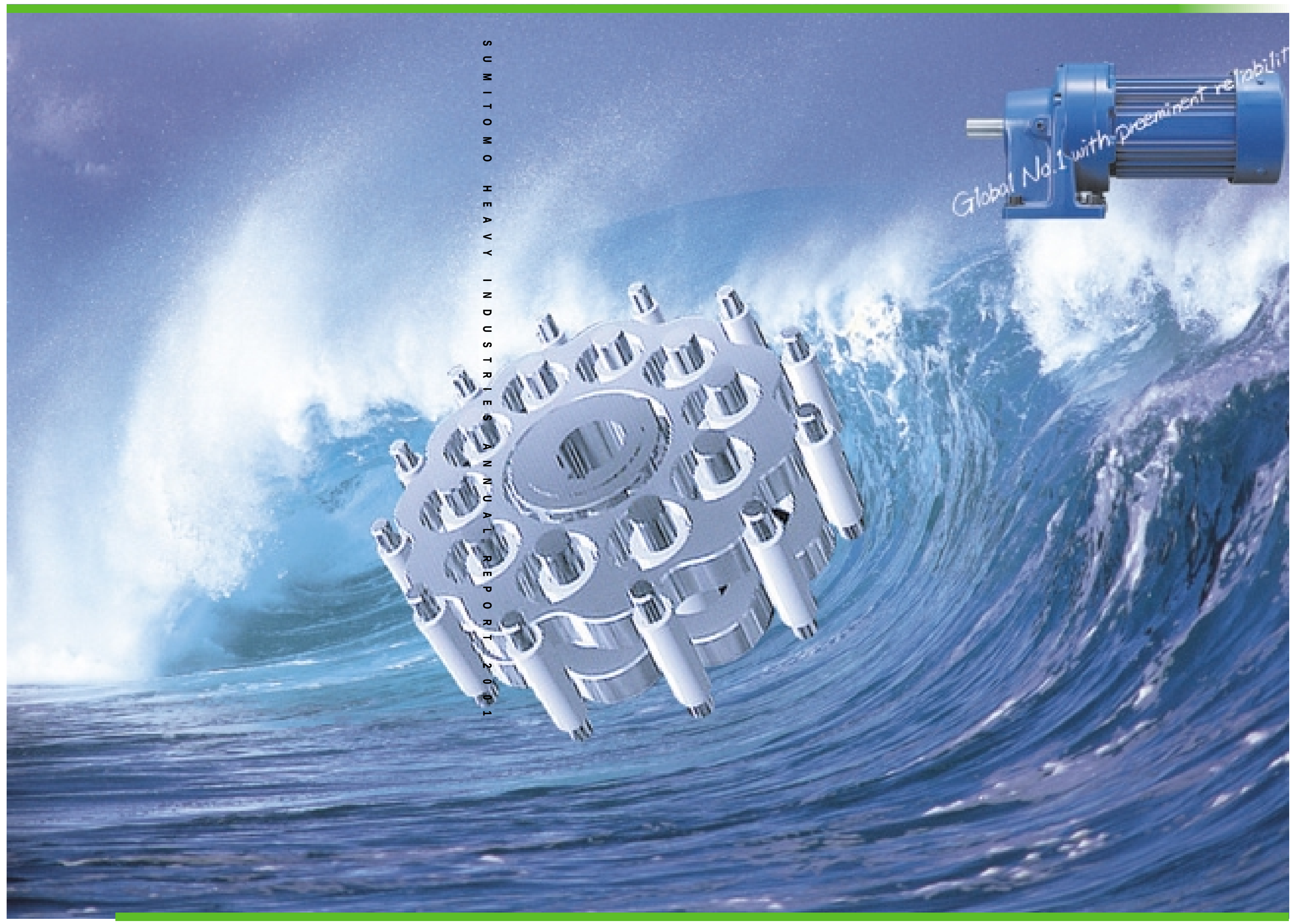
Sumitomo Heavy Industries, Ltd.
http://www.shi.co.jp

Printed in Japan O040 © 011

SUMITOMO HEAVY INDUSTRIES ANNUAL REPORT 2001

SHI
Sumitomo Heavy Industries

Annual Report 2001



Sumitomo Heavy Industries, Ltd.

Profile

Sumitomo Heavy industries, Ltd. first opened for business in 1888 and was incorporated in 1934. An integrated manufacturer of leading-edge industrial products, SHI's core businesses include production and sales of industrial machinery and shipbuilding. Offering both the latest in technology and the finest in quality, we provide our customers around the world with superior products designed to meet a wide range of demands.
Our core business principles for value creation are

Competence—strengthening world-class competitiveness
Concentration—focusing together on elevated goals
Creativity—delivering change, innovation & responsiveness
Confidence—building our business in concert with our customers

Contents

Photograph on the front page: 6000 series Cyclo® gear reducer (the global-standard model) and the cycloid disc at its core.

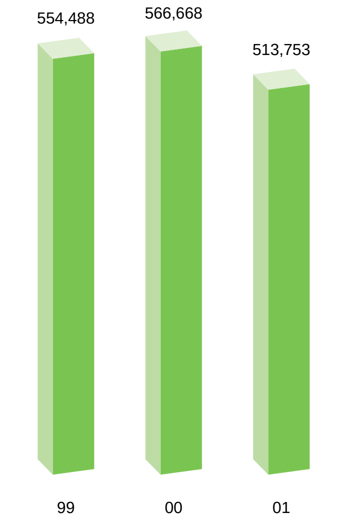
Financial Highlights

SUMITOMO HEAVY INDUSTRIES, LTD. and Consolidated Subsidiaries
Years ended March 31, 2001, 2000 and 1999

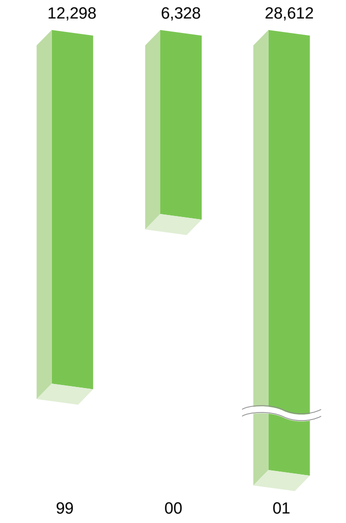
	Millions of yen (except per share amounts)			Thousands of U.S. dollars (except per share amounts)		
	1999	2000	**2001**	1999	2000	**2001**
Net sales	¥ 554,488	¥ 566,668	**¥ 513,753**	$ 4,582,546	$ 5,345,925	**$ 4,143,169**
Net loss	12,298	6,328	**28,612**	101,636	59,698	**230,742**
Net loss per share of common stock (*)	20.88	10.74	**48.60**	0.17	0.10	**0.40**
Stockholders' equity	72,975	64,829	**30,049**	603,099	611,594	**242,331**
Total assets	723,673	657,149	**579,772**	5,980,769	6,199,519	**4,675,581**

(*) Net loss per share of common stock is based on the weighted average number of shares outstanding in each year.

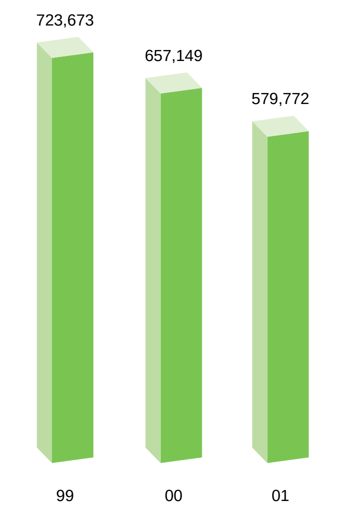
Net Sales (¥ Million)



Net Loss (¥ Million)



Total Assets (¥ Million)



Message from the Management

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, 2001.

Review of Operations

The Japanese economy has shown signs of slow recovery during this past fiscal year, with renewed consumer spending and increased capital investment in IT (information technology) related facilities during the first two quarters. During the second half of the year, however, the deceleration of the US economy and plunging tech stocks pushed the economy into a contra-cyclical phase.

Overall order bookings for the Sumitomo Heavy Industries group of companies improved slightly thanks to positive results for the widely used gear reducers and transmissions produced by the Mass-Produced Machinery group. In the first half, order bookings for the plastic injection molding machines and laser equipment used in IT and semiconductor-related applications benefited from robust investment. Unfortunately, the general economic slowdown in the second half led to a rapid decline in investment that resulted in a slight decrease in total order bookings for the year. There was some good news, however. Continued growth in capital investment in environment-related industries helped the Environmental Protection Facilities, Plants & Others group buck the general trend and increase its order bookings. Major orders included a large municipal solid waste incineration plant and municipal organic waste treatment system. The Ship, Steel Structure & Other Specialized Equipment group also saw an increase in order bookings, thanks to an order for a large-sized ice-breaking tanker for service in arctic regions. Consequently, our consolidated order bookings reached ¥510.1 billion, slightly up from the previous fiscal year, while non-consolidated order bookings were ¥309.7 billion, up 5% from the previous fiscal year.

As for total sales, a decline in sales of large-scale facilities by the Industrial Machinery and the Environmental Protection Facilities, Plants & Others groups, as well as decreased sales by the Construction Machinery group, resulted in total consolidated sales of ¥513.7 billion, down 9% from the previous fiscal year. Total non-consolidated sales were ¥305.6 billion, down 15% from the previous fiscal year.

In terms of profits and losses, continued efforts to reduce fixed costs and improve production efficiency enabled further reductions in cost of sales and general administrative expenses. However, due to reduced profitability in the Industrial Machinery group, consolidated profits this year were ¥7.4 billion — down 41% from the previous fiscal year, while non-consolidated profits were ¥7.4 billion — down 43% from the previous fiscal year. Extraordinary profits and losses were also down, with all groups accounting for the ¥33.8 billion loss resulting from the reorganization of the Construction Machinery group, as well as a ¥27.4 billion amortization of net transition obligations of severance and pension benefit expenses, etc. Consolidated net profits and losses for this fiscal year showed a ¥28.6 billion deficit, and non-consolidated net profits and losses showed a ¥23.3 billion of deficit.

In terms of cash flows, we experienced substantial net losses this fiscal year, with cash flows from operating activities falling by ¥14.4 billion. However, by selling off marketable securities and fixed assets, cash flows from investing activities increased by ¥27.0 billion, resulting in an overall increase in free cash flow of ¥12.6 billion. Cash flows in financing activities decreased by ¥21.4 billion due to redemption of corporate bonds, etc. Remaining cash and cash equivalents totaled ¥36.4 billion, down ¥8.6 billion from the previous fiscal year.

In view of these conditions, we will be suspending dividend payment for this period.

Management Policy for the Future

Looking ahead, we intend to accelerate the adjustments to our business portfolio set out in the "Business Restructuring Plan" established in September 2000. Our goal is to achieve a "Return On Invested Capital (ROIC)" of 5%, as outlined in our "C21" medium-term management plan. Restructuring of the Ship, Industrial Machinery and Construction Machinery groups is now underway. We will also be working to secure future profitability by expanding strategic businesses.

In the shipbuilding field, our naval vessel business, now centered on Marine United Inc., our joint venture with Ishikawajima-Harima Heavy Industries Co., Ltd., will be expanded to include production, in addition to the sales and design activities. In order to survive in the merchant ship business, we will shift our business strategy to specialize in high-technology ships. At the same time, we will be aiming to secure an appropriate level of profits by further reducing costs and taking advantage of out-sourcing. As for the Industrial Machinery sector, we will be moving away from traditional heavy industries such as steel mills and power plants towards semiconductor- and LCD-related manufacturing facilities. Following the recent establishment of a sales company in cooperation with NKK Corporation and Hitachi Zosen Corporation, we are examining the possibility of integrating our steel-making machinery business with these companies. Our main focus, however, will be on advanced technology such as medical accelerators and liquid crystal display manufacturing systems — areas in which our leadership is already established and where stable profits can be secured. In the Construction Machinery sector, we will be working to thoroughly reorganize the business and promote sound financial conditions as prescribed in the "Sumitomo (S.H.I.) Construction Machinery Revival Plan". This reorganization includes structuring our mobile crane business as part of a cooperative world-scale system with Hitachi Construction Machinery Co., Ltd. and Tadano Ltd.

Yoshio Hinoh, President and CEO Mitoshi Ozawa, Chairman of the Board

In order to revitalize ourselves as a high-profit organization, we will concentrate our management resources in strategic businesses with high growth prospects, and actively restructure our business portfolio. For example, we will increase the level of investment in gear reducers and power transmission equipment, plastic injection molding machines and environmental facilities to about ¥100 billion in each category in order to make them as our core businesses. At the same time, we will actively promote our business expansion strategy — for example, we have already merged the film laminator and extruder business with the plastic injection molding machine business, and acquired NEC's semiconductor shield device business. In the area of gear reducers and power transmission equipment, we will expand our manufacturing facilities in Tianjing, China, in order to realize global-standard costs. Another facet of this strategy is new business development. We will be investing up to ¥50 billion in business fields where our expertise will enable us to compete effectively with others. For example, we will concentrate management resources on cryogenic equipment and ultra-precision positioning devices in order to grow these into profitable businesses. Similarly, in state-of-the-art high-technology fields such as optical/information communication, we will explore investment, mergers and acquisitions in the new component/functional parts business. In each business field, we will move quickly to realize a high-profit enterprise, based on our policy of "customer value creation".

Finally, in view of the fact that the current severe business climate is forecasted to continue for some time, the Sumitomo Heavy Industries group will base its operations on the following key strategies. First, we will promote stronger sales by expanding and reinforcing our marketing power. At the same time, in addition to the reduction of fixed costs we have already executed, we will seek to substantially cut our variable costs to further increase profits. Secondly, we will reduce loan debt by a comprehensive rationalization to reduce total assets and create cash flow. Thirdly, along with the restructuring of our business portfolio, we will make the stockholders' equity better by relocating manufacturing plants and selling off unused real estate.

We will also continue to promote improved management performance and product quality through the "6 Sigma" management control system adopted since 1999. Last, but not least, we will pay special attention to human resources. Since none of these changes can be effectively implemented without the cooperation and participation of the people in our organization, we will strive to develop an organization that is more responsive to human needs, that fosters creative thinking, and that empowers each individual to achieve his or her full potential.

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.

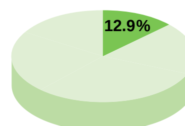
Mitoshi Ozawa
Representative Director
Chairman of the Board

Yoshio Hinoh
Representative Director
President and CEO

Overview of Segments

(As of March 31, 2001)

Industrial Machinery



(million)	
2001	**¥ 66,029**
2000	¥ 79,490

Main Products

- Iron & Steel Manufacturing Machines
- Nonferrous Anode Casting Machines
- Osprey Preforming Systems
- Forging Machines
- Material Handling Systems
- Logistics & Handling Systems
- Automated Parking Systems
- Moving Sidewalks
- Ion Accelerators
- Cyclotrons for Medical Use
- Electron Beam Accelerators
- Magnets
- SR Ring AURORA®
- Superconducting Equipment
- Plasma Coating System for FPDs (Flat Panel Displays)
- Space Cryo-Systems
- Paper Machines
- Machine Tools
- Industrial Turbines and Pumps

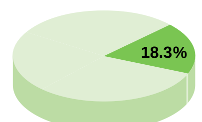
Major Units

- Shin Nippon Machinery Co., Ltd.
- Nihon Spindle Mfg. Co., Ltd.
- Sumitomo Heavy Industries Engineering and Services Co., Ltd.
- Sumiju Accelerator Service, Ltd.
- SHI Machinery Service Hong Kong, Ltd.

Main Markets

- Iron & Steel
- Port & Harbor
- Shipbuilding
- Electric Power
- Food Product
- Medicine
- Paper Making
- Automobile
- Space Exploitation
- Logistics & Handling
- Retail Electric Appliance
- Semiconductor
- Universities/Research Organizations
- Urban Developing
- New Transportation System

Ship, Steel Structure & Other Specialized Equipment



(million)	
2001	**¥ 94,043**
2000	¥ 97,828

Main Products

- Ships
- Offshore Steel Structures
- Bridge & Steel Structures
- Water Gates
- Shield Tunneling Machines
- Pressure Vessels
- Mixing Reactors
- Coke Oven Machines
- Engines for Ships

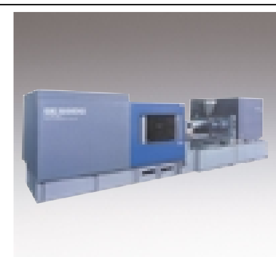
Major Units

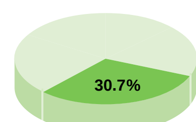
- Sumiju Steel Construction & Engineering Co., Ltd.
- Marine United, Inc.
- Diesel United, Ltd.
- Oshima Shipbuilding Co., Ltd.
- Sumiju Techno Center Co., Ltd.
- SHI Mechanical & Equipment, Inc.
- SHI Examination & Inspection, Ltd.
- Sumiju Yokosuka Kogyo Co., Ltd.

Main Markets

- Marine Transport
- Transport Infrastructure Construction
- Aviation
- Petroleum/Petrochemistry
- Defense

Mass-Produced Machinery





(million)	
2001	**¥ 157,669**
2000	¥ 154,791

Main Products

- Power Transmission Equipment
- Electrical Equipment
- Plastic Injection Molding Machines
- Thermoforming Machines
- Extrusion Laminators
- Transfer Molding Press Machines
- Laser Processing Systems
- Forklift Trucks
- Asher
- Rapid Thermal Processor
- Precision Forgings & Castings
- Cryogenic Equipment
- XY Stages
- Defense Equipment

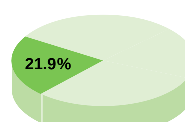
Major Units

- Sumitomo Eaton Nova Corporation
- Sumitomo NACCO Material Handling Co., Ltd.
- Sumitomo Machinery Corporation of America
- Sumitomo (SHI) Cyclo Drive Europe, Ltd.
- Sumitomo (SHI) Cyclo Drive Asia Pacific Pte., Ltd.
- Sumitomo Heavy Industries PTC Sales Co., Ltd.
- Sumitomo Plastics Machinery Inc. of America
- S.H.I. Plastics Machinery (S) Pte., Ltd.
- SHI Plastics Machinery, Ltd.
- Sumitomo Heavy Industries Foundry & Forging Co., Ltd.
- Sumiju Technical Engineering Co., Ltd.
- SHI Control Systems, Ltd.
- Sumiju Tokki Service Co., Ltd.
- Sumiju Precision Casting Co., Ltd.
- Sumiju Forging Co., Ltd.
- Sumitomo(SHI) Cryogenics of America,Inc.
- SHI Cryogenics Europe GmbH
- SHI Manufacturing & Services (Philippines), Inc.
- Sumiju Fine Machinery Co., Ltd.

Main Markets

- Electronics & Electrical
- Audio System
- Semiconductor
- Water Disposal
- Conveyance System
- Construction Machinery
- Medical Equipment
- Defense

Construction Machinery



(million)	
2001	**¥ 112,602**
2000	¥ 118,810

Main Products

- Construction Machinery

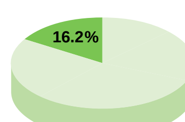
Major Units

- Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
- Link-Belt Construction Equipment Company
- Sumitomo Kenki Hanbai Kitanihon Co., Ltd.
- Sumitomo Kenki Hanbai Kantou Co., Ltd.
- Sumitomo Kenki Hanbai Chubu Co., Ltd.
- Sumitomo Kenki Hanbai Koushinetsu Co., Ltd.
- Sumitomo Kenki Hanbai Kansai Co., Ltd.
- Sumitomo Kenki Hanbai Chushikoku Co., Ltd.
- Sumitomo Kenki Hanbai Kyushu Co., Ltd.
- LBX Company, LLC

Main Markets

- Construction/Civil Engineering

Environmental Protection Facilities, Plants & Others



(million)	
2001	**¥ 83,410**
2000	¥ 115,749

Main Products

- Chemical Process Equipment & Plants
- Pulp & Paper Manufacturing Machinery
- Power Generation Systems
- Air Pollution Control Plants
- Water and Sewage Treatment Systems
- Municipal Solid Waste Incineration Plants
- Industrial Wastewater Treatment Systems
- Production High Separation Facilities
- Urban & Resort Development
- Marine & Leisure Equipment
- Import & Automobile Sales
- Software

Major Units

- Izumi Food Machinery Co., Ltd.
- Lightwell Co., Ltd.
- Sumiju Environmental Engineering, Inc.
- SHI Designing & Manufacturing, Inc.
- Izumi Sogo Service Co., Ltd.
- SHI Financial Service, Ltd.
- Sumiju Plant Service Co., Ltd.
- Sumiju Environmental Designing, Inc.
- SHI Resort Development, Ltd.

Main Markets

- Municipal Waste Treatment
- Industrial Waste Treatment
- Sewage/Industrial Effluent
- Electric Power/IPP
- Paper Making
- Petrochemistry
- Leisure Exploitation
- Food Industry

1) Sumitomo (S.H.I.) Construction Machinery Co., Ltd. was divided into Sumitomo (S.H.I.) Construction Machinery Co., Ltd., Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd., Sumitomo (S.H.I.) Construction Machinery Manufacturing Co., Ltd., and Sumitomo Heavy Industries Construction Crane Co., Ltd. as of April 1st, 2001. Sales companies in seven sales domains of the Sumitomo (S.H.I.) Construction Machinery group were consolidated into Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd. as of April 1st, 2001.

2) Sumitomo Heavy Industries Foundry & Forging Co., Ltd. changed its name to Sumitomo Heavy Industries Himatex Co., Ltd. as of April 1st, 2001.

Industrial Machinery

In spite of an unfavorable economic climate marked by a decline in large-capital projects and severe competition for overseas facilities in the domestic market, we obtained orders for several large-scale facilities in fiscal 2000. These included a continuous casting facility for Korea, a crane for a domestic steel manufacturing company, and an automatic mechanical forging press with transfer feeder for the United States. As a result, total order bookings climbed to ¥59,889 million, up 9.6% from the previous fiscal year.

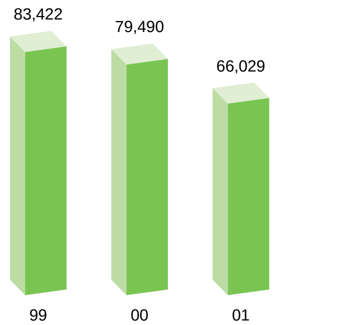
Total sales, on the other hand, were down since fewer large-scale facilities were delivered — although we did deliver a material acceptance facility to a power plant company. Sales for 2000 totaled ¥66,029 million, down 16.9% from the previous fiscal year.

In the field of steel manufacturing and iron-working, we reached an agreement with NKK Corporation and Hitachi Zosen Corporation, establishing a closer affiliation between the three companies. As an initial step, we merged our sales divisions into one company on March 2001. Given the current difficult environment faced by steel and iron-work plant manufacturers, the new company, "JP Steel Plantech Co., Ltd.", will focus on marketing the products of all three companies. Its goal will be to "secure a new business presence in the global market of the 21st century capable of quickly accommodating a variety of customer needs".

This year, we also joined with Sumitomo Coal Mining Co., Ltd. to market a new Spark Plasma Sintering (SPS) system, and installed a large-sized 500-ton SPS testing facility with a capacity of 5,000 kN.

Our automatic forging press with transfer feeder business has faced an uphill struggle since the integration of European currencies under the "Euro". This has intensified competition in the forging industries — especially in the automobile industry. Fortunately, demand for automated forging machines is increasing in the United States, and the domestic market is also showing signs of a recovery in demand from the automobile industry. Anticipative facility investment has also been evident as various companies make efforts to ensure their long-term survival.

Automatic Mechanical Forging Press with Transfer Feeder



Net Sales (¥ Million)

In the machine tool sector, versatility and environmental consciousness are now being demanded in addition to conventional requirements for high speed, high precision, and labor saving capability. Demand for high-precision processing of new materials such as ceramics is also on the rise. In the semiconductor industry, development of large-diameter 300 mm silicon wafers is underway, and we have developed an ultra-precision double side wafer grinding machine to streamline wafer processing procedures.

While many traditional heavy industries continue to struggle, the market for paper and paperboard appears to have recovered, leading to improved profits in the pulp and paper industries and a consequent increase in facility investment — particularly in the areas of productivity and quality.

Our cyclotron business continues to expand as well. Currently, we are participating in the design and manufacture of the Intermediate-stage Ring Cyclotron (IRC) and peripheral facilities for the RI Beam Factory (RIBF) Project at the Institute of Physical and Chemical Research (RIKEN) — part of a large-scale accelerator construction project in Japan. We are also continuing to promote our line of PET tracer production systems.

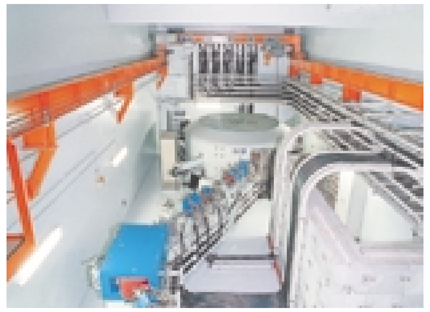
The field of high-technology cooling systems is another area where we excel, and in fiscal 2000 we received an order for a large-scale cooling system that will be used in the observation system for the "ASTRO-F" Project — Japan's first infrared astronomical satellite.

Demand in the LCD (Liquid Crystal Display) flat panel market is expected to expand rapidly in the future, and we obtained a series of orders for our ITO Plasma Coating System from various Taiwanese manufacturers and leading domestic manufacturers. Investment in this field continues to grow and we plan to expand sales in Korea, Taiwan and Japan.

In the transfer facility and logistics facility markets, equipment that can take advantage of today's "IT (information technology)" trend or "advanced control technology" is increasingly in demand. In logistics systems, for example, we have introduced a web-based system for delivery centers in the distribution business.

Our expertise in parking systems has also begun to pay off as high-rises and smart buildings begin to dominate new real estate development and construction. With increased demand for larger, high-speed service underground parking systems, we have received a string of orders for large-scale facilities. Our expertise is especially in demand for combined-use business-residential type buildings where, in addition to conventional noise-reduction measures, our unique technology helps minimize the vibrations affecting living areas while still meeting technical requirements.

While the positive developments mentioned above are harbingers of the future, the present remains subject to the difficulties faced by our primary customers in the basic materials industries, where facility investment has still not recovered. However, in line with the basic philosophy that underlies plan "C21" — "Selection and Concentration" — we hope that by focusing on growing fields such as parking facilities, cyclotrons, plasma coating systems, cooling systems and after-market facilities, our business will shift to the recovery track.



Positron Therapy System

New type Stacker-Reclaimer

Picking System & Sorter

Ship, Steel Structure & Other Specialized Equipment

This year saw record orders for building new ships as the international shipping market continued to grow. Marketing value-added-high-technology ships, as well as conventional ships such as Panamax bulk carriers and Aframax tankers, we obtained orders for a total of 10 ships in fiscal 2000. Two of these orders were for the world's first ice-breaking aframax tankers. Total order bookings in this sector were ¥83,664 million, up 26.1% from the previous fiscal year. Total sales, on the other hand, were down slightly. We delivered a total of 14 ships including bulk carriers and car carriers this term, 1 ship down from the last term, bringing in a total of ¥94,043 million, down 3.9% from the previous fiscal year.

The strengthening of regulations for single hull tankers instigated by the ERIKA's oil spilling accident and the rising price of crude oil caused an increase in demand for new-built double-hulled tankers. In addition to Panamax bulk carriers, we started marketing Aframax tankers this year and are successfully securing orders for these advanced new tankers. These will be built on a continuous basis at our Yokosuka Shipyard. Having obtained the contract for the world's first ice-breaking Aframax tankers, we are trying to establish ourselves as a builder of value-added high-technology ships.

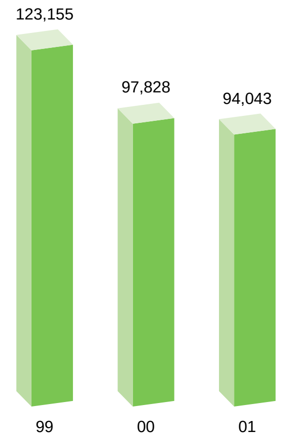
Sumitomo is a leading participant in "Mega-Float (Very Large Floating Structure) - Phase II", a large-scale project that involves MLIT (Ministry of Land, Infrastructure and Transport), The Nippon Foundation, and various domestic shipbuilding companies and steel companies. The project entered its final phase in 2000, with extensive commuter/passenger plane landing and take-off tests conducted on a 1,000-meter long implementation experimental model floating off the coast near Yokosuka Shipyard. The goal of this project is to develop a safe and functional floating "mega-float" airport that would alleviate the land-use requirements of conventional airports.

In the bridge sector, there are new trends of lower cost and minimal environmental impact in public construction. We are working on developing a simplified bridge design that lowers costs by using "Plate girder bridge with PC slab", and a low-cost, lightweight "Marine hybrid (steel/concrete) structure" designed to have minimal impact on the local natural environment. In addition to construction of new bridges, it is estimated that demand for retrofit of old bridges will increase in the future. For this reason, we are placing extra emphasis on repair, inspection, diagnosis and road-widening construction.

This term was a difficult one for the pressure vessels sector. Once previous orders for coke drums — our leading product in this field since 1998 — had been fulfilled in the first half, there was little demand for new large-scale facilities. Foreign exchange conditions also dampened results in this area. Nevertheless, we are expecting results to improve in the future, particularly in the domestic market where new environmental regulations have prompted numerous inquiries. Consequently, we are looking forward to an increase in orders in 2001. We are also focusing on developing new markets, and have launched peripheral service businesses that are not restricted to oil refining or petrochemicals. We are now preparing for the earlier establishment of Sumitomo-developed inspection systems and service-life diagnostic technology which are applicable to the entire range of oil refining and petrochemical industries.

In order to maintain growth in such mature industries as shipbuilding and steel bridge construction, we will add higher value to our products and shift our focus towards a more service-oriented economy. In so doing, we will be able to move into more profitable sectors, and achieve the "ROIC (Return On Invested Capital)" target called for in our "C21" plan.

Itami Pedestrian Deck



Net Sales (¥ Million)

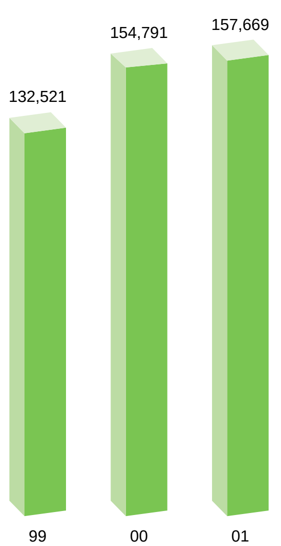
"VEGA LEADER" — Our Newest Car Carrier

Omaehama Bridge

"GOSHO" — The World's Largest Plumb Bob Hydraulic Grab Dredgers

Previously, cryocoolers, defense force equipment and high-precision positioning systems were included as part of the Ship, Steel Structure & Other Specialized Equipment group. However, since the sales ratio of products in these categories that are manufactured "in expectation" (a feature of Mass-Produced Machinery group products) now surpasses the sales ratio of those manufactured to order, these products are now included in the Mass-Produced Machinery group. Values before the previous term are based on the new product segmentation.

Mass-Produced Machinery



Net Sales (¥ Million)

Thanks to the recovery of domestic investment in private facilities, both order bookings and sales of gear reducers and transmissions increased in fiscal 2000. Unfortunately, the sudden and rapid worldwide recession in IT (information technology)-related investment during the second half of the year resulted in fewer order bookings and sales of plastic injection molding machines and laser systems. As a result, total order bookings for the Mass-Produced Machinery group slipped to ¥153,511 million, down 4.4% from the previous fiscal year, while the total sales were ¥157,669 million, up 1.9% from the previous fiscal year.

Our improved performance in the gear reducer, motor and controller fields, can be attributed in part to the successful marketing of new products featuring improved efficiency, lower noise, reduced size, and environmentally friendly designs. We have also consolidated our controller products and those of Horyu Giken Co., Ltd. in SHI Control Systems, Ltd., established in 1999, which offers comprehensive solutions for including drive system products and motion control products.

In the domestic injection molding machine industry, electric injection molding machines now account for more than half of the molding machines in use, surpassing for the first time the number of conventional hydraulic machines. The transition to electric injection molding machines is driven by increased demand for small-sized precision molding and energy efficiency to meet the requirements of IT-related products. Highly evaluated for its precision control and high productivity, our SE-S Series electric injection molding machine is increasingly being used in large-scale facilities. We have also developed a new thermoforming machine that features an optimized heating system based on near-infrared technology. This system has also been welcomed enthusiastically by the market.

In October 2000, we acquired all the issued shares of extrusion laminator manufacturer, CBC Tech Co., Ltd. With this acquisition, we hope to strengthen our position in the market. By fully capitalizing on the sales and technology of both companies, our goal is to establish ourselves as a market leader, rivaling the world's leading manufacturers. Also at the end of March 2001, we contracted to transfer sales of the semiconductor shielding machine business owned by NEC Corporation, establishing a new company called "Synex Corporation" to further reinforce our position in the after-processing market for semiconductor manufacturing machines.

SE550S All Electric Injection Molding Machine

Previously, cryocoolers, defense force equipment and high-precision positioning systems were included as part of the Ship, Steel Structure & Other Specialized Equipment group. However, since the sales ratio of products in these categories that are manufactured "in expectation" (a feature of Mass-Produced Machinery group products) now surpasses the sales ratio of those manufactured to order, these products are now included in the Mass-Produced Machinery group. Values before the previous term are based on the new product segmentation.

This year, we also launched new products for the semiconductor/liquid crystal field, the medical field and the measurement & analysis field. Our cryocooler (cryogenic refrigerator) received special attention in the market as it reduces power consumption for cryo-pumps by 50% compared to conventional systems. At the same time, we introduced a pulse-tube cryocooler that is expected to set the standard for the next generation of cryocoolers due to the advantages of its lower vibration and higher reliability compared to conventional models.

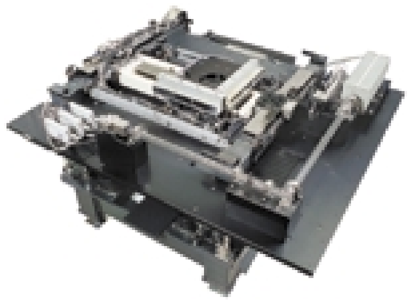
In the XY stage business, we launched the large-travel gantry YZ stage that uses a sophisticated disturbance observer control system to achieve high precision, high speed and high stability in liquid crystal manufacturing and inspection systems. We also marketed the new "Nanoplane® Series" ultra-precision XY stage which offers nanometer-order precision. Highly evaluated by our customers in the semiconductor, liquid crystal and optical fiber industries, these new products epitomize Sumitomo's unique advanced technologies.

The market for cryocooler-cooled (helium-free) superconducting magnets is also continuing to expand as the range of industrial applications grows. The high stability and convenience of the helium-free superconducting magnet has made possible a variety of new systems as the magnetic field generation system used in the silicon crystal grower or MR head magnetic annealing oven, etc., all of which are expected to drive further market expansion.

Triggered by the rapid propagation of cell phones and mobile devices, the laser drill market is growing at a phenomenal rate. Laser drill applications include not only printed circuit boards, but also hole punching for ceramic electronics parts, and more applications are being developed all the time. To meet these expanding demands, we have introduced new products specifically for printed circuit board drilling and for green ceramics drilling. We also introduced an in-process welding monitor which enables real-time inspection of processing conditions and quality by monitoring the emission of light generated when welding. This system can not only be used with our laser drill products, but also with those from other manufacturers.

Overall, our Mass-Produced Machinery group has moved rapidly to meet market needs in all developed and affiliated products thanks to strategic investment of management resources. The success of the group dramatically exemplifies our "C21" plan — "Change", "Innovation" and "Responsiveness".

In-Process Welding Monitor



SLHUS-370 Ultra Precision XY Stage "Nanoplane® Series"

HF-430 Sensorless VECTOR INVERTER

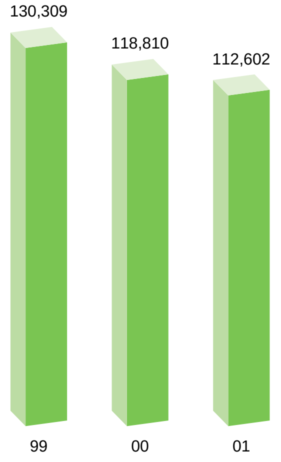
Construction Machinery

In the domestic market, demand in the construction machinery market has remained at about the same level as last year. However, declining overseas demand has curtailed exports, with the result that sales and bookings for the Construction Machinery group have fallen for the fourth year in a row.

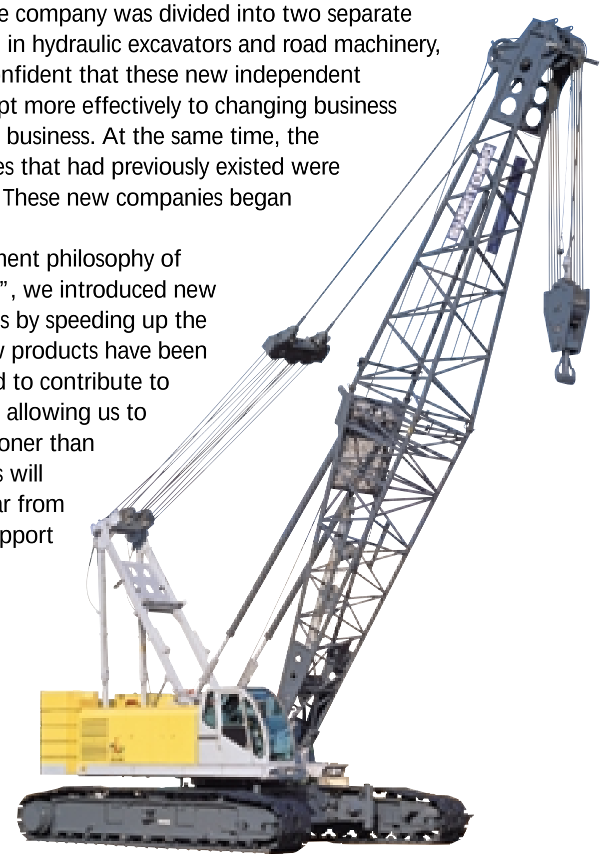
Our primary products in this field include hydraulic excavators, cranes and road machinery. Order bookings in 2000 totaled ¥99,279 million, down 18.8% from the previous fiscal year, while total sales were ¥112,602 million, a decrease of 5.2% from the previous fiscal year.

The management reorganization plan implemented in 1998 by Sumitomo (SHI) Construction Machinery Co., Ltd., our major unit in this sector, was completed by last year. However, since business conditions had deteriorated beyond expectations, a revised plan was developed. Additional restructuring was implemented as well, including headcount cuts, asset sales, reduction of interest-bearing debt, and increased financial support from SHI. The company was divided into two separate companies — one specializing in hydraulic excavators and road machinery, the other in cranes. We are confident that these new independent companies will be able to adapt more effectively to changing business conditions and help revive our business. At the same time, the seven different sales companies that had previously existed were integrated into a single entity. These new companies began operations in April 2001.

In line with SHI's management philosophy of "Selection and Concentration", we introduced new products on a continuous basis by speeding up the development cycle. These new products have been well received and are expected to contribute to improved results in the future, allowing us to reach the break-even point sooner than expected. These new products will contribute throughout the year from the next fiscal year, helping support the recovery of our business.



Net Sales (¥ Million)



SC1000 Crawler Crane

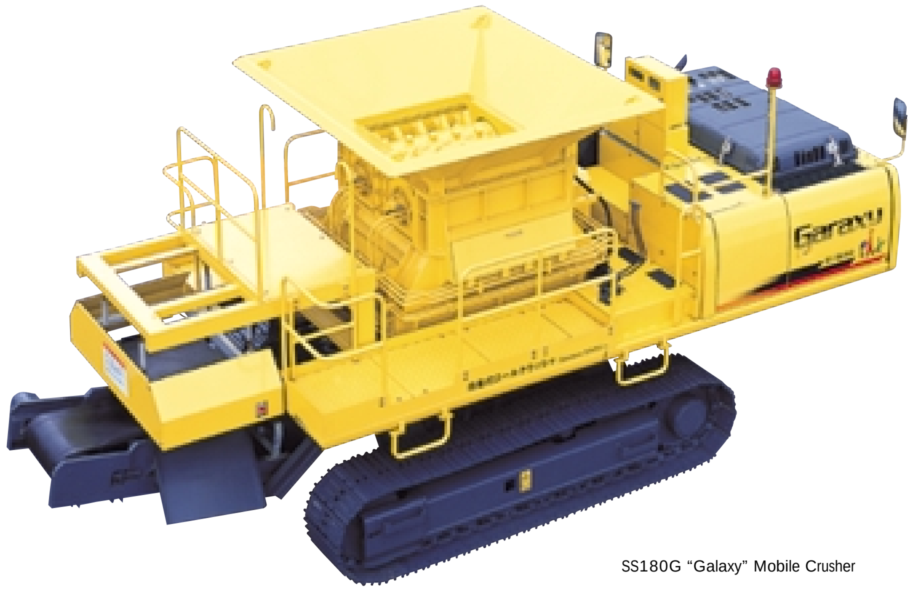
The main features of these new products include high-level environmental conservation technologies, as well as greatly improved operability and safety. This is based on our policy of developing products that take into consideration the impact our customers will have on society and the environment when they use our products, as well as the customer's own economy and convenience.

This year, we released five "Neo-Power Pax" series large-scale hydraulic excavators. First released in 1999, the Neo-Power Pax series excavator is equipped with our unique "NEO" control system and is highly evaluated in the market for its top-of-the-class excavation power and speed as well as excellent operability, low-fuel consumption and low noise. We have since reinforced the lineup by adding heavy-duty (30t to 80t) models. The 80t class model — the first we have produced — was a big hit in the United States where it was awarded the 2000 OEMmie prize (a prestigious award based on originality, performance, user evaluations, etc.).

We are also moving into the growing environment-related market with products like the popular mobile crusher and mobile soil recycler released last year.

Last year we also introduced three new hydraulic crawler cranes that offer the highest levels of functionality, operability, safety and transportability. In the foundation machinery field — one of the most important fields in the crane business, we introduced a foundation work equipment that has been the subject of numerous favorable inquiries and orders.

SH350HD "Neo-Power" Series Excavator



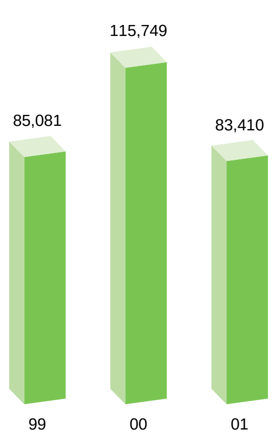
SS180G "Galaxy" Mobile Crusher

Environmental Protection Facilities, Plants & Others

Thanks to an order from local government for a large-scale municipal solid waste incineration plant, as well as an order for a municipal organic waste treatment system, order bookings in this sector reached ¥113,767 million, up 22.3% from the previous fiscal year. Total sales, on the other hand, were down 27.9% to ¥83,410 million. A number of large-scale facilities, including a private power plant for a cement manufacturer and a municipal solid waste incineration plant for local government, were delivered during the first half of fiscal 2000. Total deliveries for the year, however, were less than in the previous year, resulting in a corresponding drop in revenue.

The environmental systems and chemical processing systems that we manufacture cover a wide range of applications. For example, the municipal organic waste treatment system we delivered in 2000 uses advanced sludge recycling technology that not only effectively treats human waste and septic tank sludge, but also composts the waste or raw sewage generated during processing. Biological deodorization, chemical washing and activated carbon processing are used to eliminate odors. This system provides a strong foundation for structuring local recycling systems.

During this period we also delivered the 1st-term construction section of the Ryusen-En Clean Port, a municipal solid waste incineration plant built to the standards set by the Tokyo Metropolitan government. This plant features many automated systems and, since it is located close to a residential area, was designed with careful consideration to the surrounding environment.



Net Sales (¥ Million)

Raw Sewage Treatment System

In recent years, demand has been growing for "energy-saving", "maintenance-free" environmental facilities. In view of this, we made our high-efficiency "HIGH-RATOR™" underwater aeration/stirring system even more efficient, reducing energy consumption by about 20%.

In the field of chemical systems and machines, the "Sumitomo Eagle Filter™" horizontal belt received a great deal of positive attention for its wide applicability and variety of features. It has especially been praised as a washing & dehydration system for the gypsum generated as a by-product of exhaust gas desulfurization.

With environmental concerns expected to be one of the dominant themes of the 21st century, our experience in the development of environmental systems will play an important role in the years to come. We are committed to providing total solutions to environmental problems and will continue to expand our research & development in this field.

Other fields we are concentrating on include the development of cell phone-based information exchange system. In 2000, we developed and began marketing a system enabling access to an in-company e-mail system via the cell-phone's Internet system ("i-mode"). Called "sMobile", this system can also use the cell-phone's "i-mode" to deliver various other types of information in addition to in-company e-mail.

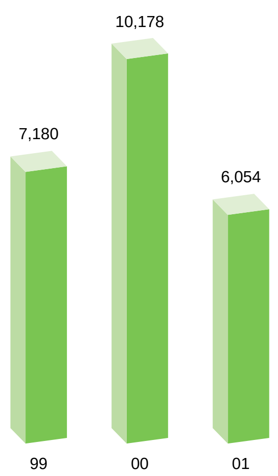
Perhaps more so than any other group, the business of the Environmental Protection Facilities, Plants & Others group is one that is directly related to improving the quality of human life and the world we live in. Our experience and expertise has enabled us to develop a wide array of advanced technologies not available elsewhere, with which we expect to establish a secure and permanent footing in this field. As we continue our expansion in this area, we look forward not only to achieving a positive ROI (Return On Investment), but also to contributing to the improvement of the world's environment as outlined in our "C21" plan.

"COLUMN-IN-COLUMN"

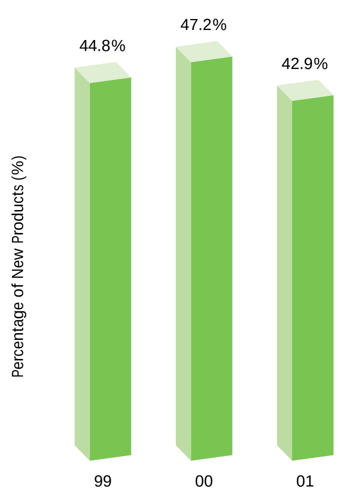
Municipal Organic Waste Treatment System

Composting Facility

Research & Development



Research and Development Investment (Non-consolidated) (¥ Million)



Percentage of New Products in New Business (Non-consolidated)

Research and Development activities provide the foundation we need to create innovative and competitive products. Working hand in hand with the development departments of our various divisions, the Research & Development (R&D) Center has implemented consistent, strategically focused R&D programs aimed at maximizing our technological strengths and increasing our competitiveness in future high-growth markets. Current programs are emphasizing areas such as flat panel display (FPD-LCD, EL, PDP)/semiconductor device manufacturing systems, digital media and optical communication components manufacturing systems, and environmental equipment, with the focus on research and development of fine processing, and clean and precise mechanical automation (mechatronics) system technologies.

On January 1st, 2000, we established the R&D Center in our Corporate Technology Operations group. The R&D Center assists new product development and engineer training, as well as technical support for each operating division to assure that we maintain our strong position as one of the world's leaders in basic and key technology. In cooperation with the operating divisions, this new R&D Center will accelerate product development using the basic and key technologies we have already developed.

The research and development investment allocated this term was ¥6.05 billion, resulting in a 50% increase in the sales of new products. Some of the highlights of this year's R&D efforts are described below.

In the area of fine processing and clean and precise mechatronics technologies, we have leveraged our advanced micro, nano and precision machinery technologies to develop new products in the fields of FPD/semiconductor device manufacturing systems. New product lines developed in 2000 included an ion plating (plasma coating) system for organic EL (electro-luminescence) use, as well as a double side wafer grinding machine for the Mass-Produced Machinery group which can accommodate 300 mm diameter silicon wafers. We have also developed technology that will allow us to produce a double side wafer grinding machine able to accommodate even larger wafers up to 400 mm in diameter. In addition, we are developing an ultra-high precision stage system for exposure/inspection machines in the liquid crystal flat panel display (LCD) and semiconductor manufacturing process, based on our long-stroke nanometer-level positioning stage.

SHI is rapidly establishing itself as a leader in the field of digital media and related technologies. We are currently focusing on the development of all-electric injection molding machines for manufacturing CDs, CD-Rs and DVDs, and have already introduced a new all-electric injection-molding machine called "SD35E" to the market. In the electronics area, we have introduced a high-precision drilling machine called "µLAVIA1200TW", which makes holes in printed circuit boards for cellular phones. We are also continuing with the development of our annealing system for LCDs. This system is expected to be applicable to the semiconductor manufacturing process as well.

One of our core products, the Cyclo™ (power transmission equipment), is now in its 6000 series, finding new applications in fields such as medical care, as well as in the production of FPDs, semiconductor device manufacturing, and packaging machinery requiring fine and clean processing systems.

In the optical communication components field, we are using the Metal Injection Molding (MIM) method to develop and commercialize fine-precision components for optical devices. We are also developing new components utilizing ceramics or glass molding techniques. At the same time, we are moving forward in the development of component manufacturing systems, and are currently working on a manufacturing system for optical fiber devices and laser modules.

In addition to new product development, SHI is consolidating its position in the information and communications industries of the 21st century by conducting basic research in the fields of laser technology and micro-machine processes. With the use of laser technology increasing in optical communications and micro-fabrication, we have joined the New Energy and Industrial Technology Development Organization (NEDO) project to take advantage of research into a Laser-Compton femto-second X-ray source. As for micro machine process, we are developing X-ray and laser-based micro-fabrication technology as well as MEMS (Micro Electro Mechanical Systems) technology and, in collaboration with research organizations at home and abroad, we are working on development of precision components for optical devices. Taking advantage of our extensive cryogenic research and expertise in fields such as superconductivity, we are also developing cryocoolers for base stations used in mobile communications.

ITO Encapsulation Equipment

Pulse-Tube Freezer

RITS-30 Double Side Wafer Grinding Machine

Glass Press Molding Machine

In the environmental technology development field, we are continuing to advance our waste reduction technology, with successive improvements to products such as our incinerators for industrial waste, sewage sludge, etc. In addition, we are now working on development of total solutions that provide our clients with systematized operation, technical expertise and maintenance information in treatment plants.

In the medical equipment field, we've developed medical image processing technology for the proton cancer therapy equipment we first introduced in 1998. This new technology is helping us expand our markets even more rapidly. We have also launched a joint project with GE Medical Systems to bring the PET Cyclotron MINItrace to the Japanese market. Thanks to these developments, as well as the introduction of 4KGM cryocoolers for medical equipment, we have received steady order bookings.

In the area of IT applications, we have improved our in-house infrastructure by developing technology information management systems, EDI, PDM, knowledge management, HP and Web sites. This included the development of an in-company mobile e-mail system (sMobile), that has proven so successful we have started selling it to other organizations. In addition, we plan to expand our service capabilities by utilizing remote maintenance technology.

In the area of systems technology, we are carrying out company-wide standardization of our controller and regulatory systems as part of the SHI-Open project. At the same time, we are developing component technologies such as image processing and power electronics to help increase the competitiveness of our products.

Parking System Call Center

Contents

Consolidated Balance Sheets

March 31, 2001 and 2000

ASSETS

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2001	2000	**2001**
Current assets:			
Cash and time deposits (Note 2)	**¥ 36,715**	¥ 43,295	**$ 296,089**
Marketable securities (Notes 2 and 10)	**330**	34,343	**2,661**
Trade receivables:			
Notes receivable	**52,781**	78,326	**425,653**
Accounts receivable	**145,184**	147,255	**1,170,839**
Allowance for doubtful accounts	**(5,630)**	(1,672)	**(45,403)**
Inventories (Note 3)	**130,620**	144,741	**1,053,387**
Deferred income taxes	**6,727**	8,252	**54,250**
Prepaid expenses and other current assets	**27,525**	19,519	**221,976**
Total current assets	**394,252**	474,059	**3,179,452**
Property, plant and equipment:			
Land	**33,976**	32,530	**274,000**
Buildings and yards	**119,642**	128,031	**964,855**
Machinery and equipment	**151,866**	171,835	**1,224,726**
Construction in progress	**5,361**	5,970	**43,234**
	310,845	338,366	**2,506,815**
Less accumulated depreciation	**191,710**	209,582	**1,546,049**
	119,135	128,784	**960,766**
Investments, long-term loans and other assets:			
Unconsolidated subsidiaries and affiliated companies (Note 10)	**16,272**	16,331	**131,226**
Other long-term loans receivable and investments (Note 10)	**27,315**	10,227	**220,282**
Other assets	**37,062**	23,916	**298,887**
Allowance for doubtful accounts	**(14,264)**	(2,921)	**(115,032)**
	66,385	47,553	**535,363**
Foreign currency translation adjustments	**—**	6,753	**—**
	¥ 579,772	¥ 657,149	**$ 4,675,581**

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2001	2000	**2001**
Current liabilities:			
Bank loans (Note 4)	**¥ 132,838**	¥ 141,273	**$ 1,071,274**
Long-term debt due within one year (Note 4)	**27,620**	50,160	**222,742**
Commercial paper (Note 4)	**49,520**	31,718	**399,355**
Trade payables:			
Notes payable	**54,957**	59,760	**443,202**
Accounts payable	**69,779**	81,582	**562,734**
Advance payments received on contracts	**44,686**	51,413	**360,371**
Accrued expenses and other current liabilities	**35,139**	40,969	**283,379**
Total current liabilities	**414,539**	456,875	**3,343,057**
Long-term debt due after one year (Note 4)	**114,346**	118,762	**922,145**
Employees' severance and retirement benefits (Note 12)	**8,166**	4,259	**65,855**
Other long-term liabilities	**5,074**	4,476	**40,919**
Minority interests	**7,598**	7,948	**61,274**
Contingent liabilities (Note 7)			
Stockholders' equity (Note 6):			
Common stock, par value ¥50 per share:			
Authorized–1,200,000 thousand shares			
Issued–588,697 thousand shares	**30,872**	30,872	**248,968**
Additional paid-in capital	**26,752**	26,752	**215,742**
Retained earnings (Accumulated deficit)	**(23,407)**	7,206	**(188,766)**
	34,217	64,830	**275,944**
Net unrealized holding gains on securities	**2,049**	—	**16,524**
Foreign currency translation adjustments	**(6,216)**	—	**(50,129)**
Less treasury stock at cost, 3,505 shares (3,512 shares in 2000)	**(1)**	(1)	**(8)**
Total stockholders' equity	**30,049**	64,829	**242,331**
	¥ 579,772	¥ 657,149	**$ 4,675,581**

See accompanying notes.

Consolidated Statements of Operations

Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2001	2000	2001
Net sales (Notes 8)	¥ 513,753	¥ 566,668	$ 4,143,169
Costs and expenses (Note 8):			
Cost of sales	434,544	473,798	3,504,387
Selling, general and administrative expenses	71,724	80,162	578,420
	506,268	553,960	4,082,807
Operating income (Note 8)	7,485	12,708	60,362
Other income (expenses):			
Interest and dividend income	1,316	2,406	10,613
Interest expense	(5,960)	(6,340)	(48,065)
Loss on devaluation of securities	(356)	(961)	(2,871)
Gain on sale of securities–net	6,897	1,001	55,621
Gain on sale of property, plant and equipment-net	16,972	4,221	136,871
Gain on securities contributed to employee retirement benefit trust	12,049	—	97,169
Foreign currency exchange gains (losses), net	1,947	(557)	15,702
Restructuring charges	(33,804)	(3,991)	(272,613)
Amortization of net transition obligation of severance and retirement benefits	(27,456)	—	(221,419)
Equity in earnings of affiliated companies	2,229	968	17,976
Other-net	(10,961)	(6,645)	(88,395)
	(37,127)	(9,898)	(299,411)
Income (Loss) before income taxes	(29,642)	2,810	(239,049)
Income taxes (Note 5)			
Current	4,635	7,987	37,379
Deferred	(5,024)	866	(40,516)
Total	(389)	8,853	(3,137)
Minority interests in consolidated subsidiaries	641	(285)	5,170
Net loss	(28,612)	(6,328)	(230,742)

	yen		U.S.dollars (Note 1)
	2001	2000	2001
Amounts per share of common stock:			
Net loss	¥ (48.60)	¥ (10.74)	$ (0.40)
Diluted net income	—	—	—
Cash dividends applicable to the year	—	3.00	—

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2001 and 2000

		Millions of yen					
	Number of shares of common stock (thousand)	Common stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 1999	588,697	¥ 30,872	¥ 26,752	¥ 15,352	¥ —	¥ —	¥ 1
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	386	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(2,198)	—	—	—
Net loss	—	—	—	(6,328)	—	—	—
Treasury stock	—	—	—	—	—	—	0
Bonuses to directors and corporate auditors	—	—	—	(6)	—	—	—
Balance at March 31, 2000	588,697	30,872	26,752	7,206	—	—	1
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	—	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(1,997)	—	—	—
Net loss	—	—	—	(28,612)	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	(6,216)	—
Adoption of new accounting standard for financial instruments	—	—	—	—	2,049	—	—
Treasury stock	—	—	—	—	—	—	(0)
Bonuses to directors and corporate auditors	—	—	—	(4)	—	—	—
Balance at March 31, 2001	588,697	¥ 30,872	¥ 26,752	¥ (23,407)	¥ 2,049	¥ (6,216)	¥ 1

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings (Accumulated deficit)	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	$ 248,968	$ 215,742	$ 58,113	$ —	$ —	$ 8
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	(16,105)	—	—	—
Net loss	—	—	(230,742)	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	(50,129)	—
Adoption of new accounting standard for financial instruments	—	—	—	16,524	—	—
Treasury stock	—	—	—	—	—	(0)
Bonuses to directors and corporate auditors	—	—	(32)	—	—	—
Balance at March 31, 2001	$ 248,968	$ 215,742	$ (188,766)	$ 16,524	$ (50,129)	$ 8

See accompanying notes.

Consolidated Statements of Cash Flows

Year ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2001	2000	2001
Cash flows from operating activities:			
Income (Loss) before income taxes	¥ (29,642)	¥ 2,810	$ (239,049)
Adjustments to reconcile net income (loss) before income taxes to net cash (used in) provided by operating activities:			
Depreciation	15,460	14,648	124,677
Gain on sale of property, plant and equipment	(16,972)	(4,221)	(136,871)
Loss on disposal of property, plant and equipment	2,582	1,452	20,822
Gain on sale of securities	(6,897)	(1,001)	(55,621)
Loss on devaluation of securities	356	961	2,871
Amortization of net transition obligation of severance and retirement benefits	21,739	—	175,315
Gain on securities contributed to employee retirement benefit trust	(12,049)	—	(97,169)
Increase in allowance for retirement benefits	3,907	—	31,508
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(2,229)	(968)	(17,976)
Increase in allowances	13,963	28	112,605
Interest and dividend income	(1,316)	(2,406)	(10,613)
Interest expense	5,960	6,340	48,065
Changes in operating assets and liabilities:			
Decrease in notes and accounts receivable	7,915	4,172	63,831
Decrease in inventories	16,732	24,293	134,935
(Decrease) Increase in notes and accounts payable	(18,156)	6,405	(146,419)
Other-net	(3,958)	3,195	(31,919)
Sub-total	(2,605)	55,708	(21,008)
Interest and dividend received	1,251	2,408	10,089
Payments for interest	(5,883)	(6,559)	(47,444)
Payments for income taxes	(6,022)	(10,372)	(48,565)
Other-net	(1,154)	(2,068)	(9,306)
Net cash (used in) provided by operating activities	(14,413)	39,117	(116,234)

See accompanying notes.

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2001	2000	2001
Cash flows from investing activities:			
Decrease (Increase) in time deposits	123	(474)	992
Payments for securities	(735)	(368)	(5,927)
Proceeds from sale of securities	16,458	2,840	132,726
Payments for purchases of property, plant and equipment	(12,505)	(10,519)	(100,847)
Proceeds from sale of property, plant and equipment	19,561	5,061	157,750
Payments for purchases of securities which increased the number of consolidated subsidiaries and companies	558	(15)	4,500
Proceeds from sale of securities which reduced the number of consolidated subsidiaries and companies	705	455	5,685
Payments for long-term loans receivables	(3,182)	(2,377)	(25,661)
Collection of long-term loans receivables	5,809	5,479	46,847
Other-net	223	(2,051)	1,798
Net cash provided by (used in) investing activities	27,015	(1,969)	217,863
Cash flows from financing activities:			
Decrease in short-term loans	(8,902)	(11,527)	(71,790)
Increase (Decrease) in commercial paper	17,802	(15,212)	143,565
Proceeds from long-term debt	39,175	6,868	315,927
Payments for long-term debt	(50,212)	(28,394)	(404,936)
Proceeds from issuance of bonds	—	1,000	—
Payments for redemption of bonds	(17,500)	(1,500)	(141,129)
Payments for dividends	(1,766)	—	(14,242)
Net cash used in financing activities	(21,403)	(48,765)	(172,605)
Effect of exchange rate changes on cash and cash equivalents	123	(620)	992
Net decrease in cash and cash equivalents	(8,677)	(12,237)	(69,976)
Cash and cash equivalents at beginning of year	45,173	57,410	364,299
Cash and cash equivalents at end of year (Note 2)	¥ 36,496	45,173	$ 294,323

See accompanying notes.

Notes to Consolidated Financial Statements

1. Significant accounting policies

Basis of Presenting Consolidated Financial Statements

Sumitomo Heavy Industries, Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated statements of stockholders' equity have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2001, which was ¥124 to U.S. $1.00. 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 significant subsidiaries (the "Companies"). All significant intercompany transactions and accounts have been eliminated.

Investments in 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 so 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 shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

Material intercompany balances, transactions and profits have been eliminated in consolidation.

Cash flow statement

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Marketable and Investment Securities

Prior to April 1, 2000, listed securities were stated at the lower of market value or cost determined using the moving-average method and recoveries of costs were recognized. Other securities were stated at average costs.

Effective April 1, 2000, the Company adopted the new Japanese accounting standard on accounting for financial instruments ("Opinion Concerning Establishment of Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council on January 22, 1999), and changed the accounting for and classification of securities.

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by unconsolidated subsidiaries and affiliated companies are stated at moving-average cost. Securities with fair market value 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 shareholders' equity. Realized gains and losses on sale of such securities are computed using the moving-average cost.)

As a result of adopting the new accounting standard for financial instruments, loss before income taxes increased by ¥885 million ($7,137 thousand). Also, based on the examination of the intent of holding each security upon application of the new accounting standard at April 1, 2000, securities in current assets decreased by ¥31,640 million ($255,161 thousand) and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

Inventories

Work in process is stated principally at cost based on specific cost basis. Finished products, semi-finished products, raw materials and supplies are stated principally at cost based on average method.

Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost. Depreciation is computed primarily using the declining-balance method, except that buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Allowance for doubtful accounts

The Company and domestic consolidated subsidiaries provide a general allowance for doubtful accounts. 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.

Foreign consolidated subsidiaries provide for doubtful accounts, based on the estimation of the probable bad debts' amount.

Employees' severance and retirement benefits

The Company and its consolidated subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

At March 31, 2000, the Company and its consolidated subsidiaries accrued liabilities for lump-sum severance and retirement payments equal to 40% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Companies recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Company adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits", issued by the Business Accounting Deliberation Council on June 16,1998 (the "New Accounting Standard").

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

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 Company and its consolidated subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000, (the "net transition obligation") amounted to ¥52,602 million ($424,097 thousand), of which ¥21,738 million ($175,306 thousand) was recognized as an expense as a result of the contribution of investment securities worth ¥21,738 million ($175,306 thousand) to the employee retirement benefit trust and ¥2,178 million ($17,555 thousand) was charged by some of the consolidated subsidiaries in this fiscal period. The remaining net transition obligation amounting to ¥28,686 million ($231,339 thousand) will be recognized in expenses of equal amounts, primarily over 5 years, commencing with the year ended March 31, 2001.

Investment securities to an employee retirement benefit trust and an other income of ¥12,049 million ($97,169 thousand) was posted compared with what would have been recorded under the previous accounting standard.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥35,318 million ($284,822 thousand), and loss before income taxes increased by ¥15,432 million ($124,516 thousand), compared with what would have been recorded under the previous accounting standard.

Sales

Sales are principally recognized on a delivery basis except those for long-term contracts with a contract amount not less than a certain amount which are recognized based on the percentage-of-completion method.

Selling, general and administrative expenses

The Company allocates a certain portion of selling, general and administrative expenses (expenses other than those relating to management division, which are corporate-wide expenses) to work in process.

Software costs

The Company amortizes costs of software for its own use using the straight-line method over the estimated useful life (five years).

Research and development

Research and development costs are charged to income when incurred.

Income taxes

The Company recognizes tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities.

Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

Bond issuance expense

Bond issuance expense is charged to income in the year incurred.

Foreign currency translation

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the revised accounting standard for foreign currency translation. Under the revised accounting standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rates.

The effect on the consolidated statement of operations of adopting the revised accounting standard was immaterial.

Financial statements of consolidated overseas subsidiaries and affiliated companies are translated into Japanese yen at the year-end rates, except that shareholders' equity accounts are translated at historical rates.

Due to the adoption of the revised accounting standard, the Company and its domestic subsidiaries report foreign currency translation adjustments in the shareholders' equity. The prior year's amount, which is included in assets, has not been reclassified.

Derivatives and hedge accounting

The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes. The effect on the consolidated statement of operations of adopting the revised accounting standard was immaterial.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries (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 hedges 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.

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 not presented as net loss was incurred.

Cash dividends applicable to the year represent the actual amounts declared as applicable to the respective years.

2. Cash and cash equivalents

Cash and cash equivalents as of March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2001	2000	**2001**
Cash and time deposits	**¥ 36,715**	¥ 43,295	**$ 296,089**
Marketable securities	**330**	2,549	**2,661**
Time deposits over three months	**(549)**	(671)	**(4,427)**
Cash and cash equivalents	**¥ 36,496**	¥ 45,173	**$ 294,323**

3. Inventories

Inventories as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2001	2000	**2001**
Finished products and semi-finished products	**¥ 29,242**	¥ 37,681	**$ 235,823**
Work in process	**90,062**	99,684	**726,306**
Raw materials and supplies	**11,316**	7,376	**91,258**
	¥ 130,620	¥ 144,741	**$ 1,053,387**

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

Bank loans at March 31, 2001 and 2000 consisted of short-term notes, bearing interest principally at 0.6% per annum.
The Company and its consolidated subsidiaries have a yen domestic commercial paper program with a current maximum facility amount of ¥55,000 million ($443,548 thousand).The amount outstanding under this program is subject to variation from time to time.

At March 31, 2001 and 2000, commercial paper principally bore an average annual interest rate of 0.23% and 0.19%, respectively. Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2001	2000	**2001**
3.9 % domestic bonds due in February 2004	**¥ 8,000**	¥ 8,000	**$ 64,516**
3.0 % domestic bonds due in January 2005	**3,000**	3,000	**24,193**
2.8 % domestic bonds due in August 2001	**2,000**	2,000	**16,129**
U.S. dollar variable rate demand industrial development revenue bonds due in January 2008	**929**	796	**7,492**
U.S. dollar variable rate demand industrial development revenue bonds due in May 2008	**574**	531	**4,629**
U.S. dollar variable rate demand industrial development revenue bonds due in September 2010	**248**	212	**2,000**
1.7 % domestic mortgage bonds due in November 2005	**1,000**	1,000	**8,065**
2.3 % domestic mortgage bonds due in January 2006	**1,000**	1,000	**8,065**
Euro-yen floating rate notes due in September 2000	**—**	7,500	**—**
Euro-yen floating rate notes due in September 2001	**7,500**	7,500	**60,484**
Euro-yen convertible bonds due in July 2001	**—**	10,000	**—**
U.S. dollar loans from banks due serially through July 2001 with interest ranging from 6.0% to 7.3% in 2001 and 6.5% to 6.8% in 2000	**250**	2,482	**2,016**
Loans principally from banks and insurance companies due serially through March 2015 with interest ranging from 0.9 % to 7.9 % in 2001 and 1.6% to 7.3% in 2000:			
Secured	**6,143**	13,115	**49,540**
Unsecured	**111,322**	111,786	**897,758**
	141,966	168,922	**1,144,887**
Less amount due within one year	**27,620**	50,160	**222,742**
Amount due after one year	**¥ 114,346**	¥ 118,762	**$ 922,145**

The Euro-yen convertible bonds due in July 2001 are convertible currently at ¥435 ($4.10) for the share through July 10, 2001.
22,989 thousand additional shares of common stock would be issued upon full conversion at the current conversion price.

Annual maturities of long-term debt as of March 31, 2001 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S.dollars
2002	¥ 27,620	$ 222,742
2003	24,011	193,637
2004	36,911	297,669
2005	13,313	107,363
2006	31,706	255,694
Thereafter	8,405	67,782

At March 31, 2001, 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
Notes receivable	¥ 2,969	$ 23,943
Marketable equity securities at carrying value	2,538	20,468
Property, plant and equipment, at cost less accumulated depreciation	6,519	52,573
	¥ 12,026	$ 96,984

5. Income Taxes

The Company is subject to a number of income taxes, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 42% for the years ended March 31, 2001 and 2000, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 2000.

	2000
Statutory tax rate	42.05%
Increase (decrease) in tax rates resulting from:	
Operating losses of subsidiaries not recognizing deferred income tax accounting	251.57
Expenses not deductible for tax purposes	28.36
Per capital inhabitant tax	5.02
Indirect double taxation relief	(6.93)
Others	(5.09)
Effective tax rate	314.98

The Company reported loss before income taxes for the year ended March 31, 2001 and therefore such table has not been prepared for 2001.

The significant components of deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2001	2000	**2001**
Deferred tax assets:			
Unrealized profit on tangible fixed assets	¥ 424	¥ 9,522	$ 3,419
Operating loss carryforwards	4,270	6,170	34,436
Unrealized profit on inventories	825	1,198	6,653
Devaluation of marketable securities and investments	2,487	1,861	20,056
Allowance for warranty	1,269	1,652	10,234
Excess depreciation	1,204	1,101	9,710
Excess bonuses accrued	1,380	1,043	11,129
Allowance for retirement and severance	6,192	865	49,936
Allowance for doubtful accounts	7,040	670	56,774
Inventories	2,486	530	20,048
Others	2,678	3,261	21,597
Total deferred tax assets	30,255	27,873	243,992
Less-valuation allowance	(14,260)	(14,011)	(115,000)
Deferred tax assets-net	15,995	13,862	128,992
Deferred tax liabilities			
Valuation difference of assets and liabilities of a subsidiary	(2,689)	(2,216)	(21,685)
Accelerated depreciation	—	(715)	—
Excess tax depreciation reserve	(482)	(545)	(3,887)
Net unrealized holding gains on securities	(1,885)	—	(15,202)
Others	(13)	(206)	(105)
Deferred tax liabilities	(5,069)	(3,682)	(40,879)
Net deferred tax assets	10,926	10,180	88,113

6. Stockholders' equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital 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 Code.
Under the Code, certain amounts 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 reserve until the reserve equals 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings. As a result of the legal reserve requirement, the retained earnings of the Company is not available for cash dividends at March 31, 2001.
At June 26, 1998 annual meeting, the Company's stockholders approved the change in the articles of incorporation of the Company, that the Company may acquire its own shares after June 26, 1998, upon resolution of the Board of Directors, within the maximum limit of (1) 58,000 thousand shares to retire such shares and to offset related purchase costs against retained earnings and (2) 82,000 thousand shares at less than ¥24,900 million ($ 200,806 thousand) to retire shares and to offset costs against additional paid-in capital.

7. Contingent liabilities

The Companies were contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥1,292 million ($10,419 thousand) at March 31, 2001. In addition, at the same date the Companies were contingently liable as guarantors of bank loans to unconsolidated subsidiaries and affiliated companies and employees in the amount of ¥18,069 million ($145,718 thousand) (net of guarantees by co-guarantors).

8. Segment information

(A) The Companies' primary business activities include (1) industrial machinery, (2) ship, steel structure & other specialized equipment, (3) mass-produced machinery, (4) construction machinery and (5) environmental protection facilities, plants & others.
A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 2001 and 2000, and a summary of identifiable assets, depreciation expense and capital expenditures by segment of business activities for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen						
2001	Industrial machinery	Ship, steel structure & other specialized equipment	Mass-produced machinery	Construction machinery	Environmental protection facilities, plants & others	Elimination and / or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	¥ 66,029	¥ 94,043	¥ 157,669	¥ 112,602	¥ 83,410	¥ —	¥ 513,753
Intersegment	184	3,839	1,636	35	1,138	(6,832)	—
Total	66,213	97,882	159,305	112,637	84,548	(6,832)	513,753
Costs and expenses	70,087	99,436	145,861	117,359	80,479	(6,954)	506,268
Operating income	¥ (3,874)	¥ (1,554)	¥ 13,444	¥ (4,722)	¥ 4,069	¥ 122	¥ 7,485
II Identifiable assets	¥ 60,789	¥ 78,384	¥ 158,779	¥ 128,002	¥ 118,138	¥ 35,680	¥ 579,772
Depreciation expense	1,215	2,017	7,130	3,974	1,124	—	15,460
Capital expenditures	708	1,643	10,387	2,379	973	—	16,090
2000							
I Sales and operating income							
Sales:							
Unaffiliated customers	¥ 79,490	¥ 97,828	¥ 154,791	¥ 118,810	¥ 115,749	¥ —	¥ 566,668
Intersegment	305	284	783	35	1,030	(2,437)	—
Total	79,795	98,112	155,574	118,845	116,779	(2,437)	566,668
Costs and expenses	79,357	98,188	141,904	123,120	113,828	(2,437)	553,960
Operating income	¥ 438	¥ (76)	¥ 13,670	¥ (4,275)	¥ 2,951	¥ —	¥ 12,708
II Identifiable assets	¥ 86,159	¥ 84,704	¥ 168,476	¥ 186,048	¥ 96,743	¥ 35,019	¥ 657,149
Depreciation expense	1,543	2,488	5,385	3,786	999	—	14,201
Capital expenditures	1,186	1,426	5,332	8,378	1,510	—	17,832

Prior to April 1, 2000, products such as cryogenic equipment, defense equipment, precision castings, etc. were classified into the Ship, Steel Structure & Precision Products group. However, since sales of these products manufactured based on our estimated demand that should belong to the Mass-Produced Machinery group came to occupy a greater proportion of the entire sales of these products as compared with those that were made to order, these products were reclassified into the Mass-Produced Machinery group.
The figures for the year ended March 31, 2000 in the above Table were computed based on the numbers obtained based on the new classification.

	Thousands of U.S. dollars						
2001	Industrial machinery	Ship, steel structure & other specialized equipment	Mass-produced machinery	Construction machinery	Environmental protection facilities, plants & others	Elimination and / or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	$ 532,492	$ 758,411	$ 1,271,524	$ 908,081	$ 672,661	$ —	$ 4,143,169
Intersegment	1,484	30,960	13,194	282	9,177	(55,097)	—
Total	533,976	789,371	1,284,718	908,363	681,838	(55,097)	4,143,169
Costs and expenses	565,218	801,903	1,176,298	946,444	649,024	(56,080)	4,082,807
Operating income	$ (31,242)	$ (12,532)	$ 108,420	$ (38,081)	$ 32,814	$ 983	$ 60,362
II Identifiable assets	$ 490,234	$ 632,129	$ 1,280,476	$ 1,032,274	$ 952,726	$ 287,742	$ 4,675,581
Depreciation expense	9,799	16,266	57,500	32,048	9,064	—	124,677
Capital expenditures	5,710	13,250	83,766	19,186	7,846	—	129,758

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

(B) Information by geographic area for the years ended March 31, 2001 and 2000 was as follows:

	Millions of yen				
2001	Japan	North America	Other areas	Elimination and / or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	¥ 448,764	¥ 54,469	¥ 10,520	¥ —	¥ 513,753
Intersegment	21,558	413	942	(22,913)	—
Total	470,322	54,882	11,462	(22,913)	513,753
Costs and expenses	465,373	52,686	11,074	(22,865)	506,268
Operating income	¥ 4,949	¥ 2,196	¥ 388	¥ (48)	¥ 7,485
II Identifiable assets	¥ 491,324	¥ 40,491	¥ 10,561	¥ 37,396	¥ 579,772
2000					
I Sales and operating income					
Sales:					
Unaffiliated customers	¥ 507,465	¥ 51,264	¥ 7,939	¥ —	¥ 566,668
Intersegment	19,748	361	910	(21,019)	—
Total	527,213	51,625	8,849	(21,019)	566,668
Costs and expenses	519,890	46,940	8,149	(21,019)	553,960
Operating income	¥ 7,323	¥ 4,685	¥ 700	¥ —	¥ 12,708
II Identifiable assets	¥ 564,580	¥ 40,518	¥ 10,999	¥ 41,052	¥ 657,149

	Thousands of U.S. dollars				
2001	Japan	North America	Other areas	Elimination and / or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	$ 3,619,064	$ 439,266	$ 84,839	$ —	$ 4,143,169
Intersegment	173,855	3,330	7,597	(184,782)	—
Total	3,792,919	442,596	92,436	(184,782)	4,143,169
Costs and expenses	3,753,008	424,887	89,306	(184,394)	4,082,807
Operating income	$ 39,911	$ 17,709	$ 3,130	$ (388)	$ 60,362
II Identifiable assets	$ 3,962,291	$ 326,540	$ 85,169	$ 301,581	$ 4,675,581

Identifiable assets under the elimination and/or corporate column primarily consisted of cash and time deposits and marketable securities.
Other areas include mostly the United Kingdom, Germany, and Singapore.

(C) Overseas sales of the Companies for the years ended March 31, 2001 and 2000 were as follows:

2001	Millions of yen			
	To North America	To Asia	To Other areas	Total
Overseas Sales	¥ 66,318	¥ 33,854	¥ 44,971	¥ 147,143
	12.9 (%)	7.0 (%)	8.7 (%)	28.6 (%)
	Thousands of U.S. dollars			
Overseas Sales	$ 534,823	$ 289,145	$ 362,669	$ 1,186,637

Other areas include mostly the United Kingdom, Germany, and Singapore.

Overseas sales of the Companies for the year ended March 31, 2000 were ¥184,231 million ($1,485,734 thousand) and accounted for 32.5% of consolidated net sales.
Overseas sales consist of export sales by the Company and its domestic consolidated subsidiaries as well as sales by overseas consolidated subsidiaries.

(D) The effects of the change on segment information

As explained in Note 8 (A), the Company changed its method of segment classification. The effect of the change on the Ship, Steel Structure & Other Specialized Equipment segment was to decrease net sales by ¥19,277 million ($155,460 thousand), to decrease operating income by ¥1,247 million ($10,056 thousand), to decrease identifiable assets by ¥21,073 million ($169,944 thousand), to decrease depreciation expenses by ¥781 million ($6,298 thousand), and to decrease capital expenditures by ¥476 million ($3,839 thousand). The effects on the Mass-Produced Machinery segment were to increase net sales by ¥19,241 million ($155,169 thousand), to increase operating income by ¥1,247 million ($10,056 thousand), to increase identifiable assets by ¥21,062 million ($169,855 thousand), to increase depreciation expenses by ¥781 million ($6,298 thousand), and to increase capital expenditures by ¥476 million ($3,839 thousand).

9. Information for certain leases

The summary of assumed amount 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, 2001 was as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥ 10,556	¥ 5,079	¥ 5,477
Others	112	61	51
Total	¥ 10,668	¥ 5,140	¥ 5,528
	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	$ 85,129	$ 40,960	$ 44,169
Others	903	492	411
Total	$ 86,032	$ 41,452	$ 44,580

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥1,254 million ($10,113 thousand) and ¥4,074 million ($32,855 thousand) for the years ended March 31, 2001 and 2000, respectively.

Future lease payments as of March 31, 2001 and 2000, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S.dollars
	2001	2000	**2001**
Due within one year	**¥ 1,548**	¥ 3,562	**$ 12,484**
Due after one year	**3,980**	5,151	**32,097**
Total	**¥ 5,528**	¥ 8,713	**$ 44,581**

10. Securities

(A) The following tables summarize acquisition costs, book values and fair values of securities not stated at fair value as of March 31, 2001:

Available-for-sale securities	Millions of yen	Thousands of U.S.dollars
	2001	**2001**
Acquisition value:		
Non-listed equity securities	**¥ 5,548**	**$ 44,742**
Non-listed equity bonds	**2,000**	**16,129**
Others	**6**	**48**
Total	**¥ 7,554**	**$ 60,919**

(B) Total sales amount of available-for-sale securities sold in the year ended March 31, 2001 was ¥7,418 million ($59,823 thousand) and the net gains were ¥2,582 million ($20,823 thousand).

(C) The following tables summarize acquisition costs, book values and fair values of securities, with fair value as of March 31, 2001:

Available-for-sale securities	Millions of yen	Thousands of U.S.dollars
	2001	**2001**
Acquisition value:		
Equity securities	**¥ 15,779**	**$ 127,250**
Bonds	**46**	**371**
Others	**161**	**1,298**
Total	**15,986**	**128,919**
Book value:		
Equity securities	**19,281**	**155,492**
Bonds	**58**	**468**
Others	**124**	**1,000**
Total	**¥ 19,463**	**$ 156,960**
Differences:		
Equity securities	**3,502**	**28,242**
Bonds	**12**	**97**
Others	**(37)**	**(298)**
Total	**¥ 3,477**	**$ 28,041**

(D) The following tables summarize maturities of available-for-sale securities with maturities as of March 31, 2001:

Available-for-sale securities	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Equity securities	¥ —	¥ —	¥ —	¥ —	¥ —
Bonds	7	41	2,000	—	2,048
Others	—	—	—	—	—
Total	7	41	2,000	—	2,048

	Thousands of U.S. dollars				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Equity securities	$ —	$ —	$ —	$ —	$ —
Bonds	56	331	16,129	—	16,516
Others	—	—	—	—	—
Total	56	331	16,129	—	16,516

(E) Book value, market value and net unrealized gains of quoted securities at March 31, 2000 were as follows:

	Millions of yen
	2001
Book value:	
Current	**¥ 29,601**
Non-current	**1,446**
	31,047
Market value:	
Current	**51,868**
Non-current	**2,116**
	53,984
Net unrealized gains	**¥ 22,937**

The Companies do not have any outstanding options or futures transactions.

11. Derivatives information

The Companies enter into forward currency exchange contracts and interest rate swap 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 obtain stabilized profit. Interest rate swap transactions are made in order to minimize the risk of interest rate hikes on borrowings.
The Companies deal with international financial institutions with higher credit ratings as counterparties 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.

Counterparties of derivatives transactions are creditworthy financial institutions, and the Companies believe that the risk of default by the counterparties 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, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S.dollars
	2001	2000	**2001**
Contracted amount to be paid/received:			
To buy foreign currencies	**¥ —**	¥ 2,223	**$ —**
To sell foreign currencies	**4,423**	2,950	**35,669**
Foreign exchange options	**1,413**	319	**11,395**
Fair value:			
To buy foreign currencies	**—**	2,189	**—**
To sell foreign currencies	**4,503**	2,579	**36,314**
Foreign exchange options	**1,444**	315	**11,645**
Net unrealized exchange loss	**¥ 111**	¥333	**$ 895**

(B) Interest rate swap and swaption agreements

	Millions of yen		
Year ended March 31, 2001	Contract amount	Fair value	Unrealized loss
Interest rate swaps:			
Receive fix/Pay float	¥ —	¥ —	¥ —
Receive float/Pay float	—	—	—
Interest rate swaption:			
Receive float/Pay fix	600	(18)	(18)
	¥ 600	¥ (18)	¥ (18)

	Millions of yen		
Year ended March 31, 2000	Contract amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive fix/Pay float	¥ 1,000	¥ 22	¥ 22
Receive float/Pay float	1,000	(34)	(34)
Interest rate swaption:			
Receive float/Pay fix	2,000	8	8
	¥ 4,000	¥ (4)	¥ (4)

	Thousands of U.S. dollars		
Year ended March 31, 2001	Contract amount	Fair value	Unrealized loss
Interest rate swaps:			
Receive fix/Pay float	$ —	$ —	$ —
Receive float/Pay float	—	—	—
Interest rate swaption:			
Receive float/Pay fix	4,839	(145)	(145)
	$ 4,839	$ (145)	$ (145)

12. Information regarding retirement benefits

1. Projected benefit obligation on the balance sheet date consists of the following:

	Millions of yen	Thousands of U.S.dollars
	2001	2001
(1) Projected benefit obligation	(76,608)	(617,806)
(2) Fair value of pension assets	20,035	161,573
(3) Fair value of employee retirement benefit trust	18,965	152,943
(4) Unfunded projected benefit obligation	(37,608)	(303,290)
(5) Unrecognized net transition obligation	22,950	185,081
(6) Unrecognized actuarial differences	6,512	52,516
(7) Unrecognized prior service cost	39	314
(8) Prepaid pension benefit expenses	(59)	(476)
(9) Allowance for severance and pension benefits	(8,166)	(65,855)

2. Included in the statement of income for the year ended March 31, 2001 are the following severance and pension benefit expenses:

	Millions of yen	Thousands of U.S.dollars
	2001	2001
(1) Service costs	4,230	34,113
(2) Interest cost on projected benefit obligation	2,260	18,226
(3) Expected return on plan assets	(867)	(6,992)
(4) Amortization of net transition obligation	29,649	239,105
(5) Costed actuarial differences	45	363
(6) Severance and pension benefit expense	35,317	284,815

3. Assumed calculations of projected benefit obligation, etc.

(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	3.0%
(3) Expected rate of return on plan assets	4.0%
(4) Amortization period of actuarial gain/loss	12 years
(5) Amortization period of unrecognized net transition obligation	5 years

Report of Independent Public Accountants

To the Board of Directors of
Sumitomo Heavy Industries, Ltd.

We have audited the accompanying consolidated balance sheets of Sumitomo Heavy Industries, Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Sumitomo Heavy Industries, Ltd. and subsidiaries as of March 31, 2001 and 2000, 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 applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 1, effective April 1, 2001, Sumitomo Heavy Industries, Ltd. and subsidiaries prospectively adopted new Japanese accounting standards for financial instruments, employees' severance and retirement benefits, and foreign currency transition. Also, in the year ended March 31, 2001, Sumitomo Heavy Industries, Ltd. and subsidiaries changed the method of classifying segments as referred to in Note 8, with which we concur.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1 .

Asahi & Co.

Tokyo, Japan
June 28, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

Network

Domestic Network

Offices

Head Office
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan

Kansai Office
5-33, Kitahama 4-chome, Chuo-ku, Osaka 541-0041, Japan

Tanashi Works
1-1, Yato-cho 2-chome, Nishitokyo-shi, Tokyo 188-8585, Japan

Chiba Works
731-1, Naganumahara-machi, Inage-ku Chiba-shi, Chiba 263-0001, Japan

Yokosuka Shipyard
19, Natsushima-cho, Yokosuka-shi, Kanagawa 237-8555, Japan

Uraga Shipyard
7, Uraga-cho 4-chome, Yokosuka-shi, Kanagawa 239-0822, Japan

Hiratsuka Works
63-30, Yuhigaoka, Hiratsuka-shi, Kanagawa 254-8010, Japan

Nagoya Works
1, Asahi-machi 6-chome, Obu-shi, Aichi 474-8501, Japan

Okayama Works
8230, Tamashima-Otoshima, Kurashiki-shi, Okayama 713-8501, Japan

Niihama Works
5-2, Sobiraki-cho, Niihama-shi, Ehime 792-8588, Japan

Toyo Works
1501, Imazaike, Toyo-shi, Ehime 799-1393, Japan

Research & Development Center
19, Natsushima-cho, Yokosuka-shi, Kanagawa 237-8555, Japan

Laser Center
1-15, Kuryozutsumi, Hiratsuka-shi, Kanagawa 254-0801, Japan

Subsidiaries

Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, 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.

Sumitomo Heavy Industries Construction Crane Co., Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan
Principal business: Manufacture and sales of construction machinery

Shin Nippon Machinery Co., Ltd.
1-28, Shiba 2-chome, Minato-ku, Tokyo 105-0014, Japan
Principal business: Turbines, pumps, fasteners and blowers

Nihon Spindle Mfg. Co., Ltd.
2-30, Shioe 4-chome, Amagasaki-shi, Osaka 661-8510, Japan
Principal business: Spinning machinery and environmental protection equipment

Sumitomo Eaton Nova Corporation
4-15, Yato-cho 2-chome, Nishitokyo-shi, Tokyo 188-0001, Japan
Principal business: Semiconductor equipment, especially ion implantation systems

Sumitomo NACCO Material Handling Co., Ltd.
75, Daito-cho 2-chome, Obu-shi, Aichi 474-8555, Japan
Principal business: Forklift trucks and logistic handling equipment

Izumi Food Machinery Co., Ltd.
2-18, Awaza 2-chome, Nishi-ku, Osaka-shi, Osaka 550-0011, Japan
Principal business: Food processing machinery and related equipment

Lightwell Co., Ltd.
18-10, Moto-Asakusa 3-chome, Taito-ku, Tokyo 111-0041, Japan
Principal business: Software and related equipment

Sumitomo Heavy Industries Himatex Co., Ltd.
16-4, Isoura-cho, Niihama-shi, Ehime 792-0022, Japan
Principal business: Castings and forgings

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

SHI Plastics Machinery, Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan
Principal business: Plastics machinery

Sumiju Environmental Engineering, Inc.
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan
Principal business: Maintenance and operation control for environmental systems and plants

Sumitomo Heavy Industries Engineering and Services Co., Ltd.
20-4, Higashigotanda 2-chome, Shinagawa-ku, Tokyo 141-0022, Japan
Principal business: Design, production and distribution of general industrial machinery, as well as remodeling, repairs, inspection and maintenance

SHI Control Systems, Ltd.
826 Naganumahara-machi, Inage-ku, Chiba-shi, Chiba 263-0001, Japan
Principal business: Design, production and distribution of various industrial regulating systems

Marine United, Inc.
1-1, Irifune 2-chome, Chuo-ku, Tokyo 104-0042, Japan
Principal business: Design and construction of naval ships, merchant vessels and offshore structures

Osaka Chain & Machinery, Ltd.
16-1, Wakihama 4-chome, Kaizuka-shi, Osaka 597-0073, Japan
Principal business: Power transmission equipment

Overseas Network

Offices

Sumitomo Heavy Industries (U.S.A.), Inc.
666 Fifth Avenue 10th Floor, New York, N.Y. 10103-1099, U.S.A.

Sumitomo Heavy Industries (Europe), Ltd.
5th Floor, Bury House, 31 Bury Street, LondonEC 3A 5AR, U.K.

Subsidiaries

Sumitomo Machinery Corporation of America
4200 Holland Boulevard, Chesapeake, Virginia23323, U.S.A.
Principal business: Power transmission equipment

Sumitomo (SHI) Cyclo Drive Europe, Ltd.
Marfleet, Hull HU9 5RA, U.K.
Principal business: Power transmission equipment

Sumitomo (SHI) Cyclo Drive Asia Pacific Pte., Ltd.
No. 2 Tuas Link 2, Singapore 638551
Principal business: Power transmission equipment

Sumitomo (SHI) Cyclo Drive Tianjin, Ltd.
No. 7 Sanijing Road, Dongli Economic Development Zone, Tianjin, China
Principal business: Power transmission equipment

SHI 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

SHI Plastics Machinery (Europe) B.V.
Breguetlaan 10A 1438 BC OUDE MEER, Netherlands
Principal business: Plastics machinery

S.H.I. Plastics Machinery (S) Pte., Ltd.
67 Ayer Rajah Crescent #01-15 to 26, Singapore 13950
Principal business: Plastics machinery

SHI Plastics Machinery (TAIWAN) Inc.
3F-1 687 Chung Shan North Road, Sec. 5, Taipei, Taiwan, R.O.C.
Principal business: Plastics machinery

SHI Plastics Machinery (Hong Kong) Ltd.
RM 601, Telford House, 12-16 Wang Hoi Road, Kowloon Bay, Hong Kong
Principal business: Plastics machinery

SHI Plastics Machinery (Shanghai) Co., Ltd.
Shanghai Waigaoquiao Free Trade Zone, 188 Headang Road, Second Floor, Department D Pu Dong New Area, Shanghai
Principal business: Plastics machinery

SHI Plastics Machinery (Malaysia) Sdn. Bhd.
9th Floor Menara PKNS, Blok A PJ Jalan Yong Shook Lin 46050, Petaling Jaya, Selangor, Malaysia
Principal business: Plastics machinery

Sumitomo (SHI) Cryogenics of America, Inc.
870 Cabridge Drive, Elk Grove Village, IL, USA
Principal business: Sales of cryocooler

SHI Cryogenics Europe GmbH
Dolivostraße 9 D-64293 Darmstadt, Germany
Principal business: Sales of cryocooler

Link-Belt Construction Equipment Company
2651 Palumbo Drive, P.O. Box 13600, Lexington, Kentucky 40583-3600, U.S.A.
Principal business: Construction machinery

LBX Company, LLC
2651 Palumbo Drive, P.O. Box 14103, Lexington, Kentucky 40512-4103, U.S.A.
Principal business: Construction machinery

SHI Machinery Service Hong Kong Ltd.
2103A Tower 2, Lippo Centre, 89 Queensway, Central, Hong Kong
Principal business: Maintenance service for harbor facilities

SHI Designing & Manufacturing Inc.
4th & 5th Floor Fems Tower One, 1289 Zobel Roxas Avenue Cor., South Superhighway, Manila, Philippines
Principal business: Project implementation — from basic design through detailed design tosales

SHI Manufacturing & Services (Philippines), Inc.
Barangay Sta.Anastacia, Sto.Tomas,Batangas,Philippine
Principal business: Manufacture of key component for XY stage, cryocooler, controler

Management

(As of June 28, 2001)

BOARD OF DIRECTORS

Mitoshi Ozawa
Representative Director,
Chairman of the Board

Yoshio Hinoh
Representative Director,
President and
Chief Executive Officer

Eiichi Fujita
Representative Director

Noriyuki Yamasaki
Director

Yukihito Takahashi
Director

Naoki Takahashi
Director

Hiroyasu Taniguchi
Director

Tsuyoshi Saito
Director

CORPORATE AUDITORS

Shuji Toyoda
Standing Auditor
Yoshimasa Funato
Standing Auditor
Tsutomu Nishimura
Auditor
Takako Yamada
Auditor

EXECUTIVE OFFICERS

Yoshio Hinoh
Representative Director,
President and Chief Executive Officer
Eiichi Fujita
Representative Director,
Senior Executive Vice President
Noriyuki Yamasaki
Director, Executive Vice President
Yukihito Takahashi
Director, Executive Vice President
Naoki Takahashi
Director, Executive Vice President
Kensuke Shimizu
Executive Vice President
Kenji Haruguchi
Senior Vice President
Shigeya Oishi
Senior Vice President
Masaaki Shiba
Senior Vice President
Takahiko Otani
Senior Vice President
Kohei Takase
Senior Vice President
Yasuhiko Seike
Senior Vice President
Yukio Kinoshita
Senior Vice President
Yasuo Naide
Senior Vice President
Shigeru Nisugi
Senior Vice President
Hiroyasu Taniguchi
Director, Vice President

Corporate Data

(As of March 31, 2001)

Head office:	Sumitomo Heavy Industries, Ltd. 9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan Tel: +81-3-5488-8335 Fax: +81-3-5488-8056 http://www.shi.co.jp	
Founded:	1888	
Incorporated:	November 1, 1934	
Paid-in Capital:	¥30,871,651,300	
Number of Employees:	12,411 (Consolidated) 4,699 (Non-consolidated)	
Transfer Agent:	The Sumitomo Trust and Banking Co., Ltd.	
Stock Exchange Listings:	Tokyo, Osaka, Nagoya	
Shares Outstanding:	588,696,680	
Number of Shareholders:	89,466	
Major Shareholders:	Sumitomo Life Insurance Company	4.86%
	The Sumitomo Bank, Ltd.	4.55%
	The Mitsubishi Trust and Banking Co., Ltd. (trust account)	3.71%
	The Nomura Trust and Banking Co., Ltd. (trust account)	3.13%
	Nippon Life Insurance Company	3.11%
	The Sumitomo Trust and Banking Co., Ltd.	2.91%
	The Nippon Trustee Service Trust and Banking Corp. (trust account)	2.01%
	The Sumitomo Marine & Fire Insurance Co., Ltd.	1.99%
	The Chuo Mitsui Trust and Banking Co., Ltd. (trust account)	1.69%
	The Industrial Bank of Japan, Ltd.	1.45%

Additional copies of this annual report and other information may be obtained by contacting:
Public Relations Dept., Sumitomo Heavy Industries, Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan
Tel: +81-3-5488-8219 Fax: +81-3-5488-8056