Sumitomo Heavy Industries, Ltd.

CONSOLIDATED FINANCIAL REPORT

For the Full Year Ended March 31, 2011

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

Summary of Consolidated Financial Results

For the Full Year Ended March 31, 2011
Presented May 9, 2011

Sumitomo Heavy Industries, Ltd.

Listed exchanges	Tokyo Stock Exchange, Osaka Securities Exchange
Stock code	6302
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Scheduled date of ordinary shareholders' meeting	June 29, 2011
Scheduled date of payment of cash dividends	June 30, 2011
Scheduled date of securities report filing	June 29, 2011
Availability of supplementary explanatory materials for financial statement	None
Holding of meeting to explain financial statement	Yes

1. FY 2010 Consolidated Results *(April 1, 2010 to March 31, 2011)*

(1) Business Results

(Units: millions of yen)

	Current Full Term April 1, 2010 to March 31, 2011		Previous Full Term April 1, 2009 to March 31, 2010	
		% change		% change
Net sales	548,015	6.2	516,165	(19.7)
Operating income	45,803	62.1	28,254	(50.4)
Ordinary income	44,253	68.1	26,333	(47.6)
Net income	27,926	110.3	13,280	(2.7)
Net income per share (yen)	45.87		22.01	
Fully diluted net income per share	--		--	
Return on equity (ROE, %)	10.9		5.6	
Return on assets (%)	7.2		4.2	
Ordinary income to net sales (%)	8.4		5.5	

Note: Comprehensive Income
Fiscal year ended March 31, 2011: 21,601 million yen (--%)
Fiscal year ended March 31, 2010: -- million yen (--%)

Reference: Equity method investment profit and loss:
Fiscal year ended March 31, 2011: (447 million yen)
Fiscal year ended March 31, 2010: (22 million yen)

(2) Financial Position

(Units: millions of yen)

	End of Current Full Year As of March 31, 2011	End of Previous Full Year As of March 31, 2010
Total assets	626,829	610,087
Net assets	269,380	254,153
Equity ratio (%)	42.6	40.0
Net assets per share (yen)	435.10	404.73

Reference: Equity:
Fiscal year ended March 31, 2011: 267,326 million yen
Fiscal year ended March 31, 2010: 244,221 million yen

(3) Cash Flows

(Units: millions of yen)

	Current Full Year April 1, 2010 to March 31, 2011	Previous Full Year April 1, 2009 to March 31, 2010
Cash flows from operating activities	36,521	57,513
Cash flows from investing activities	(23,513)	(13,954)
Cash flows from financing activities	(22,020)	(26,686)
Cash and cash equivalents at end of period	51,700	61,452

2. Dividends

(Units: yen)

	Year Ended March 31, 2010	Year Ended March 31, 2011	Year Ending March 31, 2012 (forecast)
Annual dividends per share			
First quarter	--	--	--
Second quarter	0.00	0.00	4.00
Third quarter	--	--	--
End of term	4.00	8.00	6.00
Annual dividends	4.00	8.00	10.00
Total dividends (millions of yen)	2,414	4,915	
Payout ratio (consolidated, %)	18.2	17.4	20.5
Net assets dividend yield (consolidated, %)	1.0	1.9	

3. FY 2011 Consolidated Forecasts *(April 1, 2011 to March 31, 2012)*

(Units: millions of yen)

	Second Quarter (Cumulative) April 1, 2010 to Sept. 31, 2011		Full Year April 1, 2011 to March 31, 2012	
		% change		% change
Net sales	294,000	16.7	630,000	15.0
Operating income	18,500	13.5	54,000	17.9
Ordinary income	16,500	11.4	50,500	14.1
Net income	9,000	13.6	30,000	7.4
Projected net income per share (yen)	14.65		48.83	

4. Additional Notes

(1) Transfers of important subsidiaries during the fiscal period (moves of specific subsidiaries due to change in scope of consolidation): None

Newly consolidated: --

Excluded from consolidation: --

(2) Changes in principles, procedures, and presentation of accounting treatment

(i) Changes resulting from revisions to accounting standards, etc.: Yes

(ii) Changes other than (i): None

(3) Number of shares issued (common shares)

(i) Number of shares issued at end of fiscal period (including treasury stock):

As of March 31, 2011 614,527,405 shares
As of March 31, 2010 605,726,394 shares

(ii) Number of treasury shares at end of fiscal period:

As of March 31, 2011 122,181 shares
As of March 31, 2010 2,315,778 shares

(iii) Average number of shares during fiscal period:

As of March 31, 2011 608,820,423 shares
As of March 31, 2010 603,438,552 shares

Supplementary Materials – Table of Contents

I. Results of Operations

1. Analysis of Operating Results

(1) Summary of Economic Climate during the Consolidated Fiscal Year

During the consolidated fiscal year under review, tough conditions in the overall Japanese economy continued despite a pick-up in certain areas such as the economic boost provided by the impact of government measures and the increase in exports to emerging markets. In addition, concerns regarding the future impact of the Tohoku Region Earthquake that occurred in March 2011 are weighing down the domestic economy. On the other hand, overseas markets as a whole are seen to be on a recovering trend with the continued strengths of emerging markets, most notably in China, as well as the gentle uptick in the economic forecast of other developed markets such as Europe and the United States that have struggled with financial instability and historic unemployment rates, respectively.

With this business environment as a backdrop, the Sumitomo Heavy Industries Group (hereinafter, “the Group”) actively operated a business model that responded to changes in the economic environment and took measures to not only aggressively cut costs, but also accelerate its global expansion with a focus on emerging markets such as China. As a result, for the full consolidated fiscal year under review, the Group was able to record growth over the prior fiscal year in all metrics including orders, net sales, operating income, ordinary income and net income. Moreover, all segments of the Group posted a profit for the full fiscal year.

With the outlook calling for sustained economic growth in emerging markets, the Group pulled back on making non-essential capital investments in Japan and made focused investments and expanded its footprint in emerging areas such as China, Indonesia and Brazil. Several of the major strategies in this initiative that were introduced during the consolidated fiscal year under review are outlined below:

(i) Responding to Changes in the Business Environment

Emerging markets continue to exhibit strong sustainable growth of their economies while even developed markets such as Europe, the United States and Japan are showing signs of recovery. Nevertheless, the unpredictable future outlook of the global economy means that the Group needs to be able to respond to any type of change in the external market environment. With this in mind, the Group has continued to focus on controlling fixed costs, reducing expenses and realigning business units, while at the same time, aggressively and steadily introducing measures that will lead to future growth. One example of these measures is the focused investments that the Group has made into geographical areas and products where growth is anticipated.

(ii) Achieve Global Growth

The Group has been working to strengthen its overseas network over the past years with the goal to continue expanding its business globally. During the consolidated fiscal year under review, the Group worked to improve and enhance its global manufacturing platform through such efforts as increasing the capacity of the Tangshan plant that manufactures gearboxes and hydraulic excavators, and commencing construction on new plants for hydraulic excavators and gearboxes in Indonesia and Brazil, respectively. Further, the Group has been working to integrate the local operations in China into an area management company format, with the aim to establish a framework to strengthen overall management capabilities and increase the speed of decision-making in the country. The Group also decided to establish Sumitomo Heavy Industries (China) Limited as an Investment Firm in China to unify fund management activities of local Group companies and to support the funding needs of capital investments that are made in the country.

Also in the consolidated fiscal year under review, the Group delisted Nihon Spindle Manufacturing Co., Ltd. from the Tokyo and Osaka stock exchanges and converted the company into a wholly-owned subsidiary. Further, the Group worked to maximize internal synergies by engaging its overseas offices and global network.

Finally, in the Group’s core business area of power transmission products, the acquisition of Belgium-based gear box maker, Hansen Industrial Transmissions NV allowed it to expand its footprint in the areas of Europe, South Africa and Australasia which were designated as priority regions in recent times.

(iii) Growth Through Innovation

While creating new products through innovation-based development, efforts to strengthen internal development, design, manufacturing, and sales functions continued to be implemented during the consolidated fiscal year under review. These activities were carried with the purpose to promote the development of first-class products, a fundamental strategy of the Group.

From the standpoint of product innovation to create first-class products, the Group's proton therapy system received high praise from customers in the field of advanced medical devices. In addition, with respect to introducing innovation into business processes, a new organizational structure that integrates the overseeing role of human resources, administration, finance, and information system functions was established to increase the efficiency and advance the performance of the Group's head office functions and optimize the overall organization.

(iv) Formulation of the New Medium-Term Management Plan Entitled "Innovation 21"

The financial objectives outlined in the previous medium-term management entitled "Global 21" were not attained mainly due to the impact of the global financial crisis. However, the focus on the fundamental policies of "Globalization" and "Innovation" in the plan was viewed to be appropriate at the time. In the new medium-term management plan entitled "Innovation 21", the Group plans to continue focusing on the fundamental policies of the "Global 21" Medium-Term Management Plan while also working to advance them into the future. In the new plan, the Group has formulated three management measures, which are 1. Enhance and Effectively Utilize the Group's Global Network, 2. Develop and Market Innovative Products (Product Innovation), and 3. Introduce Innovation into Manufacturing and Sales Functions to Increase Productivity as well as into Business Execution Functions (Process Innovation). Execution of the plan has commenced based on these three key measures.

(v) Thorough Implementation of Compliance Measures

At the onset of the consolidated fiscal year under review, the President and CEO himself sent a strong message to all employees stating that, "compliance comes before everything". This re-emphasized the importance of this topic for the Group.

The Group acted on this message and worked to globalize its compliance efforts during the consolidated fiscal year under review. For example, to strengthen compliance in overseas business activities where the Group is expanding, new training programs were introduced for employees posted to overseas positions. Moreover, training on anti-monopoly laws was carried out by the management teams of Group companies located in the United States and Germany.

Through the efforts outlined above, the fiscal year under review saw orders increase 33% from the previous fiscal year to finish at JPY534.9 billion and net sales increase by 6% from the previous fiscal year to finish at JPY548.0 billion on a consolidated basis.

From the standpoint of profit and loss, the fiscal year under review saw operating income increase by 62% from the previous fiscal year to finish at JPY45.8 billion on a consolidated basis, primarily through benefits gained from an increase in net sales as well as cost-cutting measures. Ordinary income also increased by 68% from the previous fiscal year to finish at JPY44.3 billion on a consolidated basis while net income increased by 110% from the previous fiscal year to finish at JPY27.9 billion on a consolidated basis. Finally, after-tax ROIC* was 7.8%.

On a non-consolidated basis, the fiscal year under review saw orders finish at JPY173.9 billion and sales finish at JPY213.2 billion. Further, the Group posted a non-consolidated operating income of JPY1.6 billion, a non-consolidated ordinary income of JPY8.0 billion and a non-consolidated net income of JPY8.7 billion for the fiscal year under review.

*The ROIC (Return on Invested Capital) for the Group is calculated based on the following numerical formula:

$$\text{ROIC} = \frac{(\text{Operating Income} + \text{Interest Income / Dividend Income}) \times 55\%\ (1 - \text{Effective Tax Rate})}{(\text{Average Shareholder Equity for the Fiscal Year}) + (\text{Average Interest-Bearing Liabilities for the Fiscal Year})}$$

(2) Group Results by Segment

(i) Machinery Components

In this segment, there was marked recovery in emerging markets, most notably in China. Furthermore, the demand for factory automation equipment such as machine tools and industrial robots was strong. As a result, orders and sales both increased compared to the previous fiscal year.

As a result, the segment as a whole saw orders increase by 23% from the previous fiscal year to finish at JPY75.8 billion, and sales increase by 8% from the previous fiscal year to finish at JPY74.6 billion. In addition, the segment posted an operating income of JPY4.9 billion, an increase of 466% from the previous fiscal year.

(ii) Precision Machinery

In the plastics machinery business, the recovery of the markets in East Asia, most notably in China, resulted in an increase in both orders and sales as compared to the previous fiscal year.

With respect to other businesses in this segment, medical devices performed strongly while the performance of devices designed for both the semiconductor and electronics industries showed signs of recovery. Consequently the segment, as a whole, achieved growth in both orders and sales as compared to the previous fiscal year.

More specifically, the segment saw orders increase by 42% from the previous fiscal year to finish at JPY150.5 billion, and sales increase by 25% from the previous fiscal year to finish at JPY131.9 billion. In addition, the segment posted an operating income of JPY8.3 billion as compared to an operating loss of JPY2.6 billion in the previous fiscal year.

(iii) Construction Machinery

The hydraulic excavator business saw an increase in both orders and sales as the scale of the business expanded in China where the market for the product line remained strong while portions of the European markets, where inventory adjustment efforts are taking shape, recovered.

However, the crane business saw a decline in both orders and sales as the economic recovery in the North American market did not materialize as quickly as expected and demand continued to trend negatively.

As a result, the segment as a whole saw orders increase by 41% from the previous fiscal year to finish at JPY141.2 billion and sales increase by 27% from the previous fiscal year to finish at JPY130.8 billion. Further, the segment posted an operating income of JPY5.3 billion, an increase of 827% from the previous fiscal year.

(iv) Industrial Machinery

The turbine and pump business saw an increase in orders, namely in biomass-fueled power generating turbines, as capital investments in the resources and energy sectors in Asia showed signs of recovery. Unfortunately, sales fell mainly due to the low number of orders received in the previous fiscal year.

The material handling machinery business saw strong performance from products designed for the electricity generating industry. On the other hand, sales in this sector fell mainly due to the low number of orders received in the previous fiscal year.

As a result, the segment as a whole saw orders increase by 22% from the previous fiscal year to finish at JPY73.2 billion, and sales fall by 22% to JPY66.5 billion. Further, the segment posted an operating income of JPY10.3 billion, a decrease of 28% from the previous fiscal year.

(v) Ships

The ship business has been slow to recover compared to other industries. Amid this type of business environment, the segment received two new ship orders compared to no new orders received in the previous fiscal year, while eight vessels were handed over as compared to nine in the previous fiscal year.

As a result, the segment as a whole saw orders increase by 240% from the previous fiscal year to finish at JPY14.6 billion, and sales decrease by 5% to JPY59.5 billion. Further, the segment posted an operating income of JPY9.9 billion, an increase of 49% from the previous fiscal year.

(vi) Environmental Facilities & Plants

The energy plant business saw a decline in both orders and sales as compared to the previous fiscal year as the industrial power boiler market remained weak.

In the water treatment plant business, the recovery of the water treatment facilities sector resulted in an increase in both orders and sales as compared to the previous fiscal year.

As a result, the segment as a whole saw orders increase by 13% from the previous fiscal year to finish at JPY70.6 billion, and sales decrease by 7% from the previous fiscal year to JPY76.1 billion. Further, the segment posted an operating income of JPY5.6 billion, a decrease of 22% from the previous fiscal year.

(3) Outlook for the Upcoming Fiscal Year (Ending March 31, 2012)

The economic environment that forms the backdrop of the Group's business remains uncertain. On one hand, the economies of emerging markets such as China are anticipated to maintain its positive momentum while at the same time the overall global economy is on a gentle path to recovery. On the other hand, the potential impact of the Tohoku Region Earthquake that occurred in March of this year is a cause for concern for the economy.

In this type of environment, the Group plans to focus on implementing the principal strategies set forth in the new Innovation 21 Medium-Term Management Plan to ensure that global expansion efforts are accelerated and innovation is introduced on both the product and process level.

As of the date this document is published, the outlook for the upcoming fiscal year ending March 31, 2012 is as follows:

Consolidated Results	Amount	As Compared to 2010 Fiscal Year
Sales	JPY630.0 billion	+15.0%
Operating income	JPY54.0 billion	+17.9%
Ordinary income	JPY50.5 billion	+14.1%
Net income	JPY30.0 billion	+7.4%

(The above figures are calculated at an exchange rate of JPY85 against the dollar.)

* The above forecast concerning future financial results is believed to be reasonable based on information available at the time of publication. Actual financial results may vary from the above forecast due to a variety of factors.

2. Analysis of Financial Condition

(i) Condition of Assets, Liabilities, and Net Assets

Total assets at the end of the consolidated fiscal year under review stood at JPY626.8 billion, an increase of JPY16.7 billion from the end of previous fiscal year. This was mainly due to increases of JPY23.4 billion in accounts and notes receivables, and JPY7.6 billion in inventory assets offsetting decreases of JPY10.0 billion in cash and deposits, JPY2.3 billion in tangible fixed assets, and JPY6.1 billion in investments and other assets.

Total liabilities at the end of the consolidated fiscal year under review stood at JPY357.4 billion, an increase of JPY1.5 billion from the end of the previous fiscal year. This was mainly due to a decrease of JPY19.8 billion in outstanding interest-bearing liabilities being outweighed by an increase of JPY23.9 billion in accounts and notes payable. The ratio of outstanding interest-bearing debt to total assets improved by 3.5 points to end at 10.8% for the consolidated fiscal year as short-term borrowings were repaid.

Net assets at the end of the consolidated fiscal year under review stood at JPY269.4 billion, an increase of JPY15.2 billion from the end of the previous fiscal year. As a result of converting Nihon Spindle Manufacturing Co., Ltd. into a wholly-owned subsidiary as well as other changes, minority shareholders' interest fell by JPY7.9 billion, while additional paid-in capital increased by JPY3.3 billion. In addition, decreases of JPY1.0 billion in other marketable securities and JPY5.8 billion in the foreign currency translation adjustment were offset by a JPY26.1 billion increase in retained earnings.

As a result, the shareholders' equity ratio for the consolidated fiscal year under review improved by 2.6 points from the end of the previous fiscal year to finish at 42.6%.

(ii) Cash Flow Conditions

The cash and cash equivalent balance at the end of the consolidated fiscal year under review stood at JPY51.7 billion, a decrease of JPY9.8 billion from the previous fiscal year. The cash flow conditions in each area as well as the factors behind any changes are outlined below:

(Cash Flow from Operating Activities)

Cash flow from operating activities was JPY36.5 billion for the consolidated fiscal year under review, a decrease of JPY21.0 billion from the previous fiscal year. The reason for this was although accounts payable increased, trade receivables, inventory assets and the amount paid for corporate taxes also increased.

(Cash Flow from Investing Activities)

Cash flow used for investing activities totaled JPY23.5 billion for the consolidated fiscal year under review, a decrease of JPY9.6 billion from the previous fiscal year. The main outflow was related to an increase in cash used to acquire the shares of subsidiary companies that resulted in a change in their consolidated status.

(Cash Flow from Financing Activities)

Cash flow used for financing activities was JPY22.0 billion for the consolidated fiscal year under review, a decrease of JPY4.7 billion from the previous fiscal year. The main purpose of using the funds was to repay interest-bearing debt.

The following table summarizes trends in the cash-flow index of the Group:

	FY2006	FY2007	FY2008	FY2009	FY2010
Shareholders' equity ratio	34.1	34.9	34.8	40.0	42.6
Shareholders' equity ratio on a market price basis	118.0	57.3	29.8	55.7	53.2
Redemption period (years)	1.6	3.1	3.2	1.5	1.9
Interest coverage ratio (multiples)	34.1	22.3	21.5	30.8	24.2

Shareholders' equity ratio = Shareholders' equity ÷ Total assets

Shareholders' equity ratio on market price basis = Total market value of shares ÷ Total assets

Redemption period = Outstanding interest-bearing debt ÷ Operating cash flow

Interest coverage ratio = Operating cash flow ÷ Interest expense

3. Basic Policy on Earnings Appropriation and Dividend for the Consolidated Fiscal Year Under Review as well as the Current Fiscal Year Ending March 31, 2012

The Group's basic stance on profit sharing is to pay a dividend amount commensurate to the income earned during the period, and to keep that amount as high as possible. However, the decision on the actual amount of the dividend is made after taking into consideration the sufficient level of retained earnings needed to ensure that the Group is able to sustain a stable business model in the long term.

In regards to dividends for the consolidated fiscal year under review, after considering the aforementioned policy and the Group's financial performance, a decision was made to increase the dividend by JPY4 from the previous year to make the dividend amount JPY8 per share.

For the fiscal year ending March 2012, the Group is forecasting a dividend of JPY10 per share.

II. Status of the Business Group

The main business areas of the Group and the positioning of major Group companies in such areas are outlined below.

A total of 12 companies including Sumitomo Industrias Pesadas do Brasil Ltda., PT. Sumitomo S.H.I. Construction Machinery Indonesia, and Hansen Industrial Transmissions NV, have been included within the scope of consolidation during the fiscal year under review. These companies were either newly established or their shares were acquired by the Group. In addition, one company was excluded from consolidation due to the completion of a merger.

1. Machinery Components

In the area of transmission power equipment, both Sumitomo Heavy Industries and Seisa Gear, Ltd. are responsible for the overall manufacturing and distribution of such products. On a global basis, the responsibility for manufacturing and distribution of these products falls to Sumitomo Machinery Corporation of America in North America; Sumitomo (SHI) Cyclo Drive Germany GmbH in Europe; and Sumitomo (SHI) Cyclo Drive Asia Pacific Pte., Ltd. in Southeast Asia. In China, Sumitomo Heavy Industries (Tangshan) Ltd. carries out manufacturing activities while Sumitomo (SHI) Cyclo Drive China, Ltd. carries out manufacturing activities and is also responsible for the overall distribution of products in the country. Distribution of the products in the Japan market is the responsibility of Sumitomo Heavy Industries PTC Sales Co., Ltd.

2. Precision Machinery

In the area of plastics machinery equipment, Sumitomo Heavy Industries is responsible for the overall manufacturing, distribution and after-sale service functions of the product line. Globally, SHI Plastics Machinery Inc. of America is responsible for the overall manufacturing and distribution of these products in North America, and Sumitomo (SHI) Demag Plastics Machinery GmbH, is responsible for overall operations in Europe.

Sumitomo Heavy Industries is responsible for overall manufacturing and distribution functions in the areas of laser processing systems, cryocoolers, precision positioning equipment, ion accelerators, Plasma coating system for FPDs, precision forgings, control components, and defense equipment.

In the area of semiconductor production equipment, both Sumitomo Heavy Industries and SEN Corporation are responsible for overall manufacturing and distribution.

Finally, Sumitomo NACCO Materials Handling Co., Ltd. is responsible for the overall manufacturing and distribution of forklift equipment in this segment.

3. Construction Machinery

In the area of hydraulic excavators and road construction machinery, Sumitomo (S.H.I.) Construction Machinery Co., Ltd. is responsible for the manufacturing and distribution of such products to overseas markets, Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd. is responsible for the manufacturing of such products in China, while Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd. is responsible for the distribution for such products to the domestic Japanese market.

In the area of mobile cranes, Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. is responsible for overall development and distribution along with the manufacturing of such products for the Japanese market, while Link-Belt Construction Equipment Company, L.P., LLLP mainly oversees the overall manufacturing and sales functions of such products in North America.

4. Industrial Machinery

In this segment, Sumitomo Heavy Industries is responsible for the manufacturing and distribution of logistics and handling systems as well as automated parking systems.

Sumitomo Heavy Industries Techno-Fort Co., Ltd. is responsible for the overall manufacturing and distribution of forging machines.

Sumitomo Heavy Industries Engineering and Services Co., Ltd. is responsible for the overall manufacturing and distribution of material handling systems. Further, the same company is also responsible for after-sales service of material handling systems along with logistics and handling systems.

Finally in this segment, Shin Nippon Machinery Co., Ltd. is responsible for the overall manufacturing and distribution of industrial turbines and pumps.

5. Ships

In this segment, shipbuilding activities are carried out by Sumitomo Heavy Industries Marine & Engineering Co., Ltd. while Sumitomo Heavy Industries is responsible for the distribution of the finished product.

6. Environmental Facilities & Plants

In the areas of boiler systems, industrial waste treatment systems, pulp and paper machinery, and air pollution prevention equipment, both Sumitomo Heavy Industries and Nihon Spindle Manufacturing Co., Ltd. are responsible for overall manufacturing and distribution functions.

Sumitomo Heavy Industries Environment Co., Ltd. is responsible for the overall manufacturing and distribution of water treatment systems.

Further, the manufacturing and distribution of reactor vessels is handled by Sumitomo Heavy Industries and Sumitomo Heavy Industries Process Equipment Co., Ltd.

Finally, Izumi Food Machinery Co., Ltd. is responsible for the overall manufacturing and distribution of food machinery.

III. Management Policies

1. Basic Management Policy

The Group is guided by the Sumitomo Group corporate philosophy. The two components of the philosophy, namely "the placing of prime importance on conducting business with integrity and sound management" and "not pursuing easy gains or acting imprudently under any circumstance" forms the basis of the Group's vision in any environment, regardless of the era or the state of the economy. The Group rigorously complies with the spirit of the philosophy, and actively pursues structural reforms to the business organization to ensure that it is able to build a strong corporate culture.

The Group also believes that by focusing on "creating customer value" and thereby earning their long-term trust, it can achieve sustainable growth and increase overall corporate value. Further, succeeding in this task will also lead to the Group meeting its corporate citizenship responsibilities to its shareholders and employees, and to the surrounding community.

In order to ensure a highly stable growth trajectory on the global stage, the Group is committed to becoming a "Systematic Knowledge-Creating Company" that is able to sustainably supply customers with first-class products. Moreover, the Group is actively strengthening its functional efficiencies in the areas of marketing, development, and production in pursuit of the ultimate level of workmanship.

2. Target Management Benchmarks

ROIC has been set forth as an important management benchmark for the Sumitomo Heavy Industries Group. The Group's goal is to achieve ROIC figures that exceed WACC and maintain levels at 10% or greater on an annual basis.

3. Medium- to Long-Term Management Strategy

The next fiscal year (2011) will mark the beginning of the next medium-term management plan. Unfortunately, the goals set forth in the current Global 21 Medium-Term Management Plan were not achieved, mainly due to the global economic crisis that occurred after the plan was formulated. Nevertheless, the Group believes that it correctly featured "Globalization" and "Innovation" in the plan, and as such, it plans to formulate a new plan based on the general principles of the current plan, while at the same time taking into consideration the various changes in the business environment.

4. Action Items for the Group

The economic environment that forms the backdrop of the Group's business remains uncertain. On one hand, exports to emerging markets such as China that are exhibiting sustained economic growth is driving positive performance, while the gentle recovery trend that is being seen in developed markets such as the United States and Europe bodes well for the Group. On the other hand, the potential for long-term increases in crude oil prices due to political instability in the Middle East and Africa, rising food and commodity prices, and the resurgence of the European credit crisis are risks that put downward pressure on performance. On top of all this, the potential slowdown of the Japanese economy as a result of the impact of the Tohoku Region Earthquake that occurred in March of this year is a cause for concern.

Moreover, global competition among companies attempting to capture the rise in demand from emerging markets is becoming fiercer as companies based in developed countries that are used to battling each other for market share are now faced with having to compete with competitors from emerging markets that are advancing rapidly.

In this type of environment, the Group commenced the implementation of its new medium-term management plan entitled "Innovation 21" as of the beginning of the fiscal year ending March 2012. The plan was formulated with the goal of achieving sales in excess of JPY1 trillion in the long-term. In addition, the plan continues to focus on making the Group a "Global Sumitomo Heavy Industries", which was one of the tenets of the previous Global 21 Medium-Term Management Plan, while at the same time calling for innovation in product development and business processes. By doing so, the Group is aiming to increase competitiveness and become a "Strong and Powerful Sumitomo Heavy Industries" that is able to achieve sustainable growth and increase profitability in any type of external environment.

(1) The New "Innovation 21" Medium-Term Management Plan

The financial objectives of the new "Innovation 21" Medium-Term Management Plan are to achieve net sales of JPY730 billion and operating income of JPY73 billion by the end of fiscal 2013 (ending March 31, 2014). In order to achieve these figures, the Group has formulated three management measures which are as follows:

1. Enhance and Effectively Utilize the Group's Global Network
2. Develop and Market Innovative Products (Product Innovation)
3. Introduce Innovation into Manufacturing and Sales Functions to Increase Productivity as well as into Business Execution Functions (Process Innovation).

These measures will be implemented by the Group with adjustments being made if and when the market environment changes from when the plan was originally formulated. Further, the Group will continue to maintain financial discipline during the implementation process, while at the same time effectively utilizing the stronger financial strength of the Group to actively make investments into growth areas. More specifically, the Company plans to make capital and development investments worth JPY150 billion during the three-year implementation period of the plan.

(2) Key Areas of Focus for the Fiscal Year Ending March 31, 2012

As mentioned before, the economic forecast for the fiscal year ending March 31, 2012, which also coincides with the first year of implementing the new Innovation 21 Medium-Term Management Plan, remains complex and unclear. Nevertheless, the Group will be focusing on implementing the following measures in order to achieve the goals set forth in the plan.

(i) Enhance and Effectively Utilize the Group's Global Network

SHI will work to enhance its global network of manufacturing, sales and service locations in recognition of the fact that this remains the most important issue that the Group faces to ensure that it achieves future growth. During the implementation period of the previous Global 21 Medium-Term Management Plan, the Group focused on developing new global locations through such efforts as the construction of a hydraulic excavator and gearbox manufacturing plant in Tangshan City (China), and commenced work on the construction of a new hydraulic excavator manufacturing plant in Indonesia, and a gearbox manufacturing plant in Brazil. In addition, the Group acquired Belgium-based gearbox maker, Hansen Industrial Transmissions NV. In the new Innovation 21 Medium-Term Management Plan, the Group will work to strengthen existing overseas locations while at the same time establishing regional head offices in various parts of the globe to ensure that the organization is able to make management decisions quickly, a trait that is necessary in this ever-changing market. These efforts have already started in China where a management company structure has been formed for its local operations.

Moreover, the Group will aim to build a global network that allows its member companies around the world to organically leverage the competitive edge that each boasts.

(ii) Develop and Introduce Innovative Products to Focused Markets (Promotion of Product Innovation)

The Group plans to focus its efforts on the following markets and products. The demand for hydraulic excavators is showing significant growth in emerging markets as internal needs grow. In this field, the Group will aim to achieve sales growth that exceeds the rate of market expansion by introducing hydraulic excavators that are more energy efficient than the industry standard. In the field of medical devices, the Group will launch and aim to popularize globally a compact and economical proton therapy system that works to treat malignant tumors in the human body. With respect to power transmission products that are essential in all kinds of industrial and infrastructure settings, the Group will aim to increase the efficiency of its product line-up, and achieve sales growth through the introduction of energy efficient products. Also in other product areas, the Group plans to accelerate the development of "Green Products" that focus on the concepts of energy efficiency and the use of sustainable energy.

In order to enhance and promote this level of product innovation, the Group has decided to reorganize its Corporate Technology Operations Group into two distinctively separate areas as of the beginning of the consolidated fiscal year ending March 31, 2012. Under the new structure, the Technology Research Center will oversee the development of medium to long-term basic and fundamental technologies, while the Product Planning & Technology Management Group that will now be unified with the business units will oversee innovation-based product development. Through this move, the Group has clearly delineated the roles and responsibilities of each working area.

(iii) Introduce Innovation into Manufacturing and Sales Functions to Increase Productivity as well as into Business Execution Functions (Process Innovation)

Over the years, the Group has introduced a multitude of process innovation ideas into all stages of the business including product planning, design and development, manufacturing, sales and after-sales service. In the future, the accumulated experience and expertise gained from these efforts will be applied on a global scale. This is anticipated to result in significant cost savings and an increased market share in emerging economies.

(iv) Thorough Implementation of Compliance Measures

The Group firmly believes that it has a social responsibility to conduct its business in a proper manner, and that ensuring compliance across all of its business activities is one of, if not the most, important aspect of this principle. With this in mind, compliance-related activities have been ongoing for some time. In the future, as the Group becomes more global, compliance-related activities will be thoroughly implemented throughout the organization to ensure that a level of compliance that befits a “Global Excellent Company” is maintained.

IV. Consolidated Financial Statements

1. Consolidated Balance Sheets

(Units: millions of yen)

	End of Full Year As of March 31, 2010	End of Full Year As of March 31, 2011
	Amount	Amount
Assets		
Cash and deposits	62,511	52,486
Notes and accounts receivable	131,893	155,267
Products	34,408	41,827
Works in progress	70,071	70,802
Raw materials and stock	18,937	18,406
Deferred income taxes	8,632	9,648
Other	14,400	17,898
Allowance for doubtful accounts	(1,073)	(991)
Current assets	**339,780**	**365,342**
Buildings and structures (net)	53,072	50,799
Machinery and transportation tools (net)	38,166	37,003
Land	115,971	117,157
Construction in progress	1,450	1,938
Other (net)	7,818	7,259
Tangible assets	216,477	214,156
Intangible assets	7,308	6,936
Investment securities	30,398	26,281
Long-term loans	79	67
Deferred income taxes	9,886	8,319
Other	7,733	7,199
Allowance for doubtful accounts	(1,574)	(1,472)
Investments and other assets	46,523	40,395
Fixed assets	**270,308**	**261,487**
Total assets	**610,087**	**626,829**

(Units: millions of yen)

	End of Full Year As of March 31, 2010	End of Full Year As of March 31, 2011
	Amount	Amount
Liabilities		
Notes and accounts payable	108,018	131,951
Short-term bank loans	30,524	21,504
Long-term loans due within one year	10,438	4,411
Income tax payable	6,759	11,574
Advance payments received on contracts	40,971	33,295
Allowance for guaranteed construction	5,218	5,196
Other allowances	2,589	1,804
Other	30,438	32,773
Current liabilities	**234,954**	**242,507**
Bonds	10,000	10,000
Long-term debt due after one year	36,698	31,918
Employees' severance and retirement benefits	32,426	31,380
Other allowances	235	208
Deferred income taxes on revaluation	32,211	31,836
Other	9,411	9,600
Long-term liabilities	**120,981**	**114,943**
Total liabilities	**355,935**	**357,450**
Net assets		
Common stock	30,872	30,872
Capital surplus	20,503	23,789
Retained earnings	161,951	188,047
Treasury stock	(1,494)	(67)
Stockholders' equity	**211,831**	**242,641**
Unrealized gains on securities	2,003	981
Loss on deferred hedge	1,125	960
Adjustment regarding pension obligations of consolidated overseas subsidiaries	(1,753)	(1,978)
Revaluation reserve for land	40,386	39,851
Foreign currency translation adjustments	(9,370)	(15,129)

	End of Full Year As of March 31, 2010	End of Full Year As of March 31, 2011
	Amount	Amount
Total accumulated other comprehensive income	**32,390**	**24,686**
Minority interests	**9,931**	**2,053**
Total net assets	**254,153**	**269,380**
Liabilities and net assets	**610,087**	**626,829**

2. Consolidated Income Statements and Consolidated Statement of Comprehensive Income

Consolidated Income Statements

(Units: millions of yen)

	Previous Full Year April 1, 2009 to March 31, 2010	Current Full Year April 1, 2010 to March 31, 2011
	Amount	Amount
Net sales	516,165	548,015
Cost of sales	412,751	426,479
Gross income	103,414	121,537
Selling, general & administrative expenses	75,160	75,733
Operating income	28,254	45,803
Non-operating income		
Interest income	183	136
Dividend income	1,039	1,380
Other	3,328	2,474
Total non-operating income	4,550	3,989
Non-operating expenses		
Interest expenses	1,940	1,489
Other	4,530	4,050
Total non-operating expenses	6,471	5,539
Ordinary income	26,333	44,253
Extraordinary gains		
Gain from negative goodwill	--	3,437
Gain on sale of securities	1,581	-
Income from subsidies	863	-
Total extraordinary gains	2,444	3,437
Extraordinary losses		

	Previous Full Year April 1, 2009 to March 31, 2010	Current Full Year April 1, 2010 to March 31, 2011
	Amount	Amount
Loss on impaired assets	--	1,396
Amount accrued as a result of a change in a subsidiary's retirement pension plan	--	503
Financial impact due to the application of the accounting standard for asset retirement obligations	--	480
Loss on contracts	1,000	220
Loss on devaluation of marketable securities	1,000	--
Environmental protection expenses	503	--
Total extraordinary losses	2,503	2,598
Income before income taxes	26,274	45,091
Corporate income tax current	11,502	16,555
Corporate income tax deferred	382	(468)
Total corporate income taxes	11,884	16,087
Net income before adjusting for profit (loss) from minority interests	--	29,004
Minority interests	1,109	1,078
Net income	13,280	27,926

Consolidated Statement of Comprehensive Income

(Units: millions of yen)

	Previous Full Year April 1, 2009 to March 31, 2010	Current Full Year April 1, 2010 to March 31, 2011
	Amount	Amount
Net income before adjusting for profit (loss) from minority interests	—	29,004
Other comprehensive income		
Unrealized gains on securities	—	(1,046)
Profit (loss) on deferred hedge	—	(120)
Adjustment regarding pension obligations of consolidated overseas subsidiaries	—	(224)
Foreign currency translation adjustments	—	(5,970)
Amount applied for equity method accounting of affiliates	—	(43)
Total other comprehensive income	—	(7,403)
Comprehensive income	—	21,601
(Breakdown)		
Comprehensive income relating to parent company shareholdings	—	20,756
Comprehensive income relating to minority interests	—	845

3. Consolidated Statements of Changes to Stockholders' Equity

(Units: millions of yen)

	Previous Full Year April 1, 2009 to March 31, 2010	Current Full Year April 1, 2010 to March 31, 2011
Stockholders' equity		
Capital stock		
Balance at end of previous period	30,872	30,872
Fluctuation in the period		
Total fluctuation in the period	--	--
Balance at end of period	30,872	30,872
Capital surplus		
Balance at end of previous period	20,503	20,503
Fluctuation in the period		
Disposal of treasury stock	--	5
Changes as a result of a stock-swap	--	3,281
Total fluctuation in the period	--	3,286
Balance at end of period	20,503	23,789
Earned surplus		
Balance at end of previous period	148,725	161,951
Fluctuation in the period		
Dividends	--	(2,414)
Net income	13,280	27,926
Disposal of treasury stock	(2)	(1)
Difference from transfer of revaluation reserve for land	(26)	535
Increase from addition of consolidated subsidiaries accompanying changes in scope of consolidation	578	50
Decrease from addition of consolidated subsidiaries accompanying changes in scope of consolidation	(605)	--
Total fluctuation in the period	13,225	26,097
Balance at end of period	161,951	188,047

	Previous Full Year April 1, 2009 to March 31, 2010	Current Full Year April 1, 2010 to March 31, 2011
Treasury stock		
Balance at end of previous period	(1,471)	(1,494)
Fluctuation in the period		
Acquisition of treasury stock	(28)	(164)
Disposal of treasury stock	4	8
Changes as a result of a stock-swap	--	1,583
Total fluctuation in the period	(24)	1,427
Balance at end of period	(1,494)	(67)
Stockholders' equity		
Balance at end of previous period	198,629	211,831
Fluctuation in the period		
Dividends	--	(2,414)
Net income	13,280	27,926
Acquisition of treasury stock	(28)	(164)
Disposal of treasury stock	3	12
Difference from transfer of revaluation reserve for land	(26)	535
Changes as a result of a stock-swap	--	4,864
Increase from addition of consolidated subsidiaries accompanying changes in scope of consolidation	578	50
Decrease from addition of consolidated subsidiaries accompanying changes in scope of consolidation	(605)	--
Total fluctuation in the period	13,202	30,810
Balance at end of period	211,831	242,641
Accumulated other comprehensive income		
Unrealized holding gains on other securities		
Balance at end of previous period	(547)	2,003
Fluctuation in the period		
Fluctuations other than stockholders' equity in the period (net)	2,549	(1,022)
Total fluctuation in the period	2,549	(1,022)
Balance at end of period	2,003	981

	Previous Full Year April 1, 2009 to March 31, 2010	Current Full Year April 1, 2010 to March 31, 2011
Loss on deferred hedge		
Balance at end of previous period	1,945	1,125
Fluctuation in the period		
Fluctuations other than stockholders' equity in the period (net)	(820)	(165)
Total fluctuation in the period	(820)	(165)
Balance at end of period	1,125	960
Adjustment regarding pension obligations of consolidated overseas subsidiaries		
Balance at end of previous period	(3,008)	(1,753)
Fluctuation in the period		
Fluctuations other than stockholders' equity in the period (net)	1,255	(224)
Total fluctuation in the period	1,255	(224)
Balance at end of period	(1,753)	(1,978)
Difference from transfer of revaluation reserve for land		
Balance at end of previous period	40,360	40,386
Fluctuation in the period		
Fluctuations other than stockholders' equity in the period (net)	26	(535)
Total fluctuation in the period	26	(535)
Balance at end of period	40,386	39,851
Foreign exchange translation adjustments		
Balance at end of previous period	(8,798)	(9,370)
Fluctuation in the period		
Fluctuations other than stockholders' equity in the period (net)	(572)	(5,759)
Total fluctuation in the period	(572)	(5,759)
Balance at end of period	(9,370)	(15,129)
Total accumulated other comprehensive income		
Balance at end of previous period	29,952	32,390
Fluctuation in the period		

	Previous Full Year April 1, 2009 to March 31, 2010	Current Full Year April 1, 2010 to March 31, 2011
Fluctuations other than stockholders' equity in the period (net)	2,438	(7,705)
Total fluctuation in the period	2,438	(7,705)
Balance at end of period	32,390	24,686
Minority interests		
Balance at end of previous period	10,116	9,931
Fluctuation in the period		
Fluctuations other than stockholders' equity in the period (net)	(185)	(7,878)
Total fluctuation in the period	(185)	(7,878)
Balance at end of period	9,931	2,053
Total net assets		
Balance at end of previous period	238,697	254,153
Fluctuation in the period		
Dividends	--	(2,414)
Net income	13,280	27,926
Acquisition of treasury stock	(28)	(164)
Disposal of treasury stock	3	12
Difference from transfer of revaluation reserve for land	(26)	535
Changes as a result of a stock-swap	--	4,864
Increase from addition of consolidated subsidiaries accompanying changes in scope of consolidation	578	50
Decrease from addition of consolidated subsidiaries accompanying changes in scope of consolidation	(605)	--
Fluctuations other than stockholders' equity in the period (net)	2,254	(15,583)
Total fluctuation in the period	15,455	15,227
Balance at end of period	254,153	269,380

4. Consolidated Cash Flows Statement

(Units: millions of yen)

	Previous Full Year April 1, 2009 to March 31, 2010	Current Full Year April 1, 2010 to March 31, 2011
Cash flows from operating activities		
Income before income taxes	26,274	45,091
Depreciation	19,725	17,941
Gain from negative goodwill	--	(3,437)
Loss on impaired assets	--	1,396
Interest and dividend income	(1,222)	(1,515)
Interest expenses	1,940	1,489
(Increase) decrease in notes and accounts receivable	15,652	(30,224)
(Increase) decrease in inventories	27,977	(6,280)
Increase (decrease) in notes and accounts payable	(29,282)	26,420
Other	5,948	(1,587)
Subtotal	**67,012**	**49,295**
Interest and dividend received	1,785	1,014
Interest expenses	(1,869)	(1,508)
Payments for income taxes	(9,415)	(12,280)
Net cash provided by operating activities	**57,513**	**36,521**
Cash flows from investing activities		
(Increase) decrease in time deposits	1,713	(368)
(Increase) decrease in securities	1,500	--
Acquisition costs associated with fixed assets	(20,004)	(14,393)
Payments for acquisition of subsidiaries' stock accompanying changes in scope of consolidation	--	(10,607)
Proceeds from sale of securities	1,485	457
Other	1,353	1,398
Net cash used in investing activities	**(13,954)**	**(23,513)**

	Previous Full Year April 1, 2009 to March 31, 2010	Current Full Year April 1, 2010 to March 31, 2011
Cash flows from financing activities		
Net increase (decrease) in short-term loans	(5,754)	(7,260)
Net increase (decrease) in commercial paper	(24,000)	--
Proceeds from long-term debt	6,099	--
Repayments for long-term debt	(1,137)	(10,697)
Income from the issuance of bonds	10,000	--
Costs associated with the redemption of bonds	(10,000)	--
Cash dividends paid	(22)	(2,423)
Payment of dividends to minority stockholders	(1,004)	(347)
Other	(868)	(1,294)
Net cash used in financing activities	**(26,686)**	**(22,020)**
Effect of exchange rate changes on cash and cash equivalents	205	(977)
Net increase (decrease) in cash and cash equivalents	17,079	(9,989)
Cash and cash equivalents at beginning of year	**42,414**	**61,452**
Increase due to new consolidated companies	1,942	236
Increase due to mergers and acquisitions	17	--
Cash and cash equivalents at end of year	**61,452**	**51,700**

5. Significant Events or Conditions that Question the Premise of a Going Concern

No events or conditions are noted.

6. Significant Items Forming the Basis for the Preparation of the Consolidated Financial Statements

With the exception of the items specified in “7. Revisions to Significant Items Forming the Basis for the Preparation of the Consolidated Financial Statements” below, there have been no material changes from the “Significant Items Forming the Basis for the Preparation of the Consolidated Financial Statements” included in the Marketable Securities Report (submitted June 29, 2010). Disclosure of such items has therefore been deemed unnecessary for the purposes of this report.

7. Revisions to Significant Items Forming the Basis for the Preparation of the Consolidated Financial Statements

(1) Application of the "Accounting Standard for the Equity Method of Accounting for Investments"

As of the consolidated fiscal year under review, the "Accounting Standard for the Equity Method of Accounting for Investments" (Accounting Standard – ASBJ Statement No. 16 dated March 10, 2008) and the "Practical Solution on the Unification of Accounting Policies Applied to Affiliated Companies Accounted for Using the Equity Method" (Practical Issues Task Force - PITF No. 24 dated March 10, 2008) have been applied. There is no impact to ordinary income and net income before taxes and other adjustments as a result of this change.

(2) Application of "Accounting Standard for Asset Retirement Obligations"

As of the consolidated fiscal year under review, the "Accounting Standard for Asset Retirement Obligations" (Accounting Standard – ASBJ Statement No. 18 dated March 31, 2008) and the "Guidance on the Accounting Standard for Asset Retirement Obligations" (Guidance Document – ASBJ Guidance No. 21 dated March 31, 2008) have been applied. The impact to operating income, ordinary income and segment information as a result of this change is minimal. However, an extraordinary loss of JPY480 million has been included in the financial statements for the consolidated fiscal year under review as a result of this change in accounting standards.

(3) Application of "Accounting Standard for Business Combinations"

As of the consolidated fiscal year under review, the "Accounting Standard for Business Combinations" (Accounting Standard – ASBJ Statement No. 21 dated December 26, 2008), the "Accounting Standard for Consolidated Financial Statements" (Accounting Standard – ASBJ Statement No. 22 dated December 26, 2008), the "Partial Amendments to the Accounting Standard for Research and Development Costs" (Accounting Standard – ASBJ Statement No. 23 dated December 26, 2008), the "Revised Accounting Standard for Business Divestitures" (Accounting Standard – ASBJ Statement No. 7 revised December 26, 2008), the "Revised Accounting Standard for the Equity Method of Accounting for Investments" (Accounting Standard – ASBJ Statement No. 16 revised December 26, 2008), and the "Revised Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures" (Guidance Document – ASBJ Guidance No. 10 revised December 26, 2008) has been applied.

8. Additional Information

As of the consolidated fiscal year under review, the "Accounting Standard for the Presentation of Comprehensive Income" (Accounting Standard – ASBJ Statement No. 25 dated June 30, 2010) has been applied. However, please note that the figures for "Valuation and Translation Adjustments" and "Total Valuation and Translation Adjustments" from the previous fiscal years has been used for "Other Accumulated Comprehensive Income" and the "Total Other Accumulated Comprehensive Income" in the consolidated financial statement for the period ended March 31, 2011.

9. Items of Special Note Concerning the Consolidated Financial Statements

Special notes concerning lease transactions, transactions with interested parties, tax effect accounting, marketable securities, derivative transactions, retirement benefits, and others have been omitted as the disclosure of such notes is considered to have no material significance to the financial statements.

(Information Regarding Business Combinations)

Current Full Year ***(April 1, 2010 to March 31, 2011)***

(Stock Swap Agreement between the Group and Nihon Spindle Manufacturing Co., Ltd.)

At a board meeting held on May 10, 2010, the Group's board of directors passed a resolution to make Sumitomo Heavy Industries, Ltd. (hereinafter referred to as "SHI") the sole parent company of Nihon Spindle Manufacturing Co., Ltd. (hereinafter referred to as "Nihon Spindle"), previously a consolidated subsidiary, through a stock swap agreement (hereinafter referred to as the "Agreement").

As per the Agreement, the stock swap was completed on October 1, 2010 and as a result, Nihon Spindle became a wholly owned subsidiary of SHI. Further, shares of Nihon Spindle were delisted from the respective stock exchanges as of September 28, 2010 (with the final trading day being set as September 27, 2010).

1. Summary of the Business Combination

   (1) Name of Company Being Combined

   Nihon Spindle Manufacturing Co., Ltd.

   (2) Description of Business of the Company Being Combined

   Manufacturing and sale of environmental equipment, air-conditioning equipment, industrial equipment, and construction materials

   (3) Purpose of the Stock-Swap Agreement

   Since October 2007, when the Group made Nihon Spindle a consolidated subsidiary and became its parent company, both companies have worked to create business synergies. However, the significant changes to the business environment in recent years and the more intensified market competition as a result of the global economic downturn that began at the end of 2008 have led to the need for Nihon Spindle to further expand its global presence and strengthen its product capabilities. With this in mind, Nihon Spindle determined that the best way to actively utilize the Group's technical development capabilities and global business network, and to achieve growth was through the execution of a stock swap agreement with its parent company.

   (4) Effective Day of Stock Swap

   October 1, 2010

   (5) Legal Form of Business Combination

   Through the stock-swap agreement, SHI became the wholly-owning parent company of Nihon Spindle, while Nihon Spindle became a wholly-owned subsidiary of SHI.

   Please note that SHI performed this stock swap through the use of a simplified stock swap arrangement as per the stipulations stated in Article 796, Item 3 of the Companies Act.

   (6) Ratio of Voting Rights Acquired

   59.1% (of which 0.4% are indirect holdings)

2. Summary of Accounting Standards Implemented

   As per stipulations of the "Accounting Standard for Business Combinations" (Accounting Standard – ASBJ Statement No. 21 dated December 26, 2008), and the "Revised Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures" (Guidance Document – ASBJ Guidance No. 10 revised December 26, 2008), this agreement has been treated as a business combination involving entities or operations of entities under common control.

3. Breakdown of Acquisition Costs Relating to the Acquired Company

Consideration for acquisition	JPY4,864 million
Expenses directly attributable to the acquisition	JPY41 million
Total acquisition cost	JPY4,905 million

4. Type of Shares Used, Share Allocation Ratio, Method of Calculation, Number of Shares Issued, and Value of the Shares

(1) Share Allocation Ratio and Type of Shares Used

For every one share of Nihon Spindle stock, 0.38 shares of SHI common stock will be allocated and issued.

(2) Method of Calculating the Share Allocation Ratio

SHI employed the services of Daiwa Securities Capital Markets Co., Ltd. and Nihon Spindle employed the services of Nomura Securities Co., Ltd. to act as independent third parties to perform the calculation. The results of the calculation were discussed between SHI and Nihon Spindle, and an ultimate figure was decided upon.

(3) Number of Shares Issued and Value of the Shares

Number of shares issued: 11,311,011 shares of common stock

(Please note that SHI appropriated treasury stock already held by the Group for the purposes of this agreement)

Value of shares: JPY4,864 million

5. Negative Goodwill and Other Amounts Generated as a Result of the Agreement

Gain on negative goodwill JPY3,437 million

Reason for the generation of negative goodwill

The reduction in the amount of minority interest as a result of the Agreement exceeded the costs to additionally acquire the common stock of Nihon Spindle, generating negative goodwill.

(Acquisition of Shares of Hansen Industrial Transmissions NV)

On October 15 2010, SHI announced that it had submitted an offer to Hansen Transmissions International (hereinafter referred to as "Hansen Transmissions") to acquire all outstanding shares of Hansen Industrial Transmissions NV (hereinafter referred to as "HIT"), a subsidiary of Hansen Transmissions and a manufacturer and distributor of industrial gear boxes based in Belgium. On December 20, 2010, SHI and Hansen Transmissions finalized a share transfer agreement regarding the acquisition. Finally, on March 4, 2011 (local time), the transfer of shares from Hansen Transmissions to SHI was completed.

1. Name of Company being Combined, Description of Business of Company being Combined, Purpose of the Acquisition, Effective Date of the Business Combination, Legal Form of the Business Combination, Name of Company after being Combined, and the Ratio of Voting Rights Acquired

(1) Name of Company being Combined, and Description of Business

Hansen Industrial Transmissions NV

Manufacturer and distributor of industrial gearboxes

(2) Purpose of the Acquisition

SHI has positioned power transmission products as one of its core business areas and has worked, over the years, to enhance its capabilities in this sector. Presently, industrial gearboxes account for 25% of the overall sales of the power transmission business. With economic growth in emerging markets expected to remain steady, demand for power transmission-related products is anticipated to grow. Moreover, significant capital investment activity in resource-driven economies such as China, South America, South Africa, Australia and India are also expected to drive the expansion of the market for industrial gearboxes.

International customers account for more than 50% of the overall sales figure for the Group's industrial gear box business. However, on a geographical basis, international orders are dominated by customers in North America and Asia. In order to grow this area of business, SHI recognized the need to expand its footprint and increase sales in areas such as Europe, South Africa and Australasia.

Hansen Transmissions, which was established in Belgium in 1923, is a manufacturer of gearboxes with a significant brand presence in the market. Its subsidiary, HIT, has a manufacturing base outside of Antwerp and also operates assembly plants in six countries around the world. In addition, HIT has an established sales network in not only its home base of Europe, but also in resource-driven markets such as South Africa and Australia which are set to drive future demand in this sector.

Beginning in 1973, SHI had a licensing agreement in place with Hansen Transmissions for approximately 20 years. As a result, the Group expects to be able to generate product synergies with HIT in the near term. Further, the acquisition of HIT shares and making the firm a wholly-owned subsidiary, will allow SHI to expand its distribution channels, and increase sales of industrial gearboxes on a global basis.

(3) Effective Date of the Business Combination

March 4, 2011

(4) Legal Form of the Business Combination

Acquisition of shares through cash and other consideration

(5) Name of the Company after being Combined

No change

(6) Ratio of Voting Rights Acquired

100%

2. Summary of Accounting Standards Implemented

   As per stipulations of the "Accounting Standard for Business Combinations" (Accounting Standard – ASBJ Statement No. 21 dated December 26, 2008), and the "Revised Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures" (Guidance Document – ASBJ Guidance No. 10 revised December 26, 2008), this acquisition has been treated using purchase accounting.

3. Period in which the Financial Performance of the Acquired Company has been Included in the Consolidated Financial Statement

   As the date of acquisition was March 31, 2011, the financial performance of the acquired company prior to this date has not been included in the Consolidated Financial Statement for current consolidated fiscal year under review.

4. Breakdown of Acquisition Costs relating to the Acquired Company

Consideration for acquisition	JPY10,097 million
Expenses directly attributable to the acquisition	JPY436 million
Total acquisition cost	JPY10,533 million

5. Amount of Goodwill Generated, Reason for the Generation of Goodwill, Method of Amortization, and Amortization Period

   (1) Amount of Goodwill

   JPY1,070 million

   (2) Reason for the Generation of Goodwill

   The acquisition cost for this transaction was determined by an independent third-party calculation of the cost of sale of the acquired company. Since this amount exceeded the market value of net assets at the time the acquired company was combined, goodwill was generated.

   (3) Method of Amortization and Amortization Period

   5 years using the straight line method of amortization

6. Breakdown of Asset and Liability Amounts Assumed at the Time of Business Combination

Current assets	JPY8,806 million
Fixed assets	JPY5,278 million
Total assets	JPY14,084 million
Current liabilities	JPY3,833 million
Long-term liabilities	JPY788 million
Total liabilities	JPY4,621 million

7. Accounting Method Changes to be Applied from the Current Consolidated Fiscal Year (Ending March 31, 2012)

   No changes are anticipated

8. Amount of Acquisition Cost Treated as an Expense (e.g. Research and Development Costs) and the Specific Item

   Not applicable

9. Estimated Impact of the Business Combination on the Consolidated Income Statement if the Acquisition Date was at the Start of the Consolidated Fiscal Year Under Review

Sales	JPY9,997 million
Operating income	JPY92 million
Ordinary income	JPY104 million
Income before income taxes	JPY104 million
Net income	JPY126 million

(Method Used to Calculate the Estimated Amount and Major Assumptions)

The estimated amounts are calculated using the net sales and profit or loss figures for the period beginning April 1, 2010 and ending March 31, 2011. Amounts such as estimated amortization of goodwill have not been included in the calculation.

10. Allocation of Acquisition Costs

As the real market value of a portion of the Combined Business' assets is yet to be determined, only a provisional accounting using reasonable information available at the time was carried out for the consolidated fiscal year under review. For this reason, an allocation of acquisition costs has not been completed. Please note that any differential amount up until the time of settlement has been accounted for under the category of goodwill.

(Segment Information)

1. Summary of Reporting Segments

The Group's reporting segments are based on those units within the Group where separate financial information is available and where the Board of Directors of the Group periodically deliberates over matters such as the distribution of management resources and the financial performance of such segments.

The Group formulates a comprehensive international and domestic strategy for individual products and services for the head office and for each consolidated subsidiary, and executes such strategies at the operating level. Consequently, the Group comprises segments that are split by categories of products and services offered by the head office and consolidated subsidiaries. More specifically, the six reporting segments of the Group are "Machinery Components", "Precision Machinery", "Construction Machinery", "Industrial Machinery", "Ships", and "Environmental Facilities & Plants".

Businesses	Main Products
Machinery Components	Power transmission and control
Precision Machinery	Plastic injection molding machines, film forming machines, semiconductor production equipment, laser processing systems, cryocoolers, precision positioning equipment, ion accelerators, medical machines and equipment , plasma coating systems for FPDs, precision forgings, control components, defense equipment, machining tools
Construction Machinery	Hydraulic excavators, mobile cranes, road machinery
Industrial Machinery	Forging machines, material handling systems, logistics systems, automated parking systems, turbines, pumps
Ships	Ships
Environmental Facilities & Plants	Private power generation facilities, boilers, industrial waste treatment facilities, air pollution control equipment, water and sewage treatment systems, process equipment, pressure vessels, agitation tanks, air conditioning equipment, food processing machinery

2. Information Regarding Net Sales, Profits, Assets, Liabilities and Other Items by Reporting Segment

Current Full Year *(April 1, 2010, to March 31, 2011)*

(Units: millions of yen)

Item \ Segment	A	B	C	D	E	F	Subtotal	Other[1]	Total	G[2]	H
Net sales											
(1) Sales to external customers	74,591	131,944	130,811	66,544	59,496	76,070	539,458	8,558	548,015	—	548,015
(2) Internal sales between segments or exchanges	1,810	1,158	9	137	74	794	3,983	2,190	6,173	(6,173)	—
Total	76,401	133,103	130,821	66,681	59,570	76,864	543,440	10,748	554,188	(6,173)	548,015
Segment profit	4,874	8,340	5,290	10,252	9,897	5,566	44,219	1,518	45,737	66	45,803
Segment assets	106,365	137,987	121,339	49,921	80,230	52,246	548,087	39,466	587,553	39,276	626,829
Other categories											
Depreciation expense	3,298	5,304	3,720	1,706	2,422	1,037	17,488	453	17,941	—	17,941
Increase in tangible and intangible assets	3,848	2,976	4,442	869	1,106	712	13,953	339	14,292	—	14,292

Segments:

A: Machinery Components
B: Precision Machinery
C: Construction Machinery
D: Industrial Machinery
E: Ships
F: Environmental Facilities & Plants
G: Adjustments
H: Value included on the consolidated income statement

Notes:

1. The “Other” segment represents those business segments that are not included as part of any other reporting segment. This includes the Group’s real-estate businesses, software-related business and other businesses.
2. Mainly due to the deletion of intersegment transactions
3. Segment profits have been adjusted with operating income recorded in the consolidated income statement

(Information Regarding the Impact of Negative Goodwill on the Group's Segments)

In the Environmental Facilities and Plants Segment, the Group executed a stock-swap agreement with Nihon Spindle Manufacturing Co., Ltd. with an effective date of October 1, 2010. As a result, a gain of negative goodwill in the amount of JPY3,437 million was generated during the consolidated fiscal year under review in this segment.

(Additional Information)

As of the consolidated fiscal year under review, the "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Accounting Standard – ASBJ Statement No. 17 revised March 27, 2009), and the "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Guidance Document – ASBJ Guidance No. 20 dated March 21, 2008) have been applied.

(Reference Information)

The table below provides a summary of the values from the previous consolidated fiscal year for all business segments as if they were displayed using the new reporting segments used during the current consolidated fiscal year under review.

Previous Full Year ***(April 1, 2009, to March 31, 2010)***

(Units: millions of yen)

Item \ Segment	A	B	C	D	E	F	Subtotal	Other[1]	Total	G[2]	H
Net sales											
(1) Sales to external customers	69,040	105,191	102,650	85,637	62,927	81,884	507,330	8,835	516,165	—	516,165
(2) Internal sales between segments or exchanges	1,842	1,328	6	207	129	742	4,253	2,285	6,538	(6,538)	—
Total	70,882	106,519	102,656	85,844	63,056	82,625	511,583	11,120	522,703	(6,538)	516,165
Segment profit (loss)	861	(2,603)	571	14,167	6,664	7,101	26,761	1,376	28,137	117	28,254
Segment assets	80,213	134,921	122,098	63,505	80,816	54,931	536,485	17,413	553,898	56,189	610,087
Other categories											
Depreciation expense	3,739	6,065	3,839	1,853	2,695	1,128	19,320	405	19,725	—	19,725
Increase in tangible and intangible assets	5,762	3,161	8,480	1,792	2,695	2,197	24,088	378	24,465	—	24,465

Segments:

A: Machinery Components
B: Precision Machinery
C: Construction Machinery
D: Industrial Machinery
E: Ships

F: Environmental Facilities & Plants

G: Adjustments

H: Value included on the consolidated income statement

Notes:

1. The "Other" segment represents those business segments that are not included as part of any other reporting segment. This includes the Group's real-estate businesses, software-related business and other businesses.
2. Mainly due to the deletion of intersegment transactions.
3. Segment profits have been adjusted with operating income recorded in the consolidated income statement.

(Per Share Information)

	Previous Full Year April 1, 2009 to March 31, 2010	Current Full Year April 1, 2010 to March 31, 2011
Net assets per share	404.73 yen	435.10 yen
Net income per share	22.01 yen	45.87 yen
	Note that EPS adjusted for full dilution is not presented because there are no residual shares.	

The basis for calculation of net income per share is as follows:

	Previous Full Year April 1, 2009 to March 31, 2010	Current Full Year April 1, 2010 to March 31, 2011
Net income for the period	13,280 million yen	27,926 million yen
Value not attributable to common stockholders	--	--
Net income for common stock	13,280 million yen	27,926 million yen
Average number of outstanding shares for the term	603, 439,000 shares	608,820,000 shares

(Subsequent Events of Significant Importance)

No events are noted.

10. Orders Received, Sales, and Balance of Orders Received, by Segment

Orders Received

(Units: millions of yen)

Segment	April 1, 2009 to March 31, 2010		April 1, 2010 to March 31, 2011		Y/Y Change	
	Amount	%	Amount	%		
Machinery Components	61,421	15.2	75,839	14.2	14,418	23.5
Precision Machinery	106,085	26.3	150,547	28.1	44,462	41.9
Construction Machinery	100,531	24.9	141,250	26.4	40,719	40.5
Industrial Machinery	59,834	14.8	73,228	13.7	13,394	22.4
Ships	4,290	1.1	14,581	2.7	10,291	239.9
Environmental Facilities & Plants	62,550	15.5	70,572	13.2	8,022	12.8
Others	8,726	2.2	8,881	1.7	155	1.8
Total	403,437	100.0	534,897	100.0	131,460	32.6

Sales

(Units: millions of yen)

Segment	April 1, 2009 to March 31, 2010		April 1, 2010 to March 31, 2011		Y/Y Change	
	Amount	%	Amount	%		
Machinery Components	69,040	13.4	74,591	13.6	5,551	8.0
Precision Machinery	105,191	20.4	131,944	24.1	26,754	25.4
Construction Machinery	102,650	19.9	130,811	23.9	28,161	27.4
Industrial Machinery	85,637	16.6	66,544	12.1	(19,093)	(22.3)
Ships	62,927	12.2	59,496	10.8	(3,431)	(5.5)
Environmental Facilities & Plants	81,884	15.8	76,070	13.9	(5,813)	(7.1)
Others	8,835	1.7	8,558	1.6	(278)	(3.1)
Total	516,165	100.0	548,015	100.0	31,850	6.2

Balance of Orders Received

(Units: millions of yen)

Segment	April 1, 2009 to March 31, 2010		April 1, 2010 to March 31, 2011		Y/Y Change	
	Amount	%	Amount	%		
Machinery Components	18,080	4.8	26,010	7.0	7,929	43.9
Precision Machinery	47,044	12.5	65,647	17.8	18,602	39.5
Construction Machinery	13,468	3.6	23,906	6.5	10,438	77.5
Industrial Machinery	78,393	20.8	85,077	23.0	6,684	8.5
Ships	142,720	37.9	97,804	26.4	(44,916)	(31.5)
Environmental Facilities & Plants	75,130	20.0	69,631	18.8	(5,498)	(7.3)
Others	1,619	0.4	1,942	0.5	323	20.0
Total	376,454	100.0	370,017	100.0	(6,437)	(1.7)