	(3,308)	(30,564)
Payment of dividends for minority stockholders	(13)	(36)	(123)
Net cash used in financing activities	(41,193)	(48,812)	(349,092)
Effect of exchange rate changes on cash and cash equivalents	259	343	2,202
Net decrease in cash and cash equivalents	3,394	(5,470)	28,771
Cash and cash equivalents at beginning of year	43,644	49,108	369,861
Increase due to new consolidated company	485	3	4,108
Increase due to merger and acquisition	—	215	—
Net decrease from the change in consolidated companies	—	(212)	—
Cash and cash equivalents at the end of year (Note 2)	¥47,523	¥43,644	$402,740

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 certain expanded disclosure and the inclusion of consolidated statements of shareholders' equity for 2006.) 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 consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in "Change in accounting policy", is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 1, the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

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, 2007, which was ¥118 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 stockholders' equity / net assets, 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 ¥32,412 million, was revaluated at ¥109,349 million, which is determined primarily based on real estate tax value. The Company recorded ¥44,585 million as revaluation reserve for land in stockholders' equity / net assets section, after reflecting deferred income tax effects of ¥32,352 million which were recorded as long-term liabilities.

The current value of the land on March 31,2007 fell ¥22,027 million ($186,667 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 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 certain of the Company's consolidated subsidiaries resolved to abolish their retirement benefit plans for directors, corporate auditors and executive officers (collectively, "officers"), and provided liabilities for such benefits at the amounts corresponding to the considerations for the service period until the plan abolishment.

Allowance for losses on construction of contract

With regard to construction contracts that have not yet been delivered and are with high probability of generating substantial losses at the end of the fiscal year, and where it is possible to reasonably estimate the amount of such losses, the estimated amount of losses to be incurred in the future is provided as allowance for losses on construction contract.

Allowance for losses from business reorganization

Allowance for losses from business reorganization is provided at an amount estimated to be incurred in the future with regard to reorganization of an overseas subsidiary.

Allowance for losses from business transfer

Allowance for losses from business transfer is provided at an amount estimated to be incurred in the future in connection with the resort development business transferred in 2007.

Allowance for losses from product liabilities

Allowance for losses from product liabilities is provided at an estimated amount of product liabilities to be incurred related to the crane business of overseas subsidiaries.

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.

Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, companies are required to adopt the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the New Accounting Standards. The accompanying consolidated statement of stockholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

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 production cost, and selling, general and administrative expenses were ¥8,599 million ($72,875 thousand) and ¥7,441 million for the years ended March 31, 2007 and 2006, 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 net assets (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.

Also, if a currency option 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 currency option contract are recognized.

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 have any outstanding 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, 2006 have been reclassified to conform to the 2007 presentation.

Change in accounting policies
(a) Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and shareholders' equity sections.

The amount corresponding to the total of the "Stockholders' Equity" under former accounting policies is ¥207,115 million ($1,755,216 thousand). There were no effects on the consolidated statement of income for the year ended March 31, 2007.

(b) Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures

From this fiscal year, "accounting standards concerning business combination" (issued by business accounting deliberation council on October 31, 2003), "Accounting standards concerning business separation, etc.," (ASBJ statement No.7 December 27, 2005) and "the accounting standards implementation Guide concerning business combination and business separation, etc." (ASBJ statement implementation guide No. 10, finally amended on December 22, 2006) are being applied.

There were no effects on the consolidated statement of income for the year ended March 31, 2007.

Stock exchange

As of October 1, 2006, the Company executed a stock exchange with SEISA Gear, Ltd.("SEISA Gear"), a consolidated subsidiary of the Company, with SEISA Gear being the acquired company of the transaction. The stock exchange was recognized as a transaction with minority stockholders.

Business of SEISA Gear is manufacture and sales of gear, gear transmission, various reduction gears and various coupling.

With the stock exchange, SEISA Gear expects to construct a system for utilization of the technology and human resources of the Company in order to achieve current targets of the enhanced competitiveness of products that respond to the diversified customers' needs and global sales development.

The stock exchange was implemented as a simplified stock exchange under Article 796 Paragraph 3 of the Corporate Law, and the Company acquired additional 50.8% of the voting rights of SEISA Gear, including 4.8% of indirect ownership. As a result of the stock exchange, the Company owns 100% of SEISA Gear.

The ratio of the stock exchange is as follows:

	The Company	SEISA Gear
Stock exchange ratio	1	0.36

(Note) 1. Share exchange ratio
0.36 share of the common stock of the Company was provided in exchange for one share of the common stock of SEISA Gear. However, no shares of the Company have been allotted to the shares of the common stock of SEISA Gear owned by the Company (8,200,000 shares).

(Note) 2. Method of calculation and basis of calculation by a third party institution
The Company and SEISA Gear asked Daiwa Securities SMBC Co. Ltd. and Nomura Securities Co., Ltd. respectively, to calculate the stock exchange ratio. Daiwa Securities SMBC Co. Ltd. conducted an analysis with respect to both the Company and SEISA Gear, based on the market share-value method as well as the discount cash flow method, and determined the stock exchange ratio by comprehensively considering the results of these analyses. Nomura Securities Co., Ltd. conducted an analysis of the Company based on the market share-value average method and an analysis of SEISA Gear based on the market stock value average method, the comparison with similar companies method and the discount cash flow method. And then, Nomura Securities Co., Ltd. determined the stock exchange ratio by comprehensively considering the results of the analyses. Based on the above results, the Company and SEISA Gears determined the stock exchange ratio as indicated above through discussions.

Number of shares delivered and estimated value

Number of shares delivered to SEISA Gear	3,100,809 shares
Evaluation	3,805 million yen

This amount is the estimated issue price that was calculated based on the average share price during a reasonable period before the main terms and conditions of the stock exchange had been agreed on and announced to the public, multiplied by the number of shares planned to be delivered.

Amount of goodwill generated	1,310 million yen

The goodwill represents the difference between the value of the shares delivered to shareholders, excluding the Company's consolidated subsidiary, and the amount of the equity held by minority shareholders.

Method of depreciation of goodwill
Goodwill will be depreciated evenly in 5 years.

(c) Allowance for losses on construction contracts
In the year ended March 31, 2006, 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, 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.

(d) Retirement benefits for directors, corporate auditors and executive officers (collectively, "officers")
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 in the year ended March 31, 2006, and recognized officers' retirement benefits on an accrual basis and set up an allowance for retirement benefits for officers.

Due to this change, for the year ended March 31, 2006, ¥29 million of the officers' retirement benefits incurred for that year, was recognized as selling, general and administrative expenses, and ¥257 million, 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 compared with what would have been reported under the previous accounting policy. Effects on the segment information are disclosed in Note 9.

(e) 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, in the fiscal year ended March 31 2006, income before income taxes minority interests decreased by ¥229 million.

2. Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less those 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, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Cash and deposits	¥48,155	¥43,917	$408,096
Time deposits with maturities over three months	(288)	(273)	(2,442)
Collateral deposits	(344)	—	(2,914)
Cash and cash equivalents	¥47,523	¥43,644	$402,740

The Company sold all shares of a consolidated subsidiary in the year ended March 31. The following table summarizes assets and liabilities of the subsidiary.

SHI Resort Development, Ltd. (as of September 20th, 2006)

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2007	2007
Current assets	¥ 323	$ 2,738
Long-term assets	¥2,798	$23,712
Total assets	¥3,121	$26,450
Current liabilities	¥3,853	$32,655
Long-term liabilities	¥ 459	$ 3,894
Total liabilities	¥4,312	$36,549

The proceeds from sale of the shares of SHI Resort Development, Ltd. are included in the proceeds from transfer of resort development business as described below.

Decrease of assets and liabilities caused by business transfer

The following table summarizes the relation between the decreases in assets and liabilities and the proceeds from transfer of resort development business.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2007	2007
Current assets	¥ 1,481	$ 12,552
Long-term assets	¥ 6,303	$ 53,416
Current liabilities	¥ (340)	$ (2,883)
Long-term liabilities	¥ (459)	$ (3,894)
Loss on business transfer	¥(1,270)	$(10,760)
Consideration of business transfer	¥ 5,715	$ 48,431
Cash and cash equivalents of SHI Resort Development, Ltd. as of the deconsolidation date	¥ (135)	$ (1,144)
Net transfer of resort development business	¥ 5,580	$ 47,287

The following table summarizes the relation between the decrease in assets and the proceeds from transfer of sliding gate business.

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2007	2007
Current assets	¥ 21	$ 175
Gain on business transfer	¥294	$2,494
Consideration of business transfer	¥315	$2,669
Cash and cash equivalents	—	—
Net transfer of resort development business	¥315	$2,669

3. Inventories

Inventories as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Finished products and semi-finished products	¥ 31,348	¥26,744	$265,658
Work in process	53,915	53,344	456,906
Raw materials and supplies	15,256	12,893	129,289
	¥100,519	¥92,981	$851,853

4. Impairment losses of fixed assets

The Company and certain consolidated domestic subsidiary recorded the following impairment losses in the year ended March 31, 2007.

Application	Category	Location	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2007
Business Property	Building and structures	Miyakonojo, Miyazaki-pref.	¥183	$1,547
Idle	Machinery and delivery equipment	Yokosuka, Kanagawa-pref.	¥ 25	$ 215
Total			¥208	$1,762

Reason for recording impairment loss
Due to the decrease in profitability and changes in business plan, it is expected that invested money cannot be recovered.

Method of grouping of assets
Asset grouping is determined for each operation group basically. Idle assets that are not expected to be used in the future are evaluated by each item.

Method of calculation of correctable amount
The correctable amount is based on the net sale price; it is calculated by deducting costs related to sale from the sale price.

The Company recorded the following impairment losses in the year ended March 31, 2006.

Application	Category	Location	Millions of yen 2006
Idle	Land	Kurashiki-shi, Okayama-pref.	¥229
Total			¥229

Reason for recording impairment loss
Company house site for the employees has been idle with the company house already been removed no plan for future use and the decline in the land price.

Method of grouping of assets
Asset grouping is determined for each operation group basically. Idle assets that are not expected to be used in the future are evaluated by each item.

Method of calculation of collectible amount
The collectible amount is based on the net sale price; it is calculated by deducting costs related to sale from the sale price.

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

Bank loans at March 31, 2007 and 2006 consisted of short-term loans, bearing interest principally at 1.05% and 0.59% per annum, respectively.

At March 31, 2007 and 2006 commercial paper principally bore an average annual interest rate of 0.66% and 0.3%, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
1.0% domestic bonds due in March 2010	¥10,000	¥10,000	$ 84,745
Loans principally from banks and insurance companies due serially through March 2015 with interest ranging from 1.35% to 2.35% in 2007			
Secured	3,486	4,544	29,537
Unsecured	37,849	62,772	320,758
	51,335	77,316	435,040
Amount due within one year	14,285	30,529	121,061
Amount due after one year	¥37,049	¥46,787	$313,979

Annual maturities of long-term debt as of March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year ending March 31	2007	2007
2008	¥14,285	$121,061
2009	2,610	22,116
2010	11,193	94,856
2011	8,132	68,916
2012	4,100	34,742
2013 and there after	11,015	93,349

At March 31, 2007, 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)
	2007	2007
Land	¥36,534	$309,614
Bank deposit, accountants receivable, other property, plant and equipment, at cost less accumulated depreciation	3,178	26,929
Total	¥39,712	$336,543

The Company has agreements with six banks for revolving lines of credit and four global commitment lines for timely operating-fund raising in the aggregate maximum amount of ¥26,809 million ($227,195 thousand). As of March 31, 2007, the balance of borrowings under these agreements was ¥3,129 million ($26,516 thousand).

The item concerning global commitment lines is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2007	2007
Aggregate guarantee	¥11,800	$100,000
The amount of loan as at March 31, 2007	3,129	26,516

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, 2007 and 2006.

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, 2007 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Deferred tax assets:			
Accrued bonuses	¥ 3,403	¥ 3,058	$ 28,837
Allowance for doubtful accounts	1,553	1,442	13,165
Allowance for warranty	1,937	1,339	16,413
Allowance for employees' severance and retirement benefit	15,066	14,041	127,677
Profit/loss from deferred hedge	1,134	—	9,614
Unrealized profit on inventories	1,299	1,077	11,010
Devaluation of marketable securities and investments	1,549	2,880	13,124
Excess depreciation	829	676	7,028
Operating losses carry forward	2,840	3,532	24,065
Others	4,123	4,151	34,938
Total deferred tax assets	33,733	32,196	285,871
Less-valuation allowance	(5,966)	(6,930)	(50,555)
Deferred tax assets-net	27,767	25,266	235,316
Deferred tax liabilities:			
Excess tax depreciation reserve	(135)	(147)	(1,145)
Net unrealized holding gains on securities	(5,918)	(6,980)	(50,155)
Difference on revaluation of assets and liabilities of subsidiaries	(1,849)	(1,849)	(15,667)
Accelerated depreciation	(335)	(527)	(2,836)
Retained earnings in consolidated subsidiaries overseas	(2,782)	(1,851)	(23,574)
Others	(31)	(38)	(266)
Deferred tax liabilities	(11,050)	(11,392)	(93,643)
Net deferred tax assets	¥16,717	¥13,874	$141,673

7. Net assets

Under the Corporate Law of Japan (the "Corporate Law"), 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 Corporate Law.

Under the Corporate Law, 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, 2007 amounted to ¥25,905 million ($219,533 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, 2007 include amounts representing the year-end cash dividends approved at the shareholders' meeting held on June 28, 2007.

8. Contingent liabilities

Certain consolidated domestic subsidiary is contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥112 million ($950 thousand) at March 31, 2007. In addition, at the same date the Company and certain consolidated subsidiaries are contingently liable as guarantors of bank loans or other borrowings by unconsolidated subsidiaries, affiliated companies and employees in the amount of ¥6,114 million ($51,810 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, 2007 and 2006, and a summary of identifiable assets, depreciation expenses and capital expenditures by segment of business activities for the years ended March 31, 2007 and 2006 are presented below:

	Millions of yen						
2007	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	¥222,906	¥79,397	¥69,491	¥68,286	¥160,177	¥ —	¥600,256
Intersegment	2,160	2,490	511	423	31	(5,615)	—
Total	225,066	81,888	70,002	68,709	160,208	(5,615)	600,256
Costs and expenses	196,222	77,393	63,287	59,182	145,812	(5,865)	536,032
Operating income	¥ 28,844	¥ 4,495	¥ 6,715	¥ 9,527	¥ 14,396	¥ 250	¥ 64,224
II Identifiable assets	¥239,031	¥59,213	¥88,760	¥50,451	¥123,991	¥39,444	¥600,890
Depreciation expenses	5,601	892	1,250	1,240	1,666	—	10,649
Impairment losses of fixed assets	—	—	—	25	183	—	208
Capital expenditures	9,188	1,124	1,606	2,497	2,842	—	17,257

	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

	Thousands of U.S. dollars (Note 1)						
2007	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	$1,889,032	$672,852	$588,909	$578,697	$1,357,429	$ —	$5,086,918
Intersegment	18,309	21,102	4,328	3,584	266	(47,589)	—
Total	1,907,341	693,954	593,237	582,281	1,357,695	(47,589)	5,086,918
Costs and expenses	1,662,902	655,874	536,335	501,545	1,235,695	(49,706)	4,542,643
Operating income	$ 244,439	$ 38,080	$ 56,902	$ 80,736	$ 122,000	$ 2,117	$ 544,275
II Identifiable assets	$2,025,684	$501,808	$752,201	$427,548	$1,050,773	$334,273	$5,092,287
Depreciation expenses	47,466	7,559	10,597	10,512	14,116	—	90,250
Impairment losses of fixed assets	—	—	—	215	1,547	—	1,762
Capital expenditures	77,866	9,522	13,611	21,162	24,089	—	146,250

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

Change in segment affiliation for the year ended March 31, 2007.
Japan Electron Beam Irradiation Service Co., Ltd. and SHI Examination and Inspection Ltd. have been transferred to the Mass-Produced Machinery segment from the current year due to changes in organizational management of the Company. The two companies had formerly been grouped into the Environmental Protection Facilities, Plants and Others segment and the Ship, Steel Structures and Other Specialized Equipment segment, respectively.
Compared to previous method, these changes have resulted in the following increase for the Mass-produced Machinery segment and decreases in the Environment Protection Facilities, Plants and Others segment, and the Ship, Steel Structures and Other Specialized Equipment segment.
Mass-produced Machinery segment: Increase of ¥1,960 million ($16,609 thousand) in sales, ¥1,423 million ($12,062 thousand) in operating expenses, ¥537 million ($4,548 thousand) in operating profit, ¥1,717 million ($14,555 thousand) in assets, ¥152 million ($1,287 thousand) in depreciation expenses, and ¥572 million ($4,848 thousand) in capital expenditures.
Environmental Protection Facilities, Plants and Others segment: Decrease of ¥745 million ($6,310 thousand) in sales, ¥593 million ($5,022 thousand) in operating expenses, ¥152 million ($1,289 thousand) in operating profit, ¥403 million ($3,412 thousand) in assets, ¥19 million ($161 thousand) in depreciation expenses, and ¥72 million ($614 thousand) in capital expenditures.
Ship, Steel Structures and Other Specialized Equipment segment: Decrease of ¥2,407 million ($20,398 thousand) in sales, ¥1,881 million ($15,939 thousand) in operating expenses, ¥526 million ($4,458 thousand) in operating profit, ¥1,628 million ($13,796 thousand) in assets, ¥133 million ($1,127 thousand) in depreciation expenses, and ¥500 million ($4,234 thousand) in capital expenditures.

(B) Information by geographic area for the years ended March 31, 2007 and 2006 is as follows:

	Millions of yen				
2007	Japan	North America	Other areas	Elimination and/ or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	¥494,178	¥71,264	¥34,815	¥ —	¥600,256
Intersegment	31,671	745	12,330	(44,746)	—
Total	525,849	72,008	47,145	(44,746)	600,256
Costs and expenses	472,246	64,054	44,200	(44,468)	536,032
Operating income	¥ 53,603	¥ 7,954	¥ 2,945	¥ (278)	¥ 64,224
II Identifiable assets	¥481,001	¥43,137	¥33,645	¥43,107	¥600,890

	Millions of yen				
2006	Japan	North America	Other areas	Elimination and/ or corporate	Consolidated
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

	Thousands of U.S. dollars (Note 1)				
2007	Japan	North America	Other areas	Elimination and/ or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	$4,187,948	$603,929	$295,041	$ —	$5,086,918
Intersegment	268,395	6,310	104,496	(379,201)	—
Total	4,456,343	610,239	399,537	(379,201)	5,086,918
Costs and expenses	4,002,087	542,829	374,573	(376,845)	4,542,643
Operating income	$ 454,256	$ 67,410	$ 24,964	$ (2,355)	$ 544,275
II Identifiable assets	$4,076,277	$365,571	$285,128	$365,310	$5,092,286

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, 2007 and 2006 were as follows:

	Millions of yen			
2007	To North America	To Asia	To other areas	Total
Overseas Sales	¥112,282	¥83,811	¥80,027	¥276,120
	18.7%	14.0%	13.3%	46.0%

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

	Thousands of U.S. dollars (Note 1)			
2007	To North America	To Asia	To other areas	Total
Overseas Sales	$951,546	$710,264	$678,189	$2,339,999

Notes: 1. Other areas include mostly the United Kingdom and Germany.
2. 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

In the year ended March 31, 2006, 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 segment are to increase cost and expense by ¥45 million and to decrease operating income by ¥45 million. Also the effects of the change on Japan segment is to increase cost and expense by ¥45 million and to decrease operating income by ¥45 million.

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

In the year ended March 31, 2006, the Company and a consolidated domestic subsidiary changed its accounting policy and accrued retirement benefits for officers at March 31, 2006. Such benefits had previously been expensed upon officers' retirement.

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

Impairment of fixed assets

Effective April 1, 2005, the Company and consolidated domestic subsidiaries adopted new accounting standard for impairment of fixed assets.

In the year ended March 31, 2006, although impairment loss of ¥229 million was recognized, there were no effects on Segment information as the related property was sold during that year.

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, 2007 is as follows:

(A) Lessees

	Millions of yen			
	Acquisition cost	Accumulated depreciation	Accumulated Impairment loss	Net book value
Machinery and equipment	¥29,131	¥10,376	¥143	¥18,612
Others	331	183	—	148
Total	¥29,462	¥10,559	¥143	¥18,760

	Thousands of U.S. dollars (Note 1)			
	Acquisition cost	Accumulated depreciation	Accumulated Impairment loss	Net book value
Machinery and equipment	$246,869	$87,932	$1,212	$157,725
Others	2,806	1,547	—	1,259
Total	$249,675	$89,479	$1,212	$158,984

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥4,559 million ($38,633 thousand) and ¥4,292 million for the years ended March 31, 2007 and 2006, respectively.

Future lease payments as of March 31, 2007 and 2006, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Due within one year	¥ 5,127	¥ 4,356	$ 43,453
Due after one year	13,776	11,738	116,743
Total	¥18,903	¥16,094	$160,196

Also, future lease payments under operating leases as of March 31, 2007 were ¥860 million ($7,287 thousand), including ¥665 million ($5,636 thousand) due within one year.

(B) Lessors

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥102	¥70	¥32
Total	¥102	¥70	¥32

	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	$861	$588	$273
Total	$861	$588	$273

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥21 million ($182 thousand) and ¥21 million for the years ended March 31, 2007 and 2006, respectively.

Future lease payments as of March 31, 2007 and 2006, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Due within one year	¥14	¥20	$122
Due after one year	28	31	235
Total	¥42	¥51	$357

Also, future lease payments under operating leases as of March 31, 2007 were ¥1,362 million ($11,546 thousand), including ¥275 million ($2,334 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, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Held-to-maturity debt securities:			
Non-listed corporate bonds	¥ 10	¥ 10	$ 85
Available-for-sale securities:			
Non-listed equity securities	2,394	4,266	20,289
Others	1,011	1,011	8,567
Total	¥3,415	¥5,287	$28,941

(B) The following tables summarize acquisition costs and book values of securities with fair value as of March 31, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars (Note 1)
Available-for-sale securities	2007	2006	2007
Acquisition cost:			
Equity securities	¥13,339	¥ 8,703	$113,043
Total	13,339	8,703	113,043
Book value:			
Equity securities	30,383	25,865	257,487
Total	30,383	25,865	257,487
Difference:			
Equity securities	17,044	17,162	144,444
Total	¥17,044	¥17,162	$144,444

(C) Total sales amount of available-for-sale securities sold in the year ended March 31, 2007 amounted to ¥3,633 million ($30,789 thousand) and the net gain amounted to ¥1,395 million ($11,825 thousand).

(D) The following tables summarize maturities of available-for-sale securities and held to maturity securities as of March 31, 2007

	Millions of yen				
2007	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)				
2007	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	$—	$85	$—	$—	$85
Total	$—	$85	$—	$—	$85

12. Derivatives information

The Companies enter into forward currency exchange contracts, interest rate swap contracts and currency option 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
Contracted amount to be paid/received:			
To sell foreign currencies	¥7,478	¥4,962	$63,372
To buy foreign exchange options	—	192	—
To sell foreign exchange options	—	—	—
Fair value:			
To sell foreign currencies	7,544	5,153	63,932
To buy foreign exchange options	—	(1)	—
To sell foreign exchange options	—	—	—
Net unrealized exchange gain (loss)	¥ (66)	¥ (192)	$ (560)

(B) Interest rate swap contracts

There were no interest rate swap contracts of the Companies at March 31, 2007 and 2006.

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)
	2007	2006	2007
(1) Projected benefit obligation	¥(66,099)	¥(66,830)	$(560,160)
(2) Fair value of employee retirement benefit trust	51,676	50,352	437,930
(3) Unfunded projected benefit obligation	(14,423)	(16,478)	(122,230)
(4) Unrecognized actuarial difference	(10,006)	(6,051)	(84,794)
(5) Unrecognized prior service cost	356	4	3,016
(6) Prepaid pension benefit expenses	(37)	(53)	(314)
(7) Allowance for severance and pension benefit	(24,110)	(22,578)	(204,322)

(B) Included in the statements of operation for the years ended March 31, 2007 and 2006 are the following severance and pension benefit expenses:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
(1) Service cost	¥3,440	¥3,152	$29,157
(2) Interest cost on projected benefit obligation	1,522	1,439	12,898
(3) Expected return on plan assets	(557)	(410)	(4,723)
(4) Recognized actuarial difference	(96)	1,558	(810)
(5) Recognized prior service cost	35	8	293
(6) Severance and pension benefit expense	4,344	5,747	36,814

(C) Assumptions for calculating:

	2007	2006
(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	0.0% (Trust assets for retirement benefits: 0.0%)	1.5%
(4) Amortization period of actuarial differences	12 years	12 years
(5) Amortization period of prior service cost	12 years	12 years

14. Subsequent events

(1) On June 28, 2007, the shareholders of the Company approved payment of year-end cash dividends to shareholders of record as of March 31, 2007 of ¥3.5 ($0.030) per share or a total of ¥2,144 million ($17,912 thousand).

(2) Stock exchange
At the meeting of the Board of Directors held on May 8, 2007, the Company resolved to consent that two 100% subsidiaries of the Company, Izumi Food Machinery Co., Ltd. ("Izumi Food Machinery") and SNM Fastener Co., Ltd. ("SNM Fastener"), become wholly owned subsidiaries of Nihon Spindle Manufacturing Co., Ltd. ("Nihon Spindle Manufacturing"), an affiliate company of the Company, through a stock exchange. As a result of this stock exchange, the Company will have more than 40% of the voting rights of Nihon Spindle Manufacturing. Also, as the substantial controlling relationship will be recognized, it is expected that Nihon Spindle Manufacturing will become a subsidiary of the Company.

Main reason for accepting stock exchange
The Company will exchange all of its shares in Izumi Food Machinery and SNM Fastener for shares in Nihon Spindle Manufacturing, and thereby the Company will have 40.6% of the voting rights in Nihon Spindle Manufacturing (including shares indirectly owned). Therefore, it is expected that, effective October 1, 2007, on which date the stock exchange will become effective, Nihon Spindle Manufacturing will become a subsidiary of the Company as the Company is considered to have the control due to the 40.6% ownership and existence of certain other conditions. It is considered that it will be beneficial for the Company Group to have Nihon Spindle Manufacturing as a subsidiary in pursuing the Company Group's strategy for growth and expansion.

By making Izumi Food Machinery and SNM Fastener 100% subsidiaries of Nihon Spindle Manufacturing, it is expected to facilitate Nihon Spindle Manufacturing in achieving its growth strategy earlier and expanding its business. At the same time, it is expected that Izumi Food Machinery and SNM Fastener will enjoy synergy effects.

The outline is as below:

Effective date of the stock exchange	October 1, 2007 (plan)
Legal form of business combination	Stock exchange implemented by Nihon Spindle Manufacturing
Rate of voting rights to be acquired	16.2% (of which -0.1% is indirectly owned)

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, 2007 and 2006, the related consolidated statements of income for the years then ended, the consolidated statement of changes in net assets for the year ended March 31, 2007, the consolidated statement of stockholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for the years ended March 31, 2007 and 2006, 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, 2007 and 2006, 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 to the consolidated financial statements, effective April 1, 2006, the Company and its consolidated domestic subsidiaries adopted new accounting standards for the presentation of net assets in the balance sheet.
2. As discussed in Note 1 to the consolidated financial statements, 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.
3. As discussed in Note 1 to the consolidated financial statements, 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.
4. As discussed in Note 1 to the consolidated financial statements, effective April 1, 2005, the Company and consolidated domestic subsidiaries adopted the new accounting standard for impairment of fixed assets.
5. As discussed in Note 14 (2) "Subsequent events" to the consolidated financial statements, Nihon Spindle Manufacturing Co., Ltd. is expected to become a subsidiary of the Company through a share exchange to be executed by Nihon Spindle Manufacturing Co., Ltd.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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.

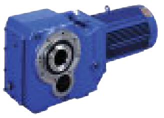
Tokyo, Japan
June 28, 2007

Glossary

Power transmission and control equipment

Power transmission and control equipment raises torque as the rotary speed of a motor is reduced to an optimum level. This kind of equipment has many applications, including elevators, escalators, industrial robots, and factory production lines. SHI produces a wide range of power transmission and control devices, from micro-miniature devices with a motor capacity of 6 watts to very large devices of several thousand kilowatts. SHI has the leading share of the Japanese market for this equipment.

ALTAX® NEO Gear Motor



RHYTAX® Drive

Plastic injection molding machines

Plastic injection molding machines are used to pour melted plastic into molds. Of the two system types, hydraulic and electromotive, the latter enables greater molding precision. SHI specializes in the precision, high-cycle molding required by optical discs and connectors, and has the top share in Japan for this device.

Fully Electric Controlled Injection Molding Machine "SE-DU"

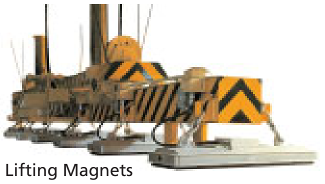
Cyclotrons

A cyclotron is an accelerator for particles which it has ionized using magnetic force. SHI is the only manufacturer of these devices in Japan, and has the top share of the domestic market for cyclotrons for positron emission tomography (PET) applications, which are highly effective in discovering and pinpointing cancer cells.

PET RADIO-TRACER PRODUCTION SYSTEM "HM-12S"

Lifting magnets

Lifting magnets are electromagnets attached to crane hooks, and are used for lifting iron plates and other bulky iron items. Our technology ensures that no magnetic force is transferred to the iron. SHI has the top share of this market in Japan (excluding self-propelled cranes).



Lifting Magnets

Silicon monocrystal lifting device

Using a super-conductive magnet, this device generates a powerful magnetic field enabling the formation of large silicon monocrystal ingots. The magnetic field facilitates precise control of the flow of the liquid silicon.

Silicon Monocrystal Lifting Device

Laser annealing system

Using a laser beam, this device crystallizes amorphous (non-crystal) silicone membrane. It is used in the manufacture of liquid crystal panels and organic electroluminescent (EL) products.

DPSS Laser Annealing System "SWA-90GD"

Cryopumps

This ultrahigh vacuum pump enables impurities to be removed from the air. It removes impurities at the molecular level by condensing and trapping gases and vapors on progressively colder surfaces. It can be used at the molecular level under very low temperature conditions, and is a crucial element in the semiconductor manufacturing process.

Cryopump System "SICERA™"

4KGM cryocooler

This device is capable of cooling to a temperature of -269°C (4K). Used for the recondensation of helium gas (reliquification of evaporated helium), this product has the top share of the global market for magnetic resonance imaging (MRI) medical applications.

4KGM Cryocooler

Precision positioning stages

Precision positioning stages set the vertical and horizontal positioning of substrates, wafers and other components precision processing. Because two axes are involved, they are also called XY stages. This product is used for manufacturing and inspection processes for liquid crystal panels and semiconductor wafers. SHI's high-precision positioning stages are one of our particular strengths.

SA-300 Series
Air Guided Type
Planar XY Stage
for Small Travel

Flocculator

This system uses relative weight difference to separate off suspended matter in waste water. A coagulant agent triggers floc (lump) formation, enabling more efficient separation through sedimentation.

Sumi-Thickener

Aframax tanker

Midsized oil tankers, with deadweight freight capacity in the 80,000 to 120,000-ton class.

105,200MTDW
Oil Tanker

Continuous ship unloader

The continuous ship unloader is a large harbor-installed hoist used for continuous unloading of iron ore and other bulk raw materials from cargo vessels at dock. SHI has the top share of this market in Japan.

Continuous Ship
Unloader

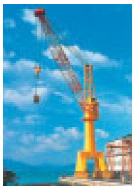
Goliath crane

This is a large portal-type crane installed mainly in shipyards. Our Goliath cranes have a maximum lifting capacity of 1,200 tons, and help raise the efficiency of shipbuilding operations. SHI has the top share of the domestic market.

Goliath Crane

Jib crane

This is a large crane installed at harbors and shipyards which travels on rails. SHI has the top share of the domestic market.



Jib Crane

Rough terrain crane

This is a self-propelled crane for construction sites. It is vehicle-mounted, and can be driven and operated from the cab driving seat.

Rough Terrain Crane

Crawler cranes

This is a self-propelled crane for construction sites. It travels on caterpillars.

Lattice Crawler Crane

Network

[Domestic Network]

Offices

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1-1, Ohsaki 2-chome, Shinagawa-ku,
Tokyo 141-6025, Japan
Tel: 81-3-6737-2000
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: 81-42-468-4104

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

Major Subsidiaries

Sumitomo Heavy Industries Environment Co.,Ltd.
25-9, Nishigotanda 7-chome, Shinagawa-ku,
Tokyo 141-0031, Japan
Principal business: Development, design, manufacture, sale and repair of water and sewage treatment facilities for the private sector, and other industrial equipment
Tel: 81-3-6737-2700
URL: http://www.shiev.shi.co.jp
100% owned subsidiary

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
1-1, Ohsaki 2-chome, Shinagawa-ku,
Tokyo 141-6025, Japan
Principal business: Sales, design, production, repair and reconstruction of vessel (excluding naval vessels) and Marine Structure. Marine engineering.
Tel: 81-3-6737-2620
100% owned subsidiary

Sumitomo Heavy Industries Engineering & Services Co., Ltd.
1-1, Ohsaki 2-chome, Shinagawa-ku,
Tokyo 141-6025, Japan
Principal business: Design, production and distribution of general industrial machinery, as well as remodeling, repairs, inspection and maintenance
Tel: 81-3-6737-2640
100% owned subsidiary

Shin Nippon Machinery Co., Ltd.
1-1, Ohsaki 2-chome, Shinagawa-ku,
Tokyo 141-6025, Japan
Principal business: Steam turbines, pumps and industrial fasteners
Tel: 81-3-6737-2630
URL: http://www.snm.co.jp
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

Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
1-1, Ohsaki 2-chome, Shinagawa-ku,
Tokyo 141-6026, 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: 81-3-6737-2600
URL: http://www.sumitomokenki.co.jp
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 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

SHI Plastics Machinery, Ltd.
1-1, Ohsaki 2-chome, Shinagawa-ku,
Tokyo 141-6026, Japan
Principal business: Plastics machinery
Tel: 81-3-6737-2587
100% 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

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

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

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

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

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

[Overseas Network]

Offices

Sumitomo Heavy Industries (Shanghai), Ltd.
26th Floor Raffles City (Office Tower) 268
Xizang 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

Sumitomo 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 of 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 28, 2007)

Board of Directors

Yoshio Hinoh*
Chairman

Yoshinobu Nakamura*
President and CEO

Yukio Kinoshita*
Senior Executive Vice President

Shinji Nishimura*
Senior Executive Vice President

Naoki Takahashi
Executive Vice President

Eitaro Konii
Senior Vice President

Yuji Takaishi
Senior Vice President

Kensuke Shimizu
Director

Mikio Ide
Vice President

Toshiaki Kakimoto
Director

*representative directors

Corporate Auditors

Eiichi Fujita, Standing Auditor
Nobuo Kadota, Standing Auditor
Hideki Kumagai, Auditor
Yoshio kohra, Auditor

Executive Officers

Yoshio Hinoh
Chairman

Yoshinobu Nakamura
President and CEO

Yukio Kinoshita
Senior Executive Vice President
General Manager, Export Administration Dept.

Shinji Nishimura
Senior Executive Vice President
General Manager,Power Transmission & Controls Group

Naoki Takahashi
Executive Vice President

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

Yuji Takaishi
Senior Vice President
General Manager, Personnel Group

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

Mikio Ide
Vice President

Toshiaki Kakimoto

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

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

Osamu Sekiya
Senior Vice President
General Manager, Precision Equipment Group

Shigeru Toyosumi
Senior Vice President
General Manager, Internal Control Group

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

Noboru Mimoto
Senior Vice President
General Manager, Energy & Environment Group

Shunsuke Betsukawa
Senior Vice President
General Manager, Corporate Finance, Accounting &
Administration Group

Shigeharu Yasunaga
Vice President
CEO, Shin Nippon Machinery Co., Ltd.

Corporate Data

Head office:	Sumitomo Heavy Industries, Ltd. 1-1, Ohsaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan Tel. +81-3-6737-2331 URL http://www.shi.co.jp
Founded:	1888
Incorporated:	November 1, 1934
Paid-in Capital:	¥30,871,651,300
Number of Employees*:	12,561 (Consolidated) 2,752 (Non-consolidated)
Transfer Agent:	The Sumitomo Trust and Banking Co., Ltd.
Stock Exchange Listings:	Tokyo, Osaka
Shares Outstanding*:	605,726,394
Number of Shareholders*:	59,951

Major Shareholders*:

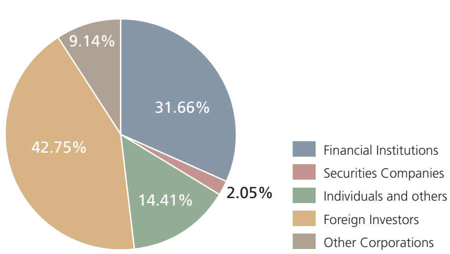
Name of shareholder	Percentage of voting rights
State Street Bank and Trust Company	6.5%
Japan Trustee Services Bank, Ltd.	6.2%
The Master Trust Bank of Japan, Ltd.	5.5%
Sumitomo Life Insurance Company	3.7%
Trust & Custody Services Bank, Ltd.	3.0%
Northern Trust Corporation	2.9%
Chase Manhattan Bank	2.6%
Sumitomo Mitsui Banking Corporation	2.5%
Mellon Bank, N.A.	2.5%
Nippon Life Insurance Company	1.7%

* As of March 31, 2007

Breakdown of Shareholders as of March 31, 2007

Breakdown of shareholders	Number of shares held (unit 1,000)
Financial Institutions	191,746
Securities Companies	12,404
Individuals and others	87,260
Foreign Investors	258,948
Other Corporations	55,368

"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.



Additional copies of this annual report and other information may be obtained at the above URL or by contacting:

Corporate Communications Department, Sumitomo Heavy Industries, Ltd.
1-1, Ohsaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan Tel. +81-3-6737-2331

Up to Sept. 7, 2007, the address is 9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan Tel. +81-3-5488-8336

Sumitomo Heavy Industries, Ltd.

http://www.shi.co.jp

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