



With the deepest gratitude to all our shareholders and customers, we are pleased to present our company's Annual Report for the fiscal year ended March 31, 1999.

Overall, business remained flat this term, continuing at much the same level as the preceding year. Signs of deflation also exacerbated the growing lack of confidence in the Japanese financial system, leading to further declines in capital investment and consumer spending. The net result of all this

was a depression in Japan which according to many analysts was the worst since the end of the Second World War.

Conditions in Japan were further aggravated by the stagnation affecting most Asian economies, bringing about a drop in total SHI sales to ¥554.5 billion, down ¥2.3 billion from the previous fiscal year. Moreover, in spite of continued efforts to reduce expenses and develop more effective cost controls, the Company's ordinary profits were -¥2.1 billion, a decline of ¥10.6 billion from the previous year.

Much of this decline can be attributed to intensified competition and a significant decrease in sales and profits in the mass-produced machinery and construction machinery sectors.

Losses this term came to ¥12.3 billion, with an overall profit decline of ¥16.9 billion from the previous year, primarily as a result of a general market collapse and the poor performance of the construction machinery business. To counter this, we are pushing through a package of management reform measures including reduction of fixed costs (personnel expenses, etc.) and dealer reorganization, integration and discontinuance.

During this past term, SHI also continued with its medium-term management plan called "CHALLENGE 98" which aimed at improving earning power through 1998. Though the plan has shown consistent results, the severe economic environment prevailing this past term prevented any further

improvements in earning power for 1998. In view of the dramatic changes in the business climate, we have developed a new three-year management plan called "C21". Beginning in 1999, "C21" will introduce a new shareholder-focused management indicator — the "Return On Invested Capital (ROIC)". We will also be focusing our management strategies on the themes of "Change", "Innovation" and "Speed" based on the invested capital effective ratio and market competitiveness in an era of intensified global competition. This strategy involves focusing on human resource development, enhancing the competitiveness of core businesses and aiming for market leadership, and investing additional management resources in business sectors which are already competitive and number one in their markets and have the potential to grow further. As we begin the full-scale introduction of this consolidated system, financial, human resources and technical

management will become more group-management oriented and greater efforts will be made to strengthen group competence and company-wide profits. Moreover, in order to achieve faster and more efficient decision-making with corporate governance, we are introducing a new "executive officers' system" in conjunction with the reform of the board of directors.

In other areas, we have implemented a corporate-scale "Y2K project" to ensure that all our key in-company systems and products in general are "Y2K compliant".

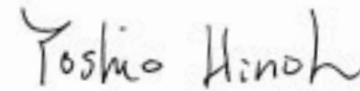
In the coming year, we are anticipating an end to the decline of the Japanese economy, but expect that decreasing public

investment, reductions in surplus corporate equipment, and increasing unemployment will continue to keep the Japanese economy in the doldrums for some time to come. However, with the development of C21, we expect to maintain a profit level over our capital costs, while reforming and consolidating the structure of our company and boosting group management power.

In conclusion, we would like to say once again how greatly we appreciate the support that all of you have given us over the years. We sincerely hope that you will continue to provide the same level of support in the years to come.



Mitoshi Ozawa,
Chairman of the Board



Yoshio Hinoh
President and CEO