Annual Report 2005

Year Ended March 31, 2005

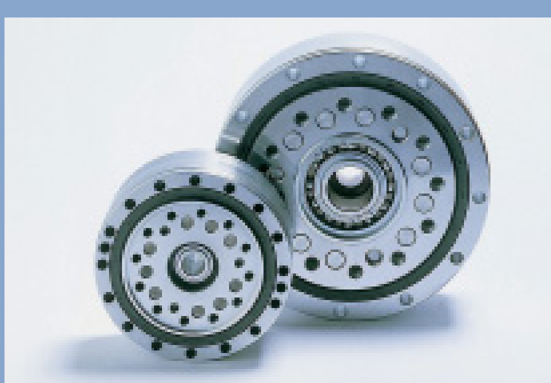
Sumitomo Heavy Industries, Ltd.

Cyclo® Speed Reducer F2C-A Series for Precision

Shown on the cover is a cut-away image of the Cyclo® Speed Reducer F2C-A series for precision control. The internal image showing three center columns of unique wave-like parts are known as "cycloidal discs" (epitrochoid gears with curved teeth shapes) which are the core parts of this product.

The basic function of speed reducers in general is to reduce the motor's rotation to optimal speed levels while simultaneously increasing the turning force, known as torque, of the motor in direct proportion to the reduction in speed. In addition, the high-precision positioning and continuous path-control required in applications such as industrial robots and machine tools depend highly on the speed reducer's precision performance.

The F2C-A is based on the Cyclo® Speed Reducer and its two-disc mechanism,which has a proven track record with over 10 million units worldwide. F2C-A has three high-precision cycloidal discs arranged 120 degrees out of phase.The rolling contact of these cycloidal discs, high-precision tooth profile and highly precise components combine to create zero-backlash motion. Furthermore, the compact component-like shape makes this speed reducer suitable for incorporating into machines, and the built-in, high-capacity, tapered main roller bearings enable this reducer to handle large radial loads. It is easy to use, provides exceptional performance, and yields the highest precision offered in the market today.



※ For an explanation of the Company's Cyclo® Drive line of speed reducers, see Page 10－11.

Contents

Cautionary Statements with Respect to Forward-Looking Statements

Statements made in this annual report with respect to plans, strategies and future performance that are not historical facts are forward-looking statements. Sumitomo Heavy Industries, Ltd. cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

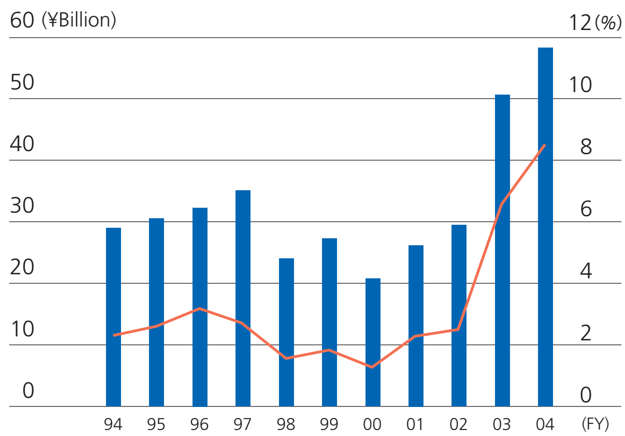
Profile

Sumitomo Heavy Industries, Ltd. first opened for business in 1888 and was incorporated in 1934. As an integrated manufacturer of leading-edge industrial products, we manufacture and sell industrial machinery, precision control equipment and components. 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

1. Recent Business Performance

EBITDA, ROIC



EBITDA (Left scale) : ROIC (Right scale) :

SHI's business performance has recorded "a sharp turnaround" since fiscal 2000, with record-high operating income registered in fiscal 2003 and fiscal 2004.

※EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization.

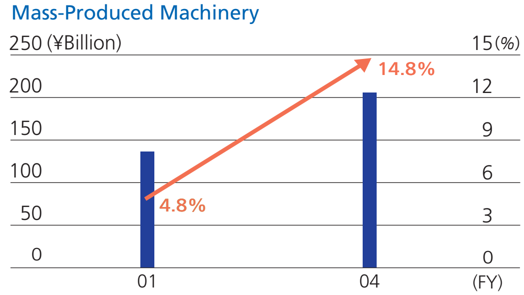
※ROIC (Return on Invested Capital) = $\dfrac{\text{(Operating income + Interest and dividend received)} \times 55\% \text{ (= 1 − Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$

2. Main Factors behind Our High Earnings Growth Rate

Differentiating ourselves through cutting-edge technology, and exploiting our superiority over rivals by expanding our lineup of market-leading products

Utilizing our overwhelming superiority in the field of mass-produced machinery to open up new markets and differentiate our products even more sharply from those of our competitors

Mass-Produced Machinery

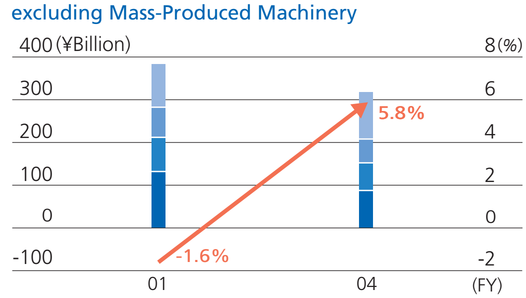


Sales (Left scale) :
Operating income margin (Right scale) :

Raising profitability in mature markets through focus on areas of technological superiority, plus improved production efficiency

Emphasis on higher profitability through improved productivity and focusing on niche markets with good growth potential within larger markets and industries that are mature and contracting overall

SHI's Four Main Operational Segments excluding Mass-Produced Machinery



Sales (Left scale) : Environmental protection facilities, plants & others
Ships, steel structures, & other specialized equipment
Industrial machinery
Construction machinery
Operating income margin (Right scale) : Average for four segments

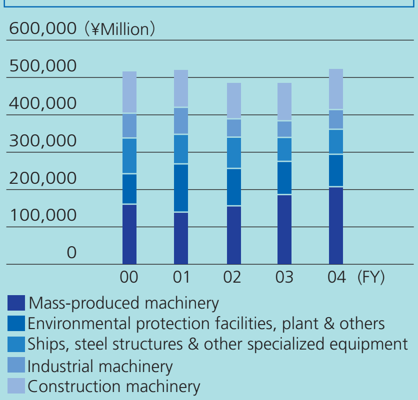
Financial Highlights

SUMITOMO HEAVY INDUSTRIES CO., LTD. and Consolidated Subsidiaries

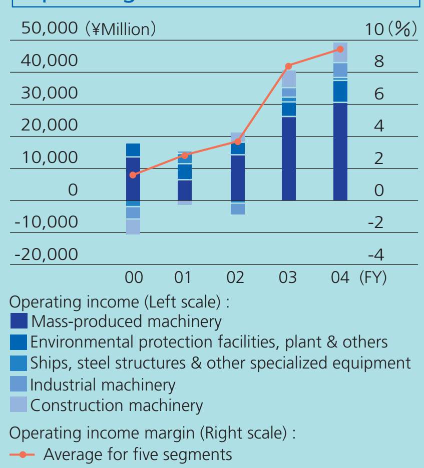
	FY2000	FY2001	FY2002	FY2003	FY2004	FY2004
					Millions of yen	Thousands of U.S. dollars *1
Summary of Income (For the year) :						
Net sales	¥513,753	¥517,138	¥481,289	¥482,765	¥521,310	$4,872,059
Mass-produced machinery	157,669	135,602	153,228	184,489	205,091	1,916,742
Environmental protection facilities, plants & others	83,409	131,018	100,310	87,691	87,937	821,844
Ship, steel structure & other specialized equipment	94,042	79,714	85,598	63,438	65,288	610,172
Industrial machinery	66,029	72,161	46,758	45,988	54,008	504,752
Construction machinery	112,602	98,640	95,393	101,158	108,985	1,018,549
Operating income	7,485	14,175	17,213	40,231	48,773	455,824
Mass-produced machinery	13,444	6,463	14,358	26,046	30,415	284,251
Environmental protection facilities, plants & others	4,069	5,034	3,820	4,567	7,094	66,299
Ship, steel structure & other specialized equipment	(1,554)	3,538	(3,416)	1,547	478	4,470
Industrial machinery	(3,874)	(902)	(485)	2,908	4,834	45,179
Construction machinery	(4,722)	14	2,969	5,150	5,961	55,709
Elimination	122	28	(32)	13	(9)	(84)
EBITDA*2	20,402	26,078	29,322	50,344	58,055	542,570
Net income (loss)	(28,612)	1,650	2,688	16,262	22,792	213,011
Cash Flows (For the year) :						
Cash flows from operating activities	¥ (16,957)	¥ 38,808	¥ 29,499	¥ 75,775	¥ 45,451	$ 424,774
Cash flows from investing activities	29,560	(3,343)	(1,074)	(7,929)	(6,087)	(56,885)
Free cash flows*3	12,603	35,465	28,425	67,846	39,364	367,889
Cash flows from financing activities	(21,403)	(32,785)	(22,116)	(56,666)	(46,490)	(434,484)

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥107=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2005.
2. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization.
3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities
4. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.
5. ROIC (Return on Invested Capital) = $\frac{\text{(Operating income + Interest and dividend received)} \times 55\% \text{ (= 1} - \text{Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$

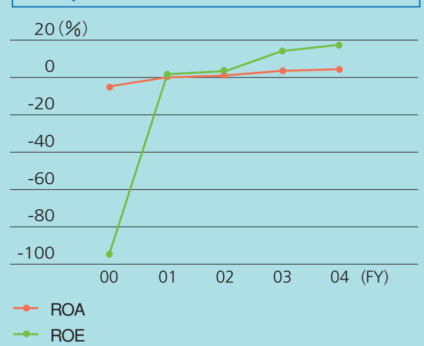
Net Sales



Operating Income

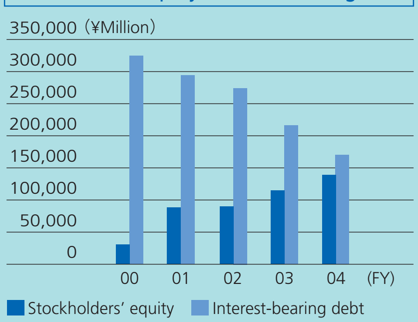


ROA, ROE

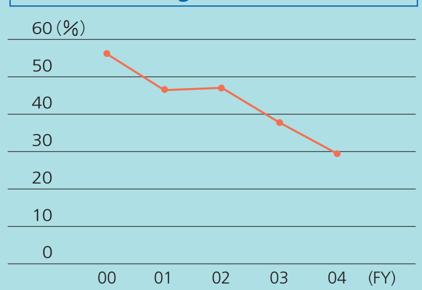


	FY2000	FY2001	FY2002	FY2003	FY2005	FY2005
					Millions of yen	Thousands of U.S. dollars *1
Financial Position (At year-end)						
Total assets	¥579,772	¥634,904	¥588,010	¥580,291	¥569,771	$5,324,960
Interest-bearing debt	324,324	294,552	273,544	215,807	169,228	1,581,573
Stockholders' equity	30,049	87,494	89,331	114,526	137,157	1,281,830
Amounts Per Share:					Yen	U.S. dollars *1
Net income (loss)	¥ (48.60)	¥ 2.80	¥ 4.57	¥ 27.01	¥ 37.80	$ 0.35
Stockholders' equity	51.04	148.63	151.86	190.25	227.90	2.13
Cash Dividends	0	0	0	0	3.00	0.03
Financial Indexes:					%	
EBITDA margin	4.0	5.0	6.1	10.4	11.1	
ROA (Return on assets)	(4.9)	0.3	0.5	2.8	4.0	
ROE (Return on equity)	(95.2)	1.9	3.0	14.2	16.6	
Stockholders' equity ratio	5.2	13.8	15.2	19.7	24.1	
Interest-bearing debt ratio	55.9	46.4	46.5	37.2	29.7	
ROIC*5	1.3	2.3	2.6	6.5	8.5	

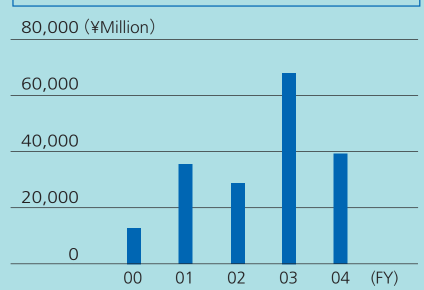
Stockholders' Equity, Interest-Bearing Debt



Interest-Bearing Debt Ratio



Free Cash Flows



To Our Shareholders, Customers, and Employees

SHI Group Poised to Enter New Phase of Sustained Growth

Through its previous three-year medium-term management plan, the Sumitomo Heavy Industries Group took steps to reform its operating structure and enhance its financial position, and in fiscal 2004 (from April 2004 to March 2005), the final year, the Plan's targets were surpassed by wide margins. Despite the bold challenge of linking up approximately 50 business units, our results bear witness to the progress made in a radical structural reform that rebuilt them into an aggregate of businesses that creates new value as a group.

In "Leap to Excellence '07," our new three-year medium-term management plan commenced in fiscal 2005, we reaffirm that the abundance of our products and businesses constitute the wellspring of our strength, we take over the concepts of self-reliance and the synergistic value chain and, by orienting ourselves towards sustainable growth, we direct our efforts to achieving value for our customers.

Creating a Strong SHI Group – Ready for the next leap ahead

Summary of previous medium-term management plan (Fiscal 2002–2004)

In the previous medium-term management plan, the Sumitomo Heavy Industries Group set itself the following four targets.

- To create value for customers by rebuilding a "Powerful Sumitomo Heavy Industries Group."
- To reform our business structure through the aggregation of self-reliance, a synergistic value chain, and technologies.
- To achieve numerical targets of ROIC of 4 ± 0.5%, operating income of more than ¥20 billion, and the reduction of interest-bearing debt to below ¥250 billion.
- To establish precision control equipment and components as our third core product family after power transmission and control equipment, and plastic injection molding machines.

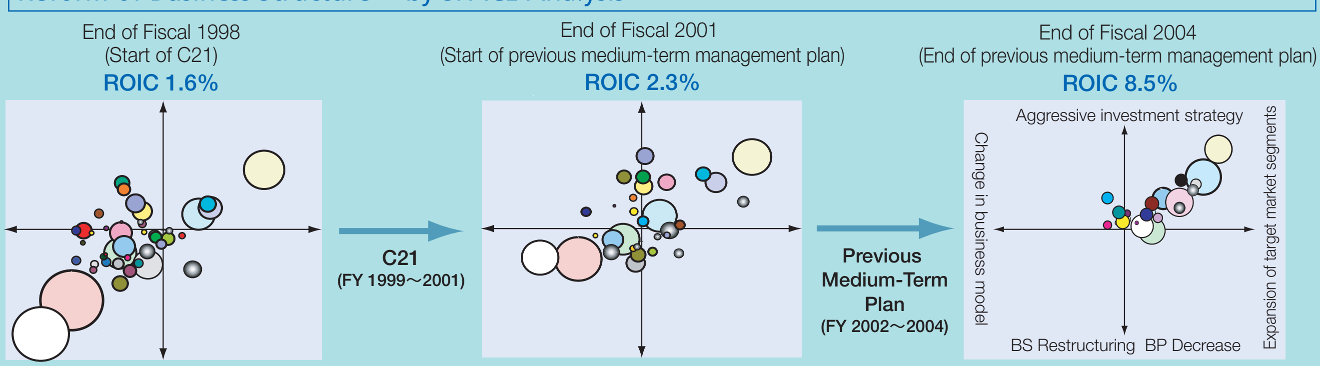
It is simple to select from among a diversity of business units just on the basis of profitability, but it was my belief that the way to enhance corporate value and create greater value for customers lies in combining the competitive expertise, skills and technical capabilities of our Group's various businesses on the basis of a cooperative structure that transcends the boundaries of individual organizations. In that way I required each business unit to acquire self-reliance through responsibility and awareness with regard to its own business activities, and by combining these self-reliant business units organically into a network, I aimed to form the basis of a new business model by creating a "synergistic value chain."

As a result of this, through self-reliance, each business unit acquired a thorough dedication to profit. In addition, through the concept of the synergistic value chain, our corporate essence underwent a change to one in which human resources, value and assets were shared, the efficiency of capital was enhanced, and overall high levels of earnings were achieved. The robust expansion of our precision control equipment and components business is a prime example of the synergistic value chain at work.

With regard to our performance, in fiscal 2004 we achieved record-high profits for the second year in succession, a success that enabled me to feel the impact that the progress of our structural reforms has been making. As regards the numerical targets of our previous medium-term management plan, they were greatly exceeded for ROIC, operating income, and the balance of interest-bearing debt.

Perhaps the greatest achievement was that through the period of our previous plan we firmly established the mechanism for generating first-class products — the mechanism that forms the basis of our new medium-term management plan – and switched to an organization that gave life to a value chain that vertically integrates the Group's diverse businesses.

Reform of Business Structure ～by SPACE Analysis



Note: Horizontal axis indicates competitiveness.
Vertical axis indicates financial strength.
Size of circle indicates value of invested capital.

Due to continuing changes in the framework for construction machinery, shipbuilding and steel making businesses, there are no financial or competitive problem businesses at the end of fiscal 2004.

Yoshio Hinoh
President and CEO

First-Class Products – Aiming for high-level, stable growth

New "Leap to Excellence '07" medium-term management plan (Fiscal 2005–2007)

Following the previous medium-term management plan, in the new "Leap to Excellence '07" medium-term management plan I believe that dedication to the creation of value for customers and gaining their long-term confidence will lead to the sustained development of Group business and the raising of enterprise value. It will also live up to the expectations of our shareholders and employees, and of society at large.

Through the previous medium-term management plan, we strengthened our financial position and laid the foundation for stable growth, and so in the Leap to Excellence '07 plan we have set ourselves a course of returning to expansion and growth through an investment strategy that allows for a certain element of risk. To assure high-level, stable growth, we will proceed further with structural reforms. As a company that pursues growth on the world stage, our aim is to be a knowledge-intensive company that systematically provides its customers with first-class products. To that end we will continue to enhance our marketing, product-development, and manufacturing capabilities in pursuit of ever-higher product quality, dedicating ourselves more resolutely than ever before to "the product."

We will continue to use ROIC as a management indicator, our target being a level of above 10%. Our other key fiscal 2007 numerical targets are operating income of more than ¥60 billion and interest-bearing debt of around less than ¥150 billion. In addition, we will endeavor to grow still further our key components business, which formed the third engine of our previous medium-term management plan, and through the fusion of power transmission equipment and mechatronics we will also nurture and strengthen mechatronics business as the fourth driving force.

Aiming to Create Vertically Integrated Business Management Unique to the Sumitomo Heavy Industries Group

In the new Leap to Excellence '07 plan we aim to create the Group's own unique, vertically integrated type of business management as a progression from the synergistic value chain. To that end we will reorganize our approximately 50 business units into three segments.

The new segments are to be "Key Components," primarily power transmission and precision control equipment and components, "Appliances," primarily plastic injection molding machines, and "Total Systems," which include water and sewage treatment systems and material handing systems. These will be linked by a value chain, the differentiation of the Machinery segment being created by the Key Components segment, and the differentiation of the Total Systems segment being created by the Machinery segment.

Placing First-Class Products on the Market through Vigorous Development Investment

We foresee a multiplicity of possibilities for the development of new products in the Key Components segment, which includes power transmission equipment, and the Appliances segment, whose principal products are plastic injection molding machines. Accordingly, under the Leap to Excellence '07 plan, we will undertake vigorous investment in product development for the purpose of generating new products in these areas, giving impetus to our transformation.

A similar approach will be applied to individual businesses. In the precision equipment business, for example, by taking advantage of the core technologies, namely cryogenic technologies, magnetic field control technologies and optical technologies, we will supply the market with distinctive products such as core components and modules.

Growth Strategies for Major Businesses

(1) Key Components Business Segment

<Power Transmission and Controls Business>

We plan to grow our revenue from Power Transmission and Controls the core of the Key Components business, to the ¥100 billion level. In this business we see room for improvement in such areas as marketing, product development, production, product quality, cost and overseas deployment. By strengthening these, we will position this product group for further growth.

<Mechatronics Business>

This will be grown into the Company's fourth major revenue source after the precision equipment business. Emphasis will first be placed on control components, stage systems and drive systems. In addition, actuator technology, the core technology for power transmission equipment, will be combined with the mechatronics control technology of the Mechatronics Division, established separately after being split from the Precision Equipment Group, with the intention of creating new business. In this field we will also explore other avenues of business expansion, including via mergers and acquisitions.

(2) Appliances Business Segment

<Plastic Injection Molding Machine Business>

Our plastic injection molding machines, which play a pivotal role in the Machinery business, gained the largest share of the domestic market in 2003, and we aim to go on increasing that share. This business is a model for the kind of knowledge-creation company envisaged in the Leap to Excellence '07 plan, and I believe it will also be a role model for the Sumitomo Heavy Industries Group. Basically, it will serve to evolve the segment strategy, platform strategy and global supply chain management that we have pursued hitherto.

<Precision Equipment Business>

We will achieve the further growth of this business by creating value for customers through an internal vertically integrated value chain. It was nurtured as the third revenue generator of the previous medium-term management plan and achieved steady growth, and we will ensure that that status is solidly entrenched.

(3) Total Systems Business Segment

This segment will take advantage of the strengths of the Key Components and Machinery segments to enhance the competitiveness of every business. In addition, the risk of declines in profitability will be managed with great thoroughness, and every effort made to enhance profitability.

(4) Construction Machinery Business (Hydraulic Excavators)

The construction machinery industry is approaching a period of technical innovation necessitated by developments such as the need to comply with Tier 3 emission regulations. In this field of business we will be concentrating technologies from throughout the Sumitomo Heavy Industries Group to enhance the strength of our products and build a unique business model.

(5) Shipbuilding Business

The Toyota Production System (Kanban System), currently in use, is to be extended to all processes. In addition, we will adopt a product streamline strategy by means of individual marketing and customer management, aiming to become the world leader in the construction of medium-sized tankers. We will conduct meticulous analyses of vessel prices, materials costs and exchange-rate fluctuations, and ensure exhaustive profitability management and management of our acceptance of orders. We are confident of generating stable earnings over the next five years.

Maintaining the Momentum, with Ongoing Record Profits as Our Goal

Plan for fiscal 2005

Under our new growth strategy, we will continue to undertake reform with respect to our business structure, marketing, product-development and workmanship in manufacturing, endeavoring at all times to create value for the customer by providing first-class products. Although the market environment in fiscal 2005 is certainly not one to inspire great optimism, by continuing to labor vigorously we aim to achieve another record-high profit, our target being net income of ¥23.5 billion. We will be working in a unified way throughout the Group to attain that goal.

In addition, to fulfill our corporate social responsibilities, we will continue to enhance risk management and will return to the basics in every aspect of our business to ensure that all employees are thoroughly acquainted with the requirements of compliance. In the sphere of environmental activities, in line with the Sumitomo Heavy Industries Group Environment Policy we will always give consideration to the environmental impact of our business activities in the areas around our business premises, and we will take active steps to prevent environmental pollution, as well as to reduce waste volumes, and implement energy and resource saving initiatives, as well as recycling.

To enhance the collective organizational strength of the Group, we will also maintain our vigorous input of investment in such areas as human resource development, the optimum placement of personnel, and the broadening of educational opportunities for employees. We will also continue with the firm establishment of the performance-linked personnel assessment system introduced in fiscal 2004, ensuring that by clearly setting out the tasks and goals of every individual employee and evaluating their performance on that basis, our style of management of the organization makes it an inspirational place in which to work.

With respect to dividends, we have been obliged to forego payment for the past four terms. However, in view of our business performance and financial condition, we are able to resume payment at the rate of ¥3 per share. I hope that you will continue to support us in our endeavors.

Yoshio Hinoh

Yoshio Hinoh
President and CEO

Corporate Governance and Compliance

The Sumitomo Heavy Industries Group recognizes that the establishment of a highly efficient and transparent management structure is the basis of corporate governance of the kind required both to enhance corporate value and to raise the level of trust of its stakeholders, including shareholders, customers, employees and society as a whole.

Management Structure

Sumitomo Heavy Industries introduced a system of executive officers in 1999, separating business execution functions from management oversight functions. In addition, to assure the transparency of management and enhance management oversight, one of the Company's nine directors is an outside director. The Board of Directors, the membership of which has been reduced in order to enhance its deliberations, considers all matters required by the Commercial Code, and also gives advance consideration to other important management issues and subjects them to exhaustive scrutiny. The execution of the Company's business is entrusted to 16 executive officers, including eight who serve concurrently as directors. The Company has also established the Corporate Operating Committee, composed of all the executive officers, and the Group Executives Management Committee, which comprises the presidents of the Company and of major subsidiaries and affiliates, the purpose of the latter being to monitor consolidated business performance and the implementation of management measures.

For auditing, the Company has a system of statutory auditors centered on the Board of Corporate Auditors, which is composed of four auditors, two of whom are appointed from outside the Company. The Board of Corporate Auditors provides advice and guidance as to the legality and propriety of the performance of duties by directors and executive officers, and it also reinforces Groupwide auditing capabilities by regularly convening meetings of the Group Auditors Conference, attended by auditors from the Company and its subsidiaries and affiliates. An attorney-at-law and a certified public accountant are selected to serve as the outside auditors, so as to further enhance the structure for checking compliance and all aspects of corporate accounting.

Compliance and Risk Management Structure

Sumitomo Heavy Industries has long been implementing measures to ensure and enhance the legal compliance, fairness and ethicality of its corporate activity, including the formulation of a code of conduct and the establishment of its Ethics Committee and an a hot-line for reporting unethical behavior. It has also taken steps to perfect and firmly establish a comprehensive risk management structure.

During fiscal 2004 the Company embarked upon Groupwide measures to build an internal control system that will function in a way that unifies the control of corporate ethics and risk management activities. (The principal measures are set out below.) Plans now call for the strengthening of monitoring through liaison between the Internal Control Department and the Internal Audit Department, further enhancing the effectiveness of internal controls.

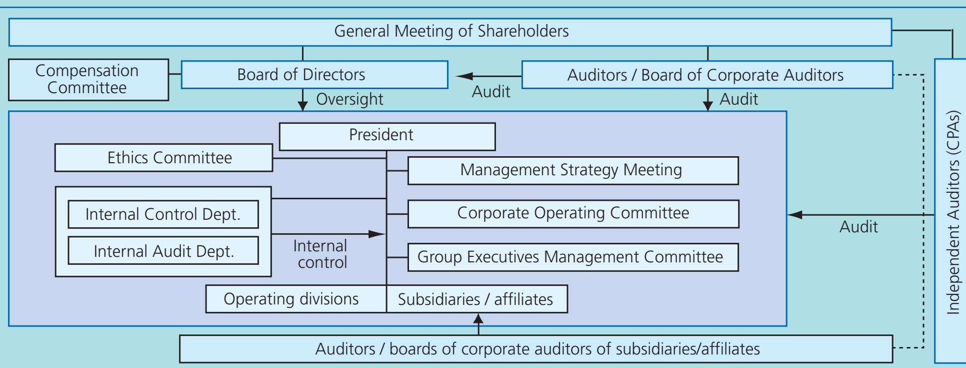
Principal corporate governance measures during fiscal 2004

- Undertook a complete revision of the auditing standards applied by corporate auditors to Sumitomo Heavy Industries, with the revised standards now being applied uniformly to all subsidiaries and affiliates.
- Established a Compensation Committee, half of whose members are from outside the Company, as an advisory body to the Board of Directors. This committee conducted a total review of the system of compensation for directors.

Principal compliance and risk management measures during fiscal 2004

- Reorganized the Risk Management Department, making it into the Internal Control Department.
- Established a compliance manual.
- Conducted training and awareness-raising activities throughout the Group, including at subsidiaries and affiliates.

Corporate Governance Structure



Special Feature 1:

Medium-Term Management Plan

◆ Previous Medium-Term Management Plan (Fiscal 2002–2004) ◆

Numerical Targets

The goal of our three-year medium-term management plan initiated in fiscal 2002 was to create "Powerful Sumitomo Heavy Industries Group." Our specific targets for fiscal 2004 were:

(1) Achieve ROIC*1 greater than WACC*2

(2) Achieve fiscal 2004 consolidated operating income: More than ¥20 billion

(3) Decrease interest bearing debt as of March, 2005: Less than ¥250 billion

We worked on reorganizing our business structure to achieve these goals as well as reinforcing our management platform and Group management capabilities.

In fiscal 2004, we achieved (1) ROIC of 8.5%, (2) ¥48.8 billion in consolidated operating income, (3) a reduction in interest-bearing debt to ¥169.2 billion, which a far larger reduction than our initial target.

*1: ROIC (Return on Invested Capital)

$$= \frac{(\text{Operating income} + \text{Interest and dividend received}) \times 55\%(=1-\text{Effective tax rate})}{\text{Average of stockholders' equity} + \text{Average of interest bearing debt}}$$

*2: WACC (Weighted Average Cost of Capital) is calculated by multiplying the cost of each capital component (including equity and debt) by its proportional weighting.

Operating Income

The Group's former business structure included divisions that continuously achieved operating income at the ¥20 billion level, but they were repeatedly offset by divisions suffering deficits in excess of ¥10 billion. Accordingly, the previous medium-term management plan sought to boost the strong divisions and control the risk of loss to within a predetermined limit.

The results began to emerge in fiscal 2002. The operating losses of businesses at risk were reduced, and the businesses that were strengthened achieved profit growth.

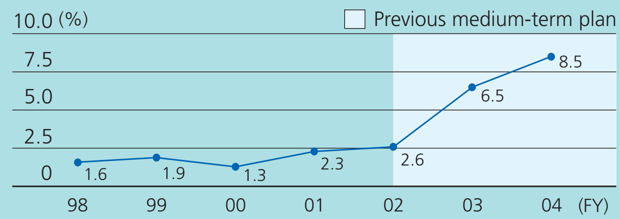
Interest-Bearing Debt

Because of the improved earnings described above, of a decline in working capital resulting from a cutback in models requiring long delivery periods, and of enhanced cash-flow management, the reduction in interest-bearing debt was well above target.

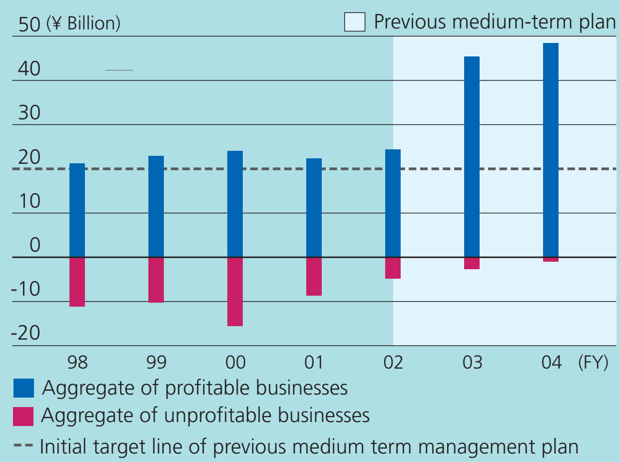
Establishment of Precision Control Equipment and Components Business

In the previous medium-term management plan, precision control equipment and components were established and nurtured as the third core product family. Owing to the differentiation of Sumitomo Heavy Industries Group technologies in such fields as accelerator, cryogenic, and mechanical control technologies, and the combination of these technologies into a value chain, we were able to place high-value-added products onto the market, and this product group – as our third cash cow after power transmission equipment and plastic injection molding machines – achieved sales above ¥50 billion in fiscal 2004.

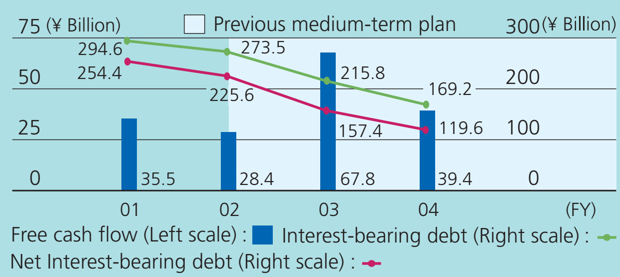
ROIC (After Tax)



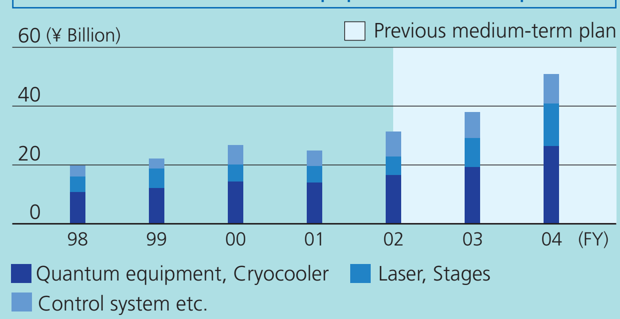
Operating Income Structure



Interest-Bearing Debt



Sales of Precision Control Equipment and Components



◆ New Medium-Term Management Plan “Leap to Excellence ’07” (Fiscal 2005–2007) ◆

Our new three-year medium-term management plan starting in fiscal 2005 is designed to lead us on a path of expansion and growth. We have therefore named it Leap to Excellence '07

Plan targets are as follows.

(1) To be a knowledge-based company that supplies markets with first-class products through systematic means.

(2) To integrate our businesses vertically and pursue synergies.

(3) To achieve the following three numerical targets, for which active investment will be undertaken.

① Fiscal 2007 ROIC above 10%
ROIC > WACC

② Fiscal 2007 consolidated operating income :
More than ¥60 billion

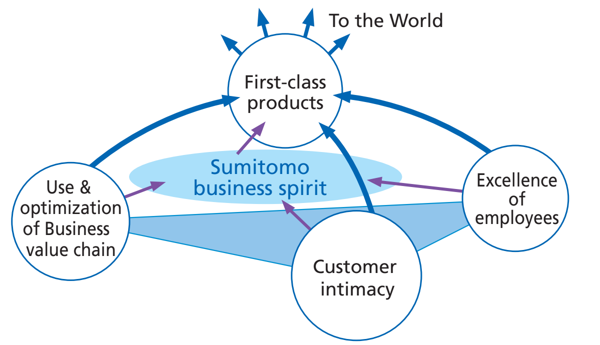
③ Fiscal 2007 year-end interest bearing debt :
Less than ¥150 billion

(4) To strengthen and expand Key Components business.
In particular, to combine power transmission equipment and mechatronics so as to develop mechatronics business into our fourth core product family after precision control equipment and components.

Concept: Building a Company that Provides Knowledge-Based Services by Systematic Means

This is a diagrammatic representation of the Leap to Excellence '07 concept. With the Sumitomo business spirit – based on the principle of socially responsible corporate activity – at its core, and based on personnel development and the strengthening of relationships with customers, the Company will conduct vertically integrated business management.

The four key policies are (1) The development of operations overseas through enhanced marketing, (2) The development of first-class products, (3) The redesigning of our manufacturing system, and (4) The establishment of matchless product quality.

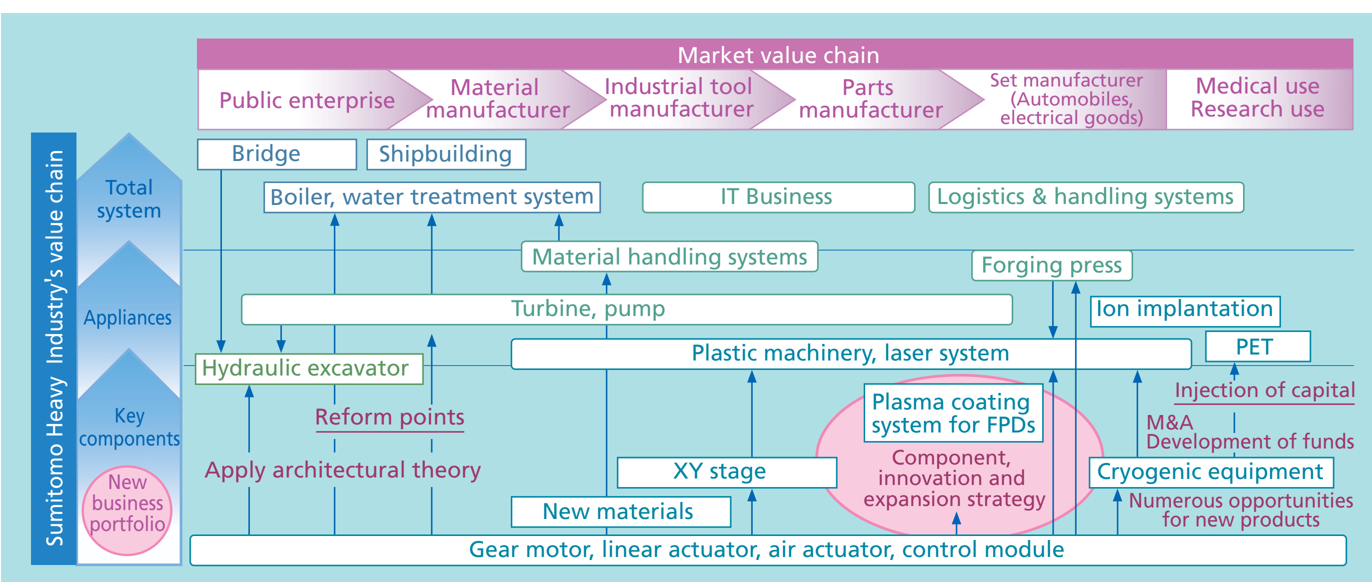


Vertical Business Integration and Expansion and Strengthening of Key Components Business

Leap to Excellence '07 introduces the new concept of dividing the Company's products into three categories – Key Components, Appliances, and Total Systems – evolving a synergistic value chain based on a vertically integrated mode.

The theory behind this is the use of the concept of economies of scope to achieve greater business efficiency and value.The chart below maps major Sumitomo Heavy Industries Group products between the Group's new vertical value chain shown on the vertical axis, and the market value chain shown on the horizontal axis. This diagram paints a concrete picture of how we envision our vertical integration.

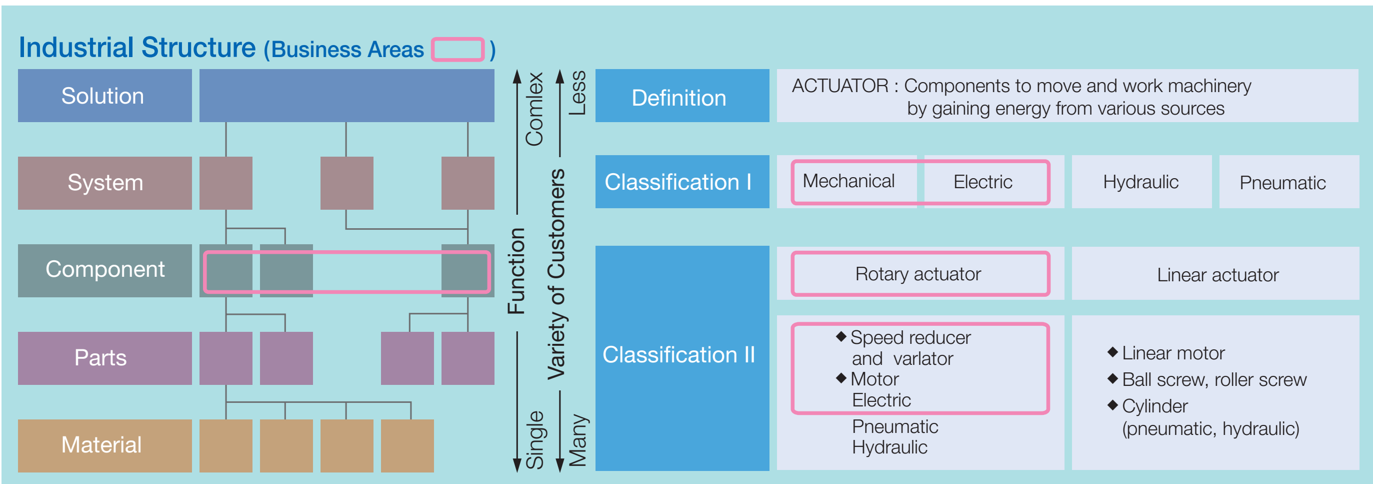
Under the Leap to Excellence '07 plan, resources are input into the Key Components business, with its abundant opportunities for new products, with the aim of expanding and strengthening it.



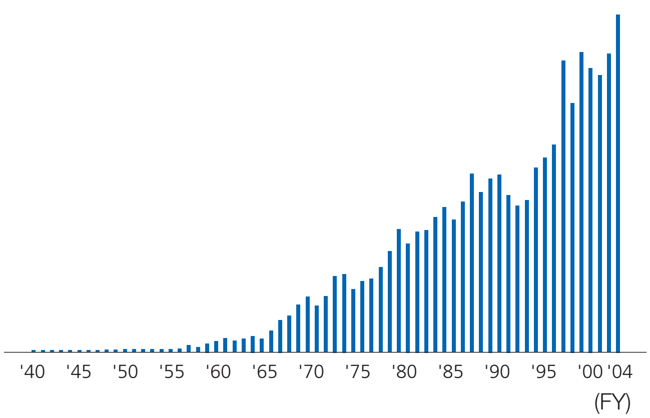
Special Feature 2:

Speed Reducers from Sumitomo Heavy Industries

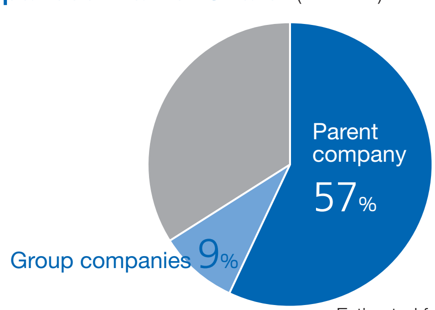
Speed reducers are classified as one of the components called "actuators." Sumitomo Heavy Industries is highly regarded as the leading manufacturer of speed reducers, a type of mechanical and electrical rotary actuators, both inside and outside Japan. We are always offering new, cutting-edge ideas and striving to create added value for its customers. By switching to more compact and lighter products, we are able to meet the changing needs of our customers. The development of speed reducers for precision control and high-efficiency right angle gearmotors are just two examples of this approach.



Sales Trend



Japanese Market Share (FY2004)



Estimated from Industrial Machinery Manufactures Statistics

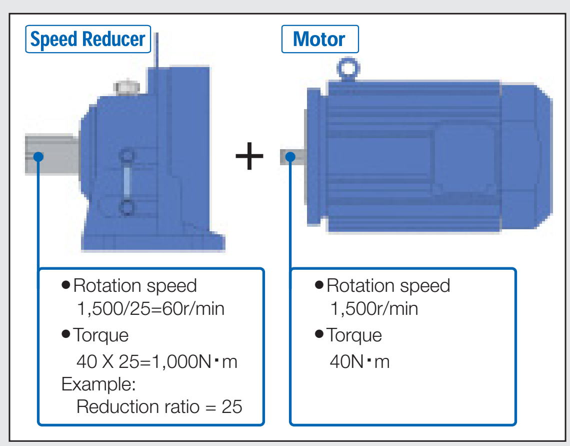
What is a Speed Reducers ?

A wide variety of motor types are used to drive machines, including electric motors and hydraulic motors. However, most motors rotate too fast, and lack enough rotation force (torque) to run machines. Thus, they are not entirely suitable for driving machines directly. That is why a speed reducer is necessary to reduce the motor speed to the optimum rotation speed for each machine application while simultaneously increasing the rotation force.

Belts and chains can also be used for reduction, but the most common method used today is a combination of gears referred to as "speed reducers."

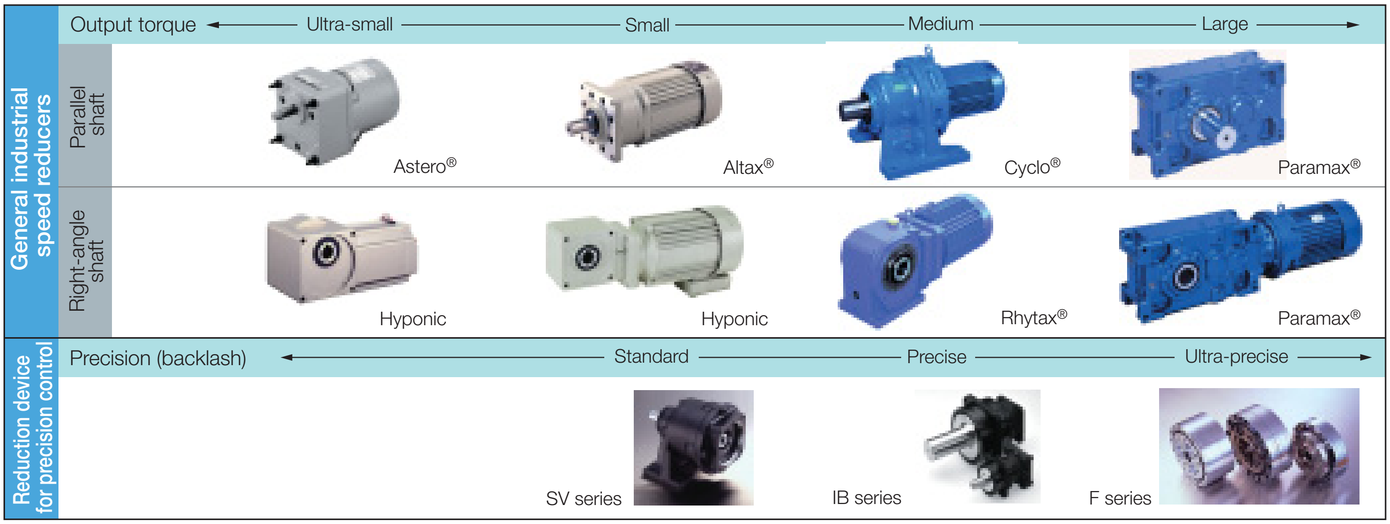
Purpose of "Speed Reducers"

1. To reduce the speed of the input rotation motion to a ratio of "1/X" (where X is the reduction ratio)
2. To multiply the rotation force (torque) of the input turning motion by the reduction ratio
3. To transmit the input power



"Sumitomo Speed Reducers" Main Products

As a top manufacturer of speed reducers, Sumitomo Heavy Industries provides a wide range of unrivalled products in Japan and overseas markets, from sub-fraction 6W models to large industrial kW models, speed reducers for precision control, application-special products and applied products for every industry.



What is a Cyclo® Drive?

Sumitomo Heavy Industries' top-lined product with a proven track record of seaving over 10 million units.

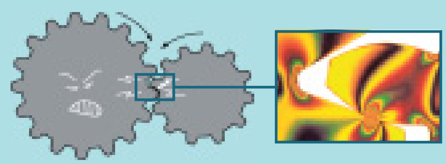
【Features】

- Unique cyclo mechanism
- Unbreakable gear teeth
- High gear meshing ratio

→

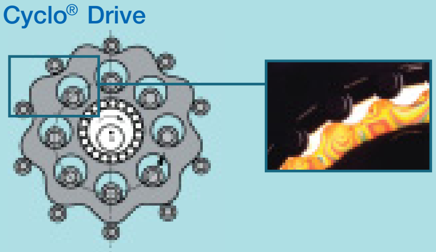
- Withstands high shock loads
- High rigidity and high durability
- High efficiency and long service life
- High reduction ratios (1/119) possible in one stage

General Speed Reducers (Involute Gears)



Involute gears have a small tooth engagement rate; torque transmitting parts grind, wear, and can break off due to shock loads concentrating on 1 or 2 teeth.

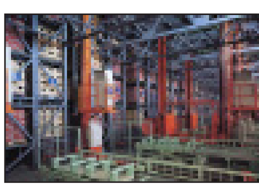
Cyclo® Drive



The Cyclo® has a larger engagement rate 2 to 3 times that of involute gears so the shock load is dispersed and absorbed evenly over many teeth. Tough, long-life speed reducers.

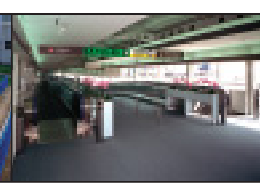
Main Applications

Factory automation and
 unit-handling machines
Industrial robots
LCD & SPE
Medical machines
Environmental machines
Food processing machines
Packaging machines
Chemical processing machines
Plastic and Rubber
 processing machines
Metal processing machines
Steel and iron making machines
Papermaking machines
Concrete production machines
Printing machines
Home care devices
Port and airport machines
Construction-related machines
Transportation-related machines
Amusement machines

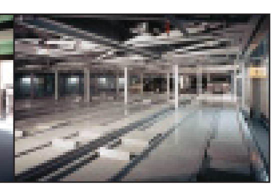


3D automated warehouse systems

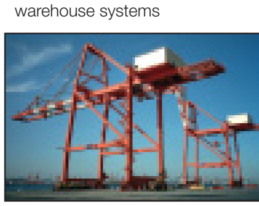
Waste water treatment



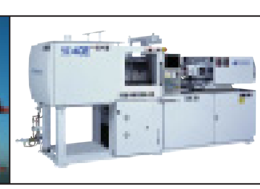
Moving walkways



Large-scale 3D parking garages



Container cranes



Electric injection molding machines

Steel and iron making machines

Ski lifts

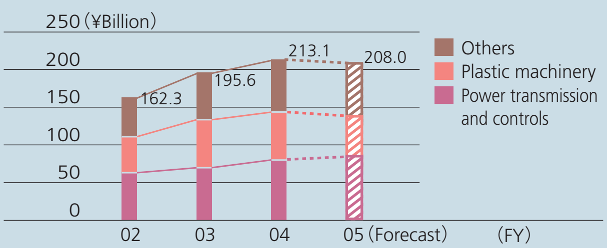
Review of Operations

Mass-Produced Machinery

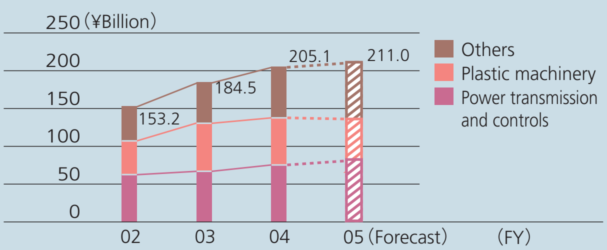
Main Products
Power Transmission Equipment
Plastic Injection Molding Machines
Cyclotrons for Medical Use
Ion Accelerators
Plasma Coating System for FPDs (Flat Panel Displays)
Transfer Molding Press Machines
Laser Processing Systems
Cryogenic Equipment
XY Stages
Forklift Trucks
Precision Forgings & Castings
Defense Equipment

Major Units
Sumitomo Eaton Nova Corporation
Sumitomo NACCO Material Handling Co., Ltd.
Sumitomo Machinery Corporation of America
Sumitomo (SHI) Cyclo Drive Germany, GmbH
Sumitomo Plastics Machinery Inc. of America
Synex Corporation
SHI-APD Cryogenics, Inc.
SHI Manufacturing & Services (Philippines), Inc.

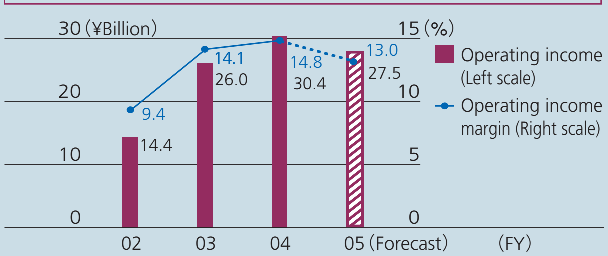
Orders



Sales



Operating Income



Segment Overview

Business Environment
In Japan, investment in industrial machinery grew more active, and vigor also returned to the liquid crystal, semiconductor and other segments in the IT field. In the field of medical care, conditions have remained favorable since 2002, when health insurance began to cover PET (positron emission tomography) scans for early cancer detection. Overseas, meanwhile, the ripple effects of economic expansion in the U.S., Southeast Asia and other areas is buoying digital consumer electronics and a broad range of other fields. Both in Japan and overseas, the business environment in this segment in the previous fiscal year remained favorable during the year under review.

Review and Analysis of Results in Fiscal 2004
In the Power Transmission and Controls business, the recovery in capital investment fueled strong sales growth in Japan, while overseas sales were also robust, particularly to East Asian countries. In the Plastic Machinery business there was strong growth in both orders and sales, backed by brisk sales of our mainstay electric injection molding machines to the automotive industry and also in many other fields such as precision equipment, containers, and medical care. In the Precision Control and Components business there was a substantial year-on-year increase in both orders and sales in the field of precision positioning stages for LCD panels, where massive capital investment is continuing. Orders for accelerators for use in medical care were received from hospital throughout Japan, fueling strong sales.

As a result of the above, total orders in this segment grew by 9% from the previous year, to ¥213.1 billion, sales were up 11% at ¥205.1 billion, and operating income was up 17% at ¥30.4 billion.

Outlook for Fiscal 2005
In the field of industrial equipment, including for the automotive industry, robust business conditions are expected to continue. In the LCD and semiconductor fields we foresee severe market conditions, but measures will be taken to carve out new markets, including the launch of new products. However, we expect the markets for cutting-edge equipment such as medical equipment and laser systems to continue growing. Overall, we expect that both total orders and sales in this segment in fiscal 2005 will remain at around their fiscal 2004 levels, but that factors such as our entry into new markets will cause profits to show a modest decline of 9.5% year-on-year.

Main Businesses

Power Transmission & Controls

Business in Fiscal 2004

The fiscal 2004 Power Transmission and Controls (PTC) global business growth continued from a successful fiscal 2003. Domestic growth was driven by strong capital investment especially in automotive industries and also in sectors supporting the expanding Chinese and Southeast Asian economies. Globally, China continued to rapidly expand and to develop into a major overseas market for PTC. Fueled by healthy regional economies, both Southeast Asia and the Americas contributed significant growth to the fiscal 2004 global PTC performance.

PTC generated robust growth in the automotive, industrial robotics, factory automation, steel and material handling sectors. Each of these sectors benefited from increased capital investment and stronger export performance in Japan.

The expanding demand for PTC medium and large gearbox units resulted from overseas requirements in China and domestic Japan needs in the steel, material handling and automotive sectors. Japan's demand for precision speed reducer units continued to increase in the industrial robotics sector. Small gearmotor unit sales increased in fiscal 2004 driven by the factory automation sector and a rising demand in the material handling sector.

Strategies for Fiscal 2005

PTC forecasts continued expansion in the Japanese, Chinese, Southeast Asian and American markets in fiscal 2005. We plan to launch new products, strengthen our sales centers, improve our sales channels and improve our marketing capabilities.

We are enhancing our expertise in precision speed reducer technology and applications to further penetrate the robotic and factory automation sectors. In addition, we are optimizing our small gearmotor designs to reduce unit size and to minimize noise generation. We are increasing our throughput capacity to significantly reduce gearmotor unit delivery times.

Finally, we are strengthening our medium and large gearbox engineering resources to offer optimal solutions. Our objective is to become the "solution provider" to our customers. We are committed to enhancing customer value and expanding our global business performance.

Injection Molding Machines

Business in Fiscal 2004

Demand for injection molding machines was very strong during the year, as it was in fiscal 2003, fueled by high rates of activity in IT industries such as the mobile phone and digital camera industries, particularly in East Asia, and in the automotive industry within Japan. Domestic demand for these machines, which in fiscal 2003 led to a modest decline in terms of numbers of units, was robust in fiscal 2004, reflected in unit sales of just below the 20,000 unit level.

Amid this business environment, our advanced SE-D Series of electric injection molding machines maintained its high reputation both in the Japanese and overseas markets, as was the case in fiscal 2003. Prompted by very strong demand for DVDs, we expanded our sales area in the disc-molding business and achieved brisk sales. In addition, to meet increasingly diverse and sophisticated requirements in the field of resin-processing technology, we developed a state-of-the-art electric two-color molding machine based on the SE-D Series, and launched it on the market as a new product designed to attract attention to the Group's high level of technical capabilities.

The Sumitomo Heavy Industries Group maintained its top place in this segment in terms of unit sales in fiscal 2004. We attribute much of this achievement to the fact that the Group has established its superiority in the field, particularly as regards its product lineup and its molding technologies, which enable customers to improve their productivity in such areas as the time required to conduct molding.

Strategies for Fiscal 2005

In fiscal 2005 we aim to further consolidate our status as the "Technology and Solution Leader" by enhancing our product lineup in a way that provides optimum product matches with customers in each product field, and by further expanding our sales network. By harnessing the comprehensive strengths of the entire Group, we will position ourselves to ensure a swift response to customer requirements in the sphere of plastic processing technology as they grow progressively diverse and complex. In part by developing a synergistic value chain with our customers, we are committed to becoming the world's foremost integrated plastics injection molding machinery manufacturer.

Precision Control Cyclo® Drive

Fully electric controlled injection molding machine "SD40E"

Quantum and Advanced Equipment

Business in Fiscal 2004

In fiscal 2004 we achieved our medium-term plan target of ¥15 billion for both our orders and sales in this segment as a whole. PET (positron emission tomography) examinations using FDG (a radiopharmaceutical for conducting the examinations) were granted approval for Japan's health insurance coverage in 2002, triggering rapid growth in our PET business, and that briskness continued in fiscal 2004, enabling us to achieve more than 10% year-on-year growth in orders. We are manufacturing products designed to meet a variety of requirements in the practice of clinical medicine, and as a result of this, the inflow of orders from private hospitals in Japan is growing. These include the development of high-performance cyclotrons and the obtaining of approval for a medical equipment for the administration of radioactive pharmaceutical that effectively reduces the exposure of medical personnel. In overseas market, meanwhile, following the gaining of an order from China and one from Korea in the previous term, during fiscal 2004 we got award for two from Taiwan. We are making most efforts for soliciting orders, in particular from China, Taiwan, Korea and other countries of Southeast Asia.

Strategies for Fiscal 2005

The medical equipment business will remain the focus of activity in fiscal 2005, but we will also place emphasis on the expansion of sales of coating machines as another driving force in this segment. Now that the participating nations' obligations under the Kyoto Protocol to prevent global warming have come into effect, and there is greater motivation towards capital investment in clean energy systems, we will seek to increase orders for indium tin oxide (ITO) coating machines from manufacturers of solar cell panels. Demand for ITO coating machines is also expected to be boosted by the emergence of the market for organic electroluminescent (EL) devices, and we plan to input management resources to develop them into the second core of this business following medical equipment. In addition, in view of the positive impetus from the favorable conditions in the steel scrap market, we are aiming to further increase our market share in the lifting magnet business, where we already hold the majoring of share.

Laser Systems

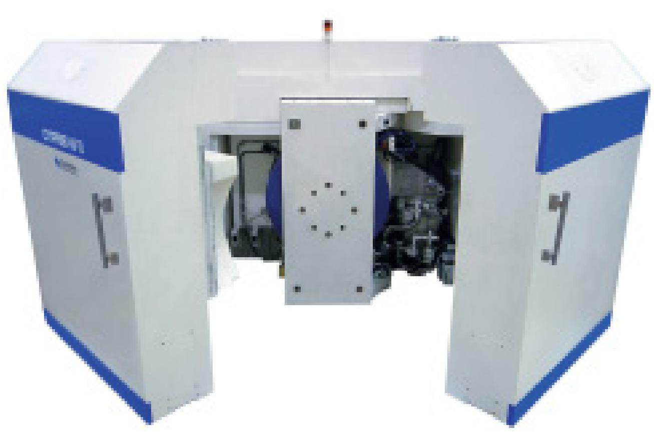
Business in Fiscal 2004

Orders for laser annealing system were robust for both current and next-generation LCDs and also for semiconductors.

In the LCD industry, the pattern was similar to that of the previous year, as we delivered a stream of laser annealing system for current-generation LCDs to major liquid-crystal manufacturers, and inquiries for system for next-generation LCDs led to our winning further orders. In addition, laser annealing technology is beginning to receive recognition by the semiconductor industry, enabling us to win orders for a number of units, and also generating more inquiries. In the field of printed circuit boards, the capacity utilization ratios of IC-board manufacturers fell as a result of adjustments to mobile-phone inventories from the second half of the previous fiscal year, dampening both new demand for laser drilling machines and demand for capacity expansion, and depressing performance in this product group. In contrast, there was robust demand for equipment from other electronics and electrical equipment industries, and for laser processing systems from the automotive industry.

Strategies for Fiscal 2005

In the LCD industry there is an increasing requirement to raise productivity and crystallization quality, and we will be developing and supplying annealing systems to satisfy those needs. With respect to the semiconductor industry, which has been the source of a dramatic increase in inquiries since last year, we aim to create a new market and step up product development. In the printed circuit board industry, there has been a steady increase in capacity utilization ratios since the end of the previous fiscal year, and we expect that inquiries will increase once again this year. For our part, we will persist in our emphasis on upgrading our laser drilling machines and providing total solutions that include processing technology. In other areas, for the electronics and electrical equipment industries we will step up our efforts to devise new applications, and for the automotive industry, currently enjoying favorable market conditions, we will expand our product range.



Small cyclotron for PET "CYPRIS HM-10"

Laser Annealing System for Semiconductor "GLE-200"

Cryogenics

Business in Fiscal 2004

For our cryogenics business, fiscal 2004 was a memorable year in which consolidated sales has reached the ¥10 billion level including all of its global subsidiaries and affiliates. Our global network has expanded, and our technology development capabilities enhanced by developments such as the acquisition of SHI-APD Cryogenics, Inc. and also of the cryogenics business of Daikin Industries, Ltd. As a result, both orders and sales registered double-digit growth.

Both orders and sales rose in the field of products for semiconductor industries (cryocoolers for cryopumps, chiller units for inspection processes), enhanced by favorable market conditions for mobile phones and digital consumer electronic equipment. In the market for magnetic resonance imaging (MRI) systems, we have made maximum advantage of having a global network to build even closer relationships with our customers, and as a result were able to increase sales of our mainstay 4KGM cryocooler and also boost revenues from services.

Strategies for Fiscal 2005

Fiscal 2005 is the start year for the use of our new "CS150" slogan, which signifies our goal of achieving sales of ¥15.0 billion on a consolidated basis in fiscal 2007. Based upon a fundamental strategy of building overwhelming competitiveness in cryocooler components and expanding our cryopump business, our aim is to strengthen and expand existing businesses and growth businesses.

Specifically, we will create values for customers by enhancing product quality and production efficiency. At each phase — be it marketing, development or manufacturing — we will bolster the strength of operation of our global network, providing next-generation products and services tailored to meet customer needs accurately and in a timely manner.

Cryopump

Stage Systems

Business in Fiscal 2004

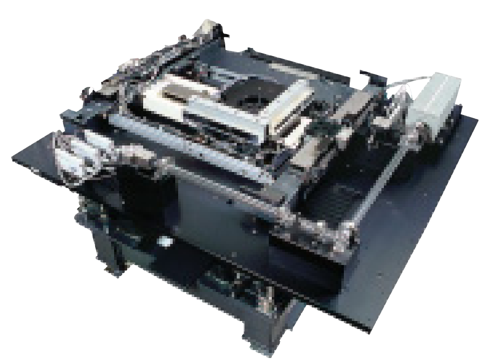
During fiscal 2004, the powerful growth of the IT industry energized production of semiconductors and LCDs, stimulating an increase in capital investment in these industries. Given this environment, our stage systems business benefited from growth in both orders and sales, continuing the upward trend maintained since this business was inaugurated.

In the semiconductor industry, semiconductor manufacturing and inspection equipment for finer design rules and 300 mm wafer diameters that incorporated our stages were added to lines for the production of semiconductor devices. In the LCD manufacturing industry, the lines for sixth-generation LCDs for use in large televisions started up, and spinless photoresist coaters for next-generation LCD color filters developed jointly with TAZMO Co., Ltd. have been brought into operation. We are currently beginning the startup of our stage system lines for seventh-generation LCDs, and are poised to start development of systems for the eighth generation.

In October 2004 we split off these operations from the Precision Equipment Group and established a separate Mechatronics Division. By adding our control system product group to the drive system and motion control product groups, we have ensured an even broader system-development capability that enables us to provide total solutions in equipment control. Backed by the synergies between mechatronics and electronics technologies, we will endeavor to grow and expand this into a high-earning business.

Strategies for Fiscal 2005

Backed by a combination of extensive machinery and equipment know-how and superb control technologies, we will provide a solution service that blends XY stage and other machinery technologies, actuator and other drive technologies, and sensor and other measurement technologies. The principal user industries for this segment are the manufacturers of semiconductors and LCDs, as well as other flat panel displays. Forecasts indicate that the business cycles of both these industries will be in the trough stage in fiscal 2005, but the Sumitomo Heavy Industries Group forecasts that development investment for next-generation models will continue at a brisk pace in such areas as finer design rules for semiconductors, larger diameters for LCD substrates, and process reform. Our task is to expand this business segment by expediting the development of new products and bringing more into commercial production.



Stages

Review of Operations

Environmental Protection Facilities, Plants & Others

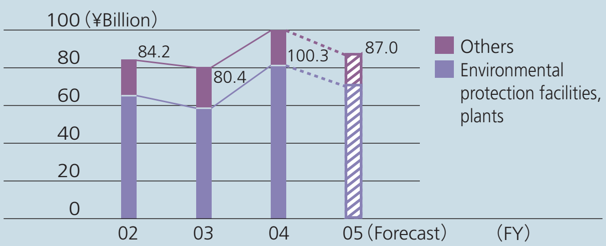
Main Products

Municipal Solid Waste Incineration Plants
Power Generation Systems
Water and Sewage Treatment Systems
Landfill Leachate Treatment System
Municipal Organic Waste Treatment Recycling Plant
Air Pollution Control Plants
Industrial Wastewater Treatment Systems
Chemical Process Equipment & Plants
Food Machinery
Software

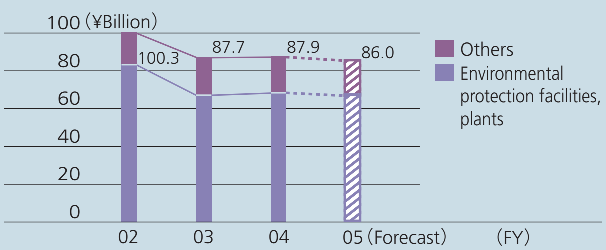
Major Units

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

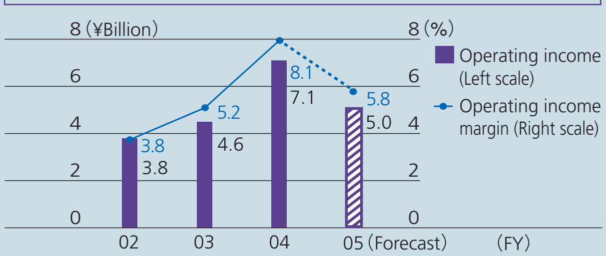
Orders



Sales



Operating Income



Segment Overview

Business Environment

This segment caters to both the public and private sectors. With respect to public-sector demand, the ongoing contraction of public works spending is causing competition to grow increasingly fierce from year to year. In the private-sector, however, we have been seeing an increasing pickup in demand for products relating to the use of new forms of energy and for the promotion of recycling for the purpose of meeting the requirements of the Kyoto Protocol and of environmental conservation. In particular, the promotion of the use of biomass and other forms of thermal recycling has been accelerating both within Japan and further afield in Southeast Asia, and this trend is buoying our energy-related plant business.

Review and Analysis of Results in Fiscal 2004

In the environmental field, the decline in public investment is continuing to a contraction in the scale of business. However, we were able to achieve growth in both orders and sales by placing emphasis on marketing activities for our water and sewage engineering equipment and environmental systems, both areas of particular strength for us, and by stepping up our service business. In our energy-related plant business, we took advantage of the increase in demand for electric power both in Japan and elsewhere in Asia by conducting marketing aimed primarily at securing orders for circulating fluidized-bed boilers. As a result, we achieved a year-on-year increase in orders.

Total orders received in this segment rose by 25% from the previous year, to ¥100.3 billion, while sales totaled ¥87.9 billion, close to their year-earlier level, and operating income jumped 55% to ¥7.1 billion.

Outlook for Fiscal 2005

The environment for public-sector demand is likely to remain harsh, but we will endeavor to grow our business in this segment by proactively marketing technologies backed by new products. In energy-related plant business, we expect to see a continuation of the expansionary trend in the market. Against this backdrop, we will seek to achieve steady growth in business in this segment by focusing on fields where we can take advantages of the particular strengths of our products, and by being selective in the acceptance of orders.

Main Businesses

Water and Sewage Engineering

Business in Fiscal 2004

In the water and sewage engineering business, priority was given to stabilizing operations and securing both orders and profitability, placing emphasis on sewage engineering. This was prompted by the fact that public works spending has been shrinking year after year, making it difficult to increase the volume of orders. Nevertheless, fiscal 2004 proved to be a relatively strong year in volume terms, as a series of large orders in excess of ¥1 billion were won, including for a water purification center on the shore of Lake Biwa; a treatment center in Omagari, Akita Prefecture; an order from a semi-governmental environmental foundation of Saga Prefecture; and a final disposal site in

Kanagawa Prefecture. In addition, the Company endeavored to sell not only large-scale plant but also strategic products such as the Sumirator UD vertical shaft surface aerator and the Cascade sludge collector. During fiscal 2004 these efforts produced a steady stream of results, with orders being received for five of these strategic products.

With regard to profits, sharp increases in prices of steel and other materials gave rise to concern that profitability would be adversely affected, but exhaustive measures to improve productivity in our manufacturing divisions and efforts to cut costs enabled us to achieve profits largely in line with projections.

In addition, considerable effort was put into human-resource development during the year. Specifically, active support was given to enable employees to obtain national qualifications, with the result that numerous employees succeeded in obtaining qualifications such as those of registered engineer and execution management engineer (1st class).

Strategies for Fiscal 2005

In fiscal 2005, we are placing emphasis on making full-scale inroads into water engineering, and at the same time seeking to meet replacement demand for sewage facilities. To that end we are increasing the number of dedicated sales personnel and engineers in the water engineering field, and accelerating the introduction of technically advanced new products, while in the field of sewage engineering we are further enhancing product development and targeting the capture of larger market shares with distinctive products. Through the application of technologies accumulated in the private-sector wastewater treatment and sewage treatment business, we will be able to offer unique technologies of a kind previously unknown in the sewage field. In addition, to enhance profitability still further in both fields we are enhancing production efficiency and at the same time continuing our cost-cutting program. Steps towards achieving those goals will include the modularization and standardization of all types of equipment, accompanied by measures to address the relative inactivity of plants during the first half.

Energy-Related Plants

Business in Fiscal 2004

Amid the expansion of the market for biomass power generation as a form of clean energy, fiscal 2004 saw the start of operation of a large-scale biomass power plant facility (50,000 kW) for Summit Myojyo Power Corporation in Japan. With regard to orders, three orders have already been won from the pulp and paper industry, and provisional orders were won for two more. Through successes such as these, Sumitomo Heavy Industries has been steadily establishing its standing as Japan's leading producer of biomass power generation equipment.

In addition, the most advantageous feature of circulating fluidized-bed (CFB) boilers, namely their high combustion efficiency, has been developed further by means of a new model that can use not only low-grade coal as fuel but also other items such as used tires and plastic combined with it, and negotiations concerning this product have been taking shape. A boiler of this kind that offers such high combustion efficiency is expanding the boundaries of the market to encompass the field of chemicals and steel production, and we are devoting maximum energy to meeting that demand.

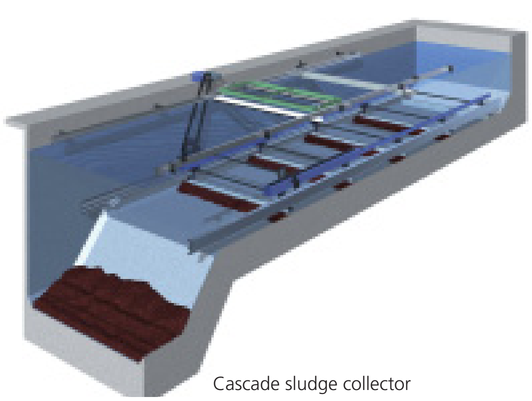
Fiscal 2004 also saw the start of operation of one of Japan's largest-scale (167,000 kW) power-generation plants for the wholesaling of electric power (for Tosa Power Inc. in Kochi), and of a 62,000 kW power-generation plant (for Sumitomo Osaka Cement Co., Ltd. in Kochi). These milestones bear witness to the superiority of Sumitomo Heavy Industries' CFB boilers, which can use a diversity of fuels and provide highly efficient power generation and reliability of operation.

Strategies for Fiscal 2005

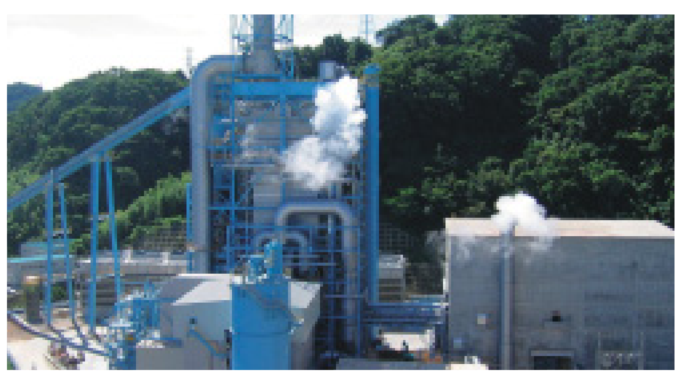
In fiscal 2005, within Japan our policy is to further strengthen our activity directed at winning orders in the field of power generation plant using biomass and recycled fuels, which is projected to continue to be an area of vigorous investment. In addition, we are planning to expand the large-scale experimental combustion facilities within our Niihama Works in Ehime. At those facilities we will conduct verification trials to assess the performance and quality of a new-type plant that uses a variety of fuels, so as to enhance our ability to meet customers' increasingly demanding requirements as to plant specifications.

Overseas, particularly in East and Southeast Asia, we have been receiving numerous inquiries concerning power generation plant that benefit from having CFB boilers able to use low-grade coal. We will step up marketing activity with the aim of making steady progress in meeting that demand.

Negotiations are currently under way in Japan and overseas for nine of these projects. We are committed to expanding our energy plant business, and in doing so to increase customer satisfaction while at the same time ensuring profitability.



Cascade sludge collector



Tosa Power Inc. 167MW power plant

Review of Operations

Ship, Steel Structure & Other Specialized Equipment

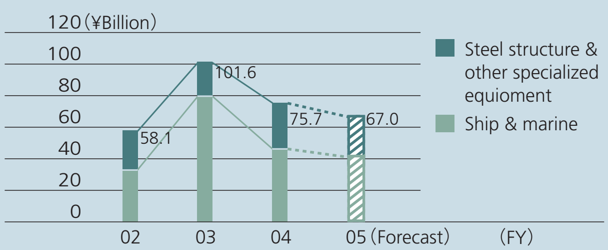
Main Products

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

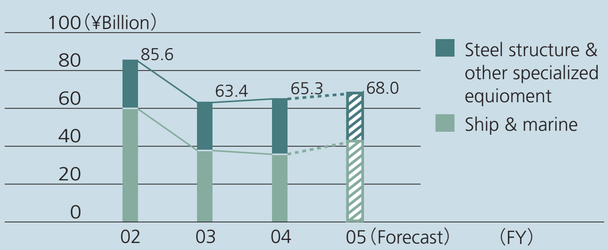
Major Units

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

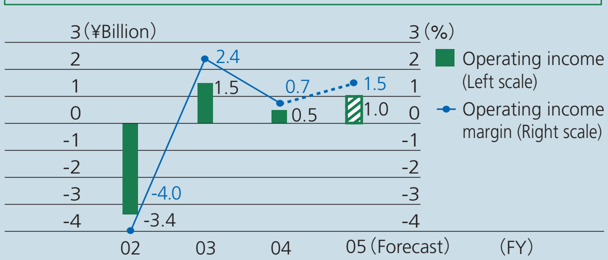
Orders



Sales



Operating Income (Loss)



Segment Overview

Business Environment

Both the central and local governments in Japan are continuing their programs of fiscal reconstruction, with the result that the volume of orders for bridge construction continues to decline, creating a difficult business environment in that area. In contrast, shipbuilding orders increased for the second year in succession, powered by sharp rises in prices in the shipping market resulting from the acceleration of infrastructure development in China and the expansion of the world economy. In addition, ship prices have risen to record-high levels in U.S. dollar terms.

Review and Analysis of Results in Fiscal 2004

In the steel structures and process equipment field, for bridges our approach of working very closely with customers in our marketing activities met with success, enabling us to achieve a year-on-year increase in orders. There was also a favorable inflow of orders for pressure vessels, principally in the field of oil refining. In the shipbuilding field, factors such as steep increases in materials prices, particularly of steel, created uncertainty about the outlook, prompting us to adopt a cautious stance towards the acceptance of orders. This resulted in a year-on-year decline in the number of vessels for which we booked orders, but these included orders for eight profitable Aframax tankers. During the years we sold nine vessels, primarily tankers. The introduction of a new production system enabled us to eliminate waste to a considerable extent and make good progress in the reform of our manufacturing methods, thereby increasing profitability.

As a result of these developments, orders in this segment for the reporting period totaled ¥75.7 billion, representing a decline of 25% from the previous fiscal year, but sales were up 3% at ¥65.3 billion. Operating income fell 69% to ¥500 million, adversely affected by exchange rates.

Outlook for Fiscal 2005

We expect a continuation of the downward trend in orders for bridges. In the field of shipbuilding, we forecast that prices will remain firm, provided there is no major change in the present robust state of the world economy. Nevertheless, we are not optimistic about the present situation, given the long time lag between the acceptance of an order and the time that the sale is booked, the uptrend in prices of steel and other materials, and the likelihood of further appreciation in the yen's exchange rate. Given this business environment, in this segment we will pursue a strategy of placing maximum importance on profitability, reducing costs through constant improvements to our manufacturing operations, and ensuring thorough control of all projects.

Main Businesses

Bridges

Business in Fiscal 2004

Every year there are mounting calls in the community for the officials who place orders for public works to take responsibility for the results of the works, and for them to be obliged to explain their selection of the companies that make the winning bids. To meet those demands, rapid steps are being taken to establish strict selection methods for the placement of orders, and to put legislation in place for that purpose.

During fiscal 2004 the Company tendered successfully for a project under the comprehensive evaluation tendering system, namely for the Hachijo Kita Bridge and Manda Minami Bridge ordered by the Kinki Regional Bureau of the Ministry of Land, Infrastructure and Transport, and for a project under the price-competition type value engineering system for the Sanno junction bridge ordered by the Nagoya Expressway Public Corporation. In the first system, the successful bidder is decided by competitiveness throughout in terms of comprehensive evaluation, including not only price but also technological aspects. In the second system, there is initially competitive bidding based on price, but ultimately the lowest bidder is only successful if its technical proposal is subsequently accepted. From this, it can be seen that to be qualified to succeed in tenders, a company must have comprehensive capabilities in terms of both technology and pricing. In an environment in which public investment is declining relentlessly, this offers a breath of fresh air to a company that is devoted to the creation of added value.

Strategies for Fiscal 2005

The process of trial and error as to the minutiae of the tendering system will continue, but as the Bill for Ensuring the Quality of Public Works comes into more widespread effect it is expected that only companies with a stable management base, and that are competitive in terms of both price and technology will survive. To respond to this kind of change in the operating environment and to generate more profits, we will step up the building of a business model that assures optimum value to customers based on the specific characteristics of each individual project, as well as a sufficient level of profit. To that end, we will be making every effort to enhance cost-competitiveness by means of innovation in production methods, while enhancing technical proposal capabilities by reinforcing management in a way that unites technology and marketing. In addition, we will seek to ensure a stable inflow of orders by improving our evaluation ratings for project performance, which serve as indicators of the sustained creation of value for customers.

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

Business in Fiscal 2004

Following the record-breaking volume of orders in fiscal 2003, in the market for new buildings in fiscal 2004 the industry as a whole maintained a high level of orders. The reasons behind this were the sustained economic recovery in the U.S. and the high rates of growth in China and the BRICs, and also the continuing strong enthusiasm among shipowners for building new vessels, prompted by sharp rises in marine freight rates resulting from the pickup in sea-borne cargo volumes. What is more, limited global shipbuilding capacity has pushed ship prices in U.S. dollar terms to historically high levels.

Amid this favorable environment we stepped up our marketing by emphasizing a proactive approach based on a combination of marketing and technical elements. These activities resulted in our winning orders for eight vessels: seven Aframax tankers and one product carrier. As a result, we secured enough business to last until the end of 2007 in terms of shipbuilding completions. During fiscal 2004 we posted sales of nine vessels: two Aframax tankers, four Panamax tankers, and three Panamax bulk carriers, but the operating income margin declined. This was because positive factors, such as reforms in our production activity that reduced the number of construction processes, were insufficient to offset the impact of the yen's appreciation.

Strategies for Fiscal 2005

Provided there is no major disturbance in the world economy, the most important determinant of demand, the marine transportation and shipbuilding markets should remain robust, given that global shipbuilding capacity will not expand overnight. Also, the fact that all shipbuilding companies already have large amounts of work on their order books will make them more inclined to be selective in accepting only more profitable orders, a trend that will have a positive impact on ship prices. However, not all factors are positive. Prices of steel and other materials are rising, and exchange-rate movements are increasingly shrouded in uncertainty. In an environment with such a mix of positive and negative factors, we will give highest priority to continuing the reform of its manufacturing processes for the purpose of ensuring thorough cost-cutting and higher profitability.

Machiya-Bashi Bridge "Packaged order system"

105,400MTDW Oil Tanker

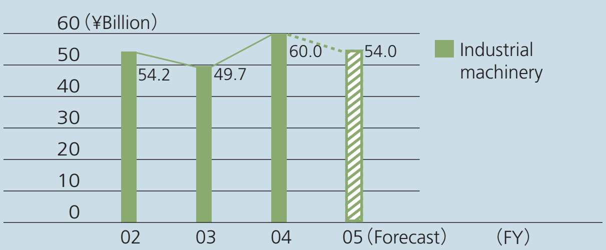
Review of Operations

Industrial Machinery

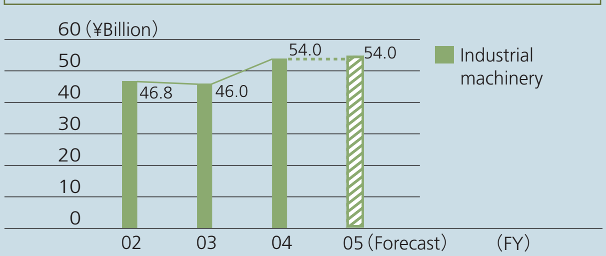
Main Products
Logistics & Handling Systems
Automated Parking Systems
Moving Sidewalks
Forging Machines
Material Handling Systems
Turbines
Pumps

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

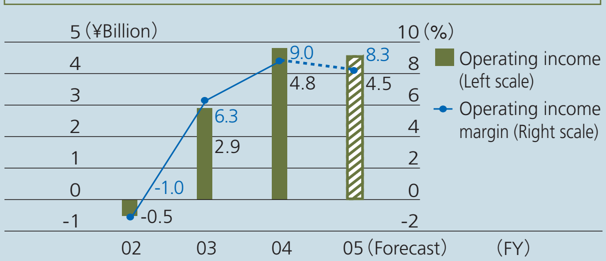
Orders



Sales



Operating Income (Loss)



Segment Overview

Business Environment

In the field of material handling machinery, replacement demand in heavy manufacturing industries such as steel and shipbuilding is continuing as a result of factors such as the buoyant state of the shipping market. Demand for turbines and pumps is brisk, impacted by developments such as the invigoration of biomass power generation business overseas.

Review and Analysis of Results in Fiscal 2004

As in the previous year, demand for material-handling machinery continued at a high level during fiscal 2004, supported by increasing capital investment in Japan, and there was also an increase in orders received for large-scale cranes for use in shipbuilding yards and steelworks. Growing energy demand also increased orders for turbines and pumps, particularly overseas, and there was a brisk inflow of orders for forging machines from manufacturers in the automotive field both within Japan and overseas.

As a result, total orders in this segment rose by 21% from the previous year, to ¥60.0 billion, and sales were up 17% at ¥54.0 billion. Sustained efforts to reduce costs enabled this segment to achieve operating income totaling ¥4.8 billion, representing a strong year-on-year rise of 66%, far outstripping the pace of increase in sales.

Outlook for Fiscal 2005

We expect the same buoyant market conditions to continue in the field of material-handling machinery during the year. We will take steps to counter sharp rises in materials prices and goods shortages, and to ensure customer needs are met smoothly. For turbines and pumps, we will build a global network and enhance application technologies. Overall, in this segment, we will step up our measures to differentiate our technologies and enhance production efficiency, aiming to ensure that this business generates stable earnings and to increase the operating margin.

Main Businesses

Material Handling Machinery & Systems

Business in Fiscal 2004

The robustness of the Chinese economy fueled a brisk level of activity in the domestic market during fiscal 2004. This was highlighted by the fact that many steel manufacturers achieved record-high profits, thanks partly to the increase of capital investments aimed at capacity expansion and securing higher productivity, in addition to the usual level of spending required to prolong the useful lives of existing facilities through renovation and repair work. As a result, the Sumitomo Heavy Industries Group secured a high volume of orders for cranes, particularly overhead cranes.

A persistently high level of shipping rates has raised the level of production at shipyards to full capacity, and sparked vigorous investment by shipbuilders for the renewal of facilities and improvement of production efficiency. This gave rise to a succession of orders for materials handling equipment such as jib cranes and Goliath cranes, creating a major boost for the Group, given that we are the industry leader in this field.

In overseas markets, meanwhile, our vigorous activities directed towards East Asia, in particular the Chinese and Korean shipbuilding industries, began to bear fruit.

Strategies for Fiscal 2005

For fiscal 2005 we predict that the buoyant market conditions and prices in many segments will continue to benefit our major customers in those segments. On the downside, however, a growing mood of caution as to the sustainability of these favorable market conditions is emerging, so we must be guarded in our optimism towards the trends in capital investment among our customers. Another negative factor that is emerging is the mounting tightness in the balance of supply and demand for steel and other materials.

Against this backdrop, the Group has adopted a basic policy of becoming the industry leader in customer service for lifecycle solutions. To achieve this, we will implement a program of proactive marketing of a kind designed to create value for our customers, together with a strategy of placing emphasis on even deeper penetration of spheres of business in which we have already gained overwhelming market shares. In the field of cranes, in particular, we have established the status of being one of the few specialized players in the industry, and will seek to further enhance profitability by building a value chain with Japan's foremost specialized crane factory at its core, thereby assuring us of an overwhelming competitive advantage.

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

Business in Fiscal 2004

Our turbine and generator business has been extremely buoyant. Business in biomass power generation was growing steadily in Southeast Asia and India, while in USA, there appeared the power generation utilizing biomass resources. In Japan, the deregulation in power supply and the general opinion in fashion to direct an energy savings have led to the full-scale expansion in ESCO business*1 and PPS business*2. Under these circumstances, we were placed two orders for the large-scale of 30 MW-class axial exhaust turbines, the core product of Shin Nippon Machinery. Consequently, according to the statistic of steam turbine manufactured with 50 MW and below in power for the industrial use, SNM occupied the top share (approx. 40%) in the domestic market in terms of the power output in aggregate.

Our pump business has also traced upward in the sales of both process pumps and vacuum pumps. In our process pumps to be applied to the oil refining and petrochemical project, there was an increase in trade record destined to Middle East and China under the contract with EPC contractors in Europe, while in our vacuum pumps there was robust delivery of the vacuum units installed in LNG carrier vessels.

As the highlight during this term, we have become PI (Procurement Initiative) holder qualified by Shell Group Company and as a result, entered into a preferential purchasing agreement with the Company, which may enable Shin Nippon Machinery to obtain more orders for pumps from the Company than ever before.

*1. ESCO (Energy service company business)
The business of providing the customer with not only the comprehensive service as to how to realize energy-saving at the plants but the guarantee of the very effect of such savings to be resulted from the service.

*2. PPS (Power producer and supplier business)
The business of selling electric power to the customers with the demand of a specified scale (for demand of more than 2,000 kW through transmission cables of 20,000 V and over)

Strategies for Fiscal 2005

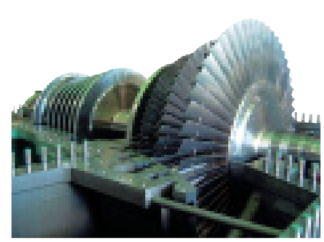
In view of the market segmentation each, we will brush up our customer-, market-, and model-oriented marketing and sales strategy, so as to strengthen our sales ability to provide the best solutions to our customers and obtain a lot of orders from them. We will continue to construct and maintain a global sales network which will result in an increase of the amount of orders by means of (1) intentional caravan activities (irregular visit to domestic and overseas customers) by a dedicated team, (2) securing customer loyalty by local engineers, and (3) sales activities by overseas agents.

As the target of our product strategy, we will accelerate the development speed of turbine blades for large-scale model, and in parallel, will enhance application technology and know-how to satisfy any special requirements by the customers in the pump market.

Our manufacturing strategy will be to continue to innovate our production system, among them, to shorten lead time in each work process in response to the recent increase of order backlog.

Ladle Crane

Axial Exhaust Type Steam Turbine (Model:C9)



Steam Turbine Rotor (Model:C10)

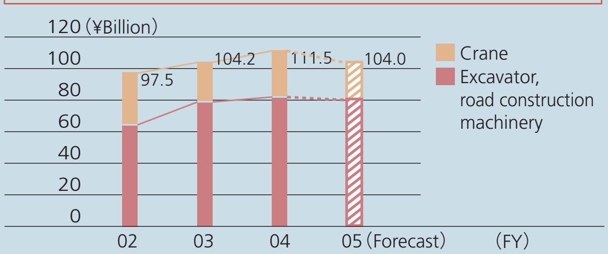
Review of Operations

Construction Machinery

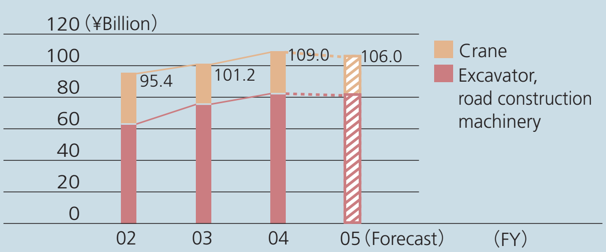
Main Products
Hydraulic Excavators
Cranes
Road Construction Machinery

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

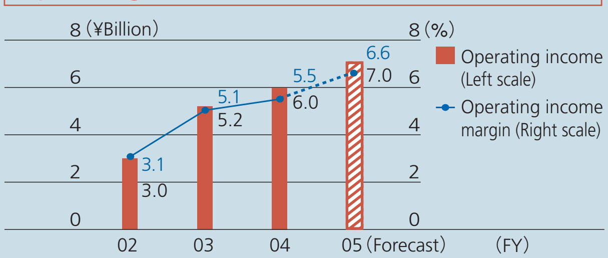
Orders



Sales



Operating Income



Segment Overview

Business Environment

Domestic demand for construction machinery has shown a year-on-year increase for two years in succession, because in spite of the continued contraction of public works spending, private-sector demand is growing as companies replace construction machinery after years of holding back. Overseas, meanwhile, although the Chinese market is shrinking as a result of the government's tightening of credit, demand in the North American and European markets remains robust.

Review and Analysis of Results in Fiscal 2004

In the field of hydraulic excavators, demand in China showed a substantial decline, but both orders and sales in the North American market rose strongly, driven by the continuation of extensive investment spending spurred by factors such as the lowering of tax on investment. Our performance in this field in Japan was also robust. In the face of steep rises in the prices of some materials, at the Sumitomo Heavy Industries Group we have been developing a system — including the conclusion of long-term fixed-price procurement contracts — that will enable us to cope flexibly with such price fluctuations. At the same time, we have also been endeavoring to improve production efficiency. In the field of cranes, the recovery in market conditions in North America enabled us to achieve growth in both orders and sales.

Total orders received in this segment totaled ¥111.5 billion, up 7% year-on-year, accompanied by sales of ¥109.0 billion, up 8%, and operating income of ¥6.0 billion, a 16% year-on-year increase.

Outlook for Fiscal 2005

In fiscal 2005, we are expecting a continuation of the positive business conditions in this segment, both domestically and overseas. Although there are causes for concern, such as spikes in prices of materials and sluggishness in the Chinese market, we are targeting sales growth in the North American and European markets, with a view to achieving overall increases in both sales and profits in this segment. We will also accentuate our efforts to build a stable earnings structure, including cutting production costs and developing new products.

Main Businesses

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

Business in Fiscal 2004

The Sumitomo Heavy Industries enhanced its lineup of material handling equipment for the environmental and recycling market, and took steps to cultivate new markets. Of particular note is that in the field of lifting magnets for handling metal scrap, the strength of our products enabled us to secure one of the highest levels of unit sales.

Overseas, demand in the Chinese market fell steeply under the impact of the tightening of credit policy in that country, but the North American and European markets were buoyant, with the result that demand remained around its year-earlier level overall. Specifically, export volume to China during the fiscal year registered an abrupt fall of approximately 90% from its year-earlier level, while volumes to North America and Europe rose by 60% and 40% respectively. As a result, our Chiba Works – our principal manufacturing facility– maintained a high level of capacity utilization, backed by the briskness in markets other than China. With respect to China, in spite of the present slump in demand, we are certain that the market will sustain its formerly high growth rate over the medium to long term.

Given this outlook, in this segment we have been engaging in vigorous marketing with a focus on product differentiation in terms of product technology and quality. For example, we exhibited for the first time at a construction machinery exposition in Shanghai. In addition, for products sold both in Japan and overseas we raised our sales prices to pass on increased materials costs to our customers.

In the road machinery business, sales of asphalt finishers, for which we hold the largest domestic market share, remained strong, helping us to establish a solid presence in the industry.

Strategies for Fiscal 2005

In this segment we aim to overcome our susceptibility to short-term demand fluctuations by targeting sales growth from a medium to long-term perspective. We will do so by enhancing marketing capabilities and by strengthening links with CNH, our partner in the U.S., and with our subsidiary LBX. We will also endeavor to improve profitability by passing on large increases in materials costs onto products, and by implementing further cost-cutting measures. Additionally, we will endeavor to strengthen our resistance to changes in the business environment by emphasizing the development of new products such as next-generation hydraulic excavators and asphalt finishers for the China market.

Crane Business (Link-Belt Construction Equipment Company)

In the North American market, our wholly owned subsidiary Link-Belt Construction Equipment Company (Link-Belt) designs, manufactures, sells and supports a diverse line of mobile telescopic cranes and lattice-boom cranes. Link-Belt also jointly develops crawler cranes with Hitachi Sumitomo Heavy Industries Construction Crane Co., Ltd. (HSC), the joint venture between Hitachi Construction Machinery Co., Ltd. and the Company for sales in the North American market.

The fiscal 2004 North American environment for cranes saw a significant increase in the mobile telescopic crane market. Link-Belt's mobile telescopic crane sales as well as market share increased. The gain in market share was aided by the introduction of a new ninety ton truck-crane late in 2004. The North American crawler crane market remained difficult in 2004, with demand remaining flat. Link-Belt introduced a new three-hundred ton crawler crane that was jointly developed with HSC.

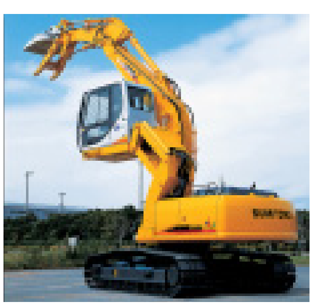
During 2004 Link-Belt experienced a significant increase in commodity prices, primarily steel. Due to the rapid recovery of the North American economy, several of Link-Belt's vendors experienced shortages of materials, which negatively impacted Link-Belt's production during the latter part of 2004. Link-Belt has initiated price increases on its products to help mitigate the impact from the rising commodity prices.

Strategies for Fiscal 2005

The continuing strength of Link-Belt is the introduction of new models that meet and exceed the requirements and expectations of the customer. Link-Belt's continuing goal is to be the leader in customer service and satisfaction.

The fiscal 2005 outlook for the North American crane market is for continued strong growth in the mobile telescopic crane market and recovery in the crawler crane market. The largest construction equipment show in North America, Con-Expo, was held in Las Vegas in March. At Con-Expo, Link-Belt introduced a new sixty ton rough terrain crane as well as a new one-hundred-and-ten ton lattice-boom crawler crane, jointly developed with HSC. The introduction of these machines, as well as continued growth in the North American crane market, will allow Link-Belt to continue to increase market share and sales in 2005. Link-Belt will continue to promote the voice of the customer in the development of new products. The challenges of 2004 will continue into 2005 with commodity pricing and availability continuing to be a concern. Link-Belt, through continuous improvement activities, will seek to reduce costs, improve production flow, and search for procurement opportunities.

Hydraulic Excavator with Lifting Magnet



Hydraulic Excavator with Magnet Fork

90t Hydraulic Truck Crane

Research and Development

Air Actuator "Airsonic"

Research & Development (R&D) Strategies

The Sumitomo Heavy Industries Group positions semiconductor and liquid crystal production equipment, information technology-related equipment, and diagnostic equipment requiring advanced technologies as strategic growth business fields. It gives greater priority to technology development regarded as certain to lead to commercialization, and also to the enhancement of technologies that will strengthen the competitiveness and differentiation of its products, to basic technologies to nurture products, and to environment-related technologies. In fiscal 2004 we also designated new business fields, undertaking technology development in them and embarking upon the creation of new business activities.

By centralizing our cutting-edge R&D bases and business departments — hitherto spread across many locations throughout Japan — at one business complex in Yokosuka City (Kanagawa Prefecture), we have advanced the formation of a technology value chain and new technology combinations, and accelerated the speed of development. In addition, to strengthen the competitiveness of existing businesses, we are forming alliances with other entities, such as universities and other companies, so as to develop new products and make improvements to existing products.

A total of ¥11.3 billion was spent on R&D in fiscal 2004. The adoption of an exhaustive strategy of greater selectivity and focus meant that this amount of R&D spending trended downwards until fiscal 2003, but the total turned upwards again in fiscal 2004 as a result of measures to enhance technological superiority, primarily in the Mass-Produced Machinery segment and the Construction Machinery segment.

Total R&D spending is poised to rise again in fiscal 2005 as we pursue the strategy of creating value for customers that is included in Leap to Excellence '07, our new medium-term management plan.

The contribution to total sales by new products (the ratio of sales of new products to total sales), which are the fruits of our R&D, has been trending upwards, reaching 47% in fiscal 2004.

Major Achievements in R&D

Growth Business Areas

Semiconductor and Liquid Crystal Production Equipment

We have applied cryocooler technology — a field of particular strength for the Group — to the development of a cryopump which, by using our proprietary inverter control methods, provides the largest energy savings in the industry. The pump has been mounted in sputtering equipment used for the manufacture of semiconductors and has begun to be introduced into the mass production process, winning strong support from our customers.

In the area of precision positioning devices we are improving our product lineup in such areas as stages for large-scale liquid-crystal coaters and large-scale surface stages for multiple processes, in response to the continued upsizing of materials in liquid-crystal processing as technology advances from the sixth generation to beyond the seventh.

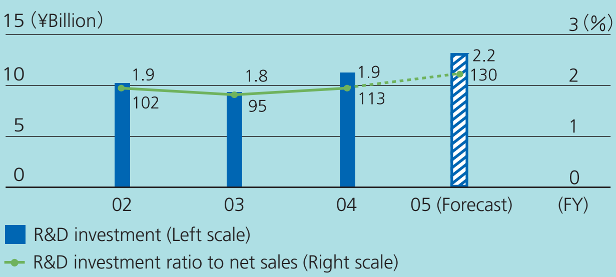
In addition, to enhance the precision of the processes we have given priority to enhancing key element technologies for precision drives. In the semiconductor field, we endeavored to meet customer needs, for example for higher throughputs, by placing on the market a new ultra-precision surface stage mounted with a high-speed focusing drive.

Laser annealing systems, which are used in the manufacture of LCDs and other flat panel displays (FPDs), continue to register brisk sales. We have been endeavoring to reduce their running costs, including by continuing our efforts to prolong the useful life of components, by undertaking development aimed at raising processing quality. Simultaneously with this, we have been conducting R&D into various technologies to help us increase the productivity of annealing systems for higher-precision liquid crystal, and are making progress in achieving further increases in speeds.

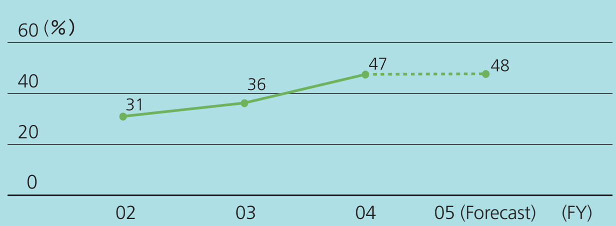
Information & Technology Related Equipment

In the area of information technology related equipment, for the ICT (information and communications technology) and electronic-component market, including digital consumer electronics, we achieved strong growth in sales of our "SD40E" disk injection molding machine for conventional CDs, DVDs, and DVD±R/RWs, and have been addressing the issue of how to deal with next-generation

R&D Investment (Consolidated)



Percentage of New Products
(Sales of New Product / Total Net Sales)



disks. In this market segment, following the introduction to the market of our specialized injection molding machines for lenses and connectors, we have launched the “SE7M” all-electric state-of-the-art ultra-precision specialized injection molding machine for microparts such as connectors for mobile phones. We have also introduced the SED-HP series, which is capable of ultrahigh-speed, ultra-compact, precision operation to suit users' high-level requirements; the series has been receiving strong support in the market.

Additionally, we have been addressing the automotive parts market, in which use of ICT is accelerating. In addition to offering our SE-D series of general-purpose injection molding machines we have been meeting the market's widespread demands by developing an all-electric double-shot injection molding machine optimized for precision compound material molding for parts, and also a vertical molding machine.

Medical Equipment

In the area of advanced diagnostic equipment for use in medical treatment, we have given priority to the development of a Positron Emission Tomography (PET) accelerator (cyclotron) for the diagnosis of diseases such as cancer, and also radiopharmaceutical synthesis equipment. Backed by high production capacity, sales of the “HM12” cyclotron were brisk, and we completed development of a new model, the “HM10”, whose performance is 50% higher than conventional models. This has already been attracting orders, thanks to its very competitive prices.

In addition, the “M130” auto injector, which administers doses of diagnostic agents to patients automatically, contributes to labor-saving in healthcare establishments, and vigorous progress is being made with the development of other equipment such as for the synthesis of radioisotopes for use with methionine and choline, which are seen as promising future supplements for FDG (18F-fluoro-deoxyglucoseis, a pharmaceutical labeled with fluorine-18).

In the sphere of refrigerators for MRI diagnostic equipment, following our GM refrigerators — with their excellent reputation for reliability — we have succeeded in developing next-generation pulse-tube refrigerators that offer the best refrigeration capacity in the industry. We have begun conducting evaluations in fields of potential use, and intend to bring them to the market in the course of fiscal 2005.

Other Business Fields

Environmental Protection Facilities, Plants & Others

In pursuit of the goal of environmental conservation, in our environmental preservation and plant operations we continue to place emphasis on the development of technologies to reduce the volume of waste, including garbage, industrial waste and sewage sludge, and also biomass energy conversion technologies.

Focus is also being put on the development of recycling technologies and technologies for the utilization of unused waste. In addition, by such means as developing energy-saving equipment for high-intensity anaerobic treatment of low-density waste water, we are reducing energy use at treatment facilities and making them more compact (by unitization).

Through this, we are continuing to develop total solutions to provide to customers, including by the systemization of operating know-how and maintenance information, and we are making a concrete contribution to the attainment of the goals of the Kyoto Protocol. Our aim for the future is to continue to step up the development of new environment-related technologies and products that will help to reduce the volume of carbon dioxide emissions and counter global warming.

With regard to gear motors, a group of motion control and drive products that employ one of the Group's core technologies, to take advantage of the rapid expansion of the market for servo drives among general industrial machinery, we have succeeded in commercializing our GS-100 series of easy-to-operate AC servo gear motors.

In addition, we are making further enhancements to high-value-added products in order to meet the diverse needs of customers both within Japan and overseas, including the low-noise ??Hyponic Drive®?? for such uses as opening and closing doors and raising and lowering elevators, and the Cyclo Drive® F series C type, a precision control device configured to allow cables to pass through it.

The Sumitomo Heavy Industries Group not only undertakes research and development with regard to new technologies and products, but also attaches importance to development for next-generation products and the enhancement of their constituent and basic technologies at the Technology Development Center. Of particular note is that in the near future priority investment will be directed at cutting-edge fields (precision control, nanoscale fabrication technologies, etc.) destined to become the new nuclei for the differentiation of our technologies.

In addition, the environment-related development departments belonging to Sumitomo Heavy Industries operating divisions have been incorporated into the Technology Development Center at our Head Office. These departments are also responsible for bio-related technology development. This reorganization has been made with the twin aims of further enhancing synergy with existing technologies and better positioning us to meet increasingly complex customer needs, which will lead to improved customer satisfaction and benefits.

Injection Molding Machine for Microparts “SE7M”

Auto Injector "M130"

Intellectual Property Strategies

For the Sumitomo Heavy Industries Group, with its orientation towards growth driven by distinctive proprietary technologies, intellectual property is the most important of the cornerstones of the Group brand, and the wellspring of its competitive advantage. At Sumitomo Heavy Industries, the core company of the Group, throughout the Company we devote our energies to the active protection, management, and creation of this Group "property," the principal focus being directed at the four elements of intellectual property activity, namely: utilizing exclusive rights; respecting other companies' rights; ensuring that rights to intellectual property are secured; and ensuring that such rights are utilized with the optimum timing and all due speed.

Management Structure

To link the senior management of operating divisions and development divisions directly with intellectual property activity, the Company has appointed chief intellectual property officers (CIPO) with the same rank as the general managers of technology and development divisions, ranking immediately below the officers in charge of group or divisional business. The CIPOs prepare optimal intellectual property strategies for each operating and development division, make all members of those divisions thoroughly acquainted with them, and create the mechanisms to translate those strategies into reality. In addition the Intellectual Property Department, which reports directly to the President, participates fully in the series of reform activities implemented by the CIPOs.

Principal Activities and Results

Intellectual Property Inspection Activities

We have formed an Inspection Committee composed principally of CIPOs, and use mechanisms for the regular evaluation of inventive proposals. In this way we foster the efficient and systematic filing of patent applications ultimately intended for commercialization.

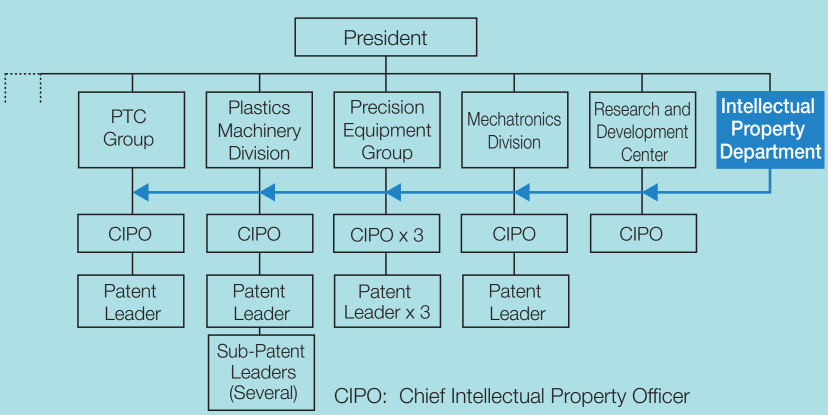
Special Cross-Departmental Meetings

At our training center, we hold two-day gatherings for staff involved in planning, marketing, technology, and intellectual property, primarily the CIPOs. The members concentrate on devising measures to counter other companies' patents, and on formulating the priority domains for inventive activity, in line with our business strategies. The creation of this kind of support structure that cuts across our organization is effective in stimulating activities for the creation and use of intellectual property that tend to atrophy if confined to individual divisions.

Emphasis on Overseas Patent Applications

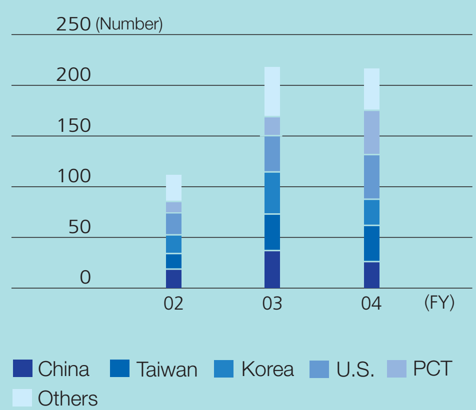
In tandem with the internationalization of the business activities of the Sumitomo Heavy Industries Group, we have been calling on all operating divisions and other relevant divisions to take active steps to file patent applications overseas. As a result, as of May 2005 as many as 955, or 37%, of the total of 2,551 patents held by Sumitomo Heavy Industries were held overseas. It is of note that during the past three years we have increased the number of overseas patent applications under the Patent Cooperation Treaty (PCT). We have been stepping up the use of these PCT applications because of the advantages they offer in terms of cost savings, higher efficiency and greater rapidity since, for example, they eliminate certain duplications in the examination procedures that are conducted by each individual country, and the date of filing within Japan is also deemed to be the date of filing in other designated countries, if certain conditions are satisfied.

CIPO System



CIPO: Chief Intellectual Property Officer

Number of Overseas Patent Applications



Measures for Environmental Preservation

The Sumitomo Heavy Industries Group has a corporate mission of contributing to regional development, a better environment, and safety. Understanding that activities for global environmental protection, regional environmental preservation, and the promotion of a recycling economy are part of the social responsibilities of an enterprise, the Group has been committed to a comprehensive program of environmental activities.

Environmental Management

Management Organization

At Sumitomo Heavy Industries, Ltd., issues related to the environmental management activities of the Company are examined by the Environmental Management Department, supervised by the General Manager of the Operations Division. Each of the manufacturing plants and the Group companies outside of the regions covered by manufacturing plants has built and operated environmental management systems in compliance with ISO14001, the international standard for environmental measures, in line with the environmental policies established by the president or the plant manager. Elements listed as having a potential impact on the environment are being assessed, and environmental programs and targets for activities are being set up based on the assessment results.

Environmental Accounting

Environmental accounting that complies with the Environmental Accounting Guidelines established by Ministry of the Environment has been implemented, to quantitatively clarify the money spent and amounts invested by the Company in environmental activities and achieve even more efficient environmental preservation. The total amount of outlay on environmental preservation measures was about ¥1.5 billion in fiscal 2004. Of that amount, about ¥300 million was invested in facilities and equipment designed to reduce the burden on the environment and conserve energy.

Currently, only investment amounts and costs have been quantitatively identified. One issue to be addressed is to enable a quantitative assessment of the preservation effects.

Activities for Reducing Environmental Loads

To help prevent global warming, one of the most serious environmental issues, our Group has set a target for annual reduction of carbon dioxide emissions of 1% from the previous year, and has implemented measures with an emphasis on reducing energy consumption. The volume of chemical substances emitted and transferred has been clarified based on the PRTR method, and was 793 tons in fiscal 2004. Solvents for coatings account for more than 90% of this volume, and the Group is currently seeking ways to improve coating use efficiency and the recovery ratio.

Activities Geared to the Recycling-Based Society

We aim to reduce the generation of substances that are a burden on the environment in two steps: first, by cutting overall waste from our business activities, and second, by reducing waste disposal. Waste is being managed in three categories, namely: waste for disposal, which is land filled or incinerated; recycling of waste as resource materials, which enables reuse; and valuable resources, which are reused or placed on a route for reuse in the Company.

The volume of waste generated during fiscal 2004 by the Company and other members of the Group was 27,091 tons. The volume of waste disposed of was 6,618 tons. Both have met the targets — 27,500 tons and 7,200 tons, respectively — which were based on the volumes marked in 2001.

Developing Environmentally-Friendly Products

It is a mission of manufacturers to help preserve the quality of the environment in a broader sense through their products and services, in addition to reducing the burden on the environment caused by emissions. Our Group has built six recycling plazas nationwide, and develops and supplies products that help conserve energy. Through these activities, the Group has helped reduce the environmental burden and the operating costs associated with the business activities of its customers, while also helping achieve sustainable development for society in the long run.

Environmental Preservation Costs

	Category	Major Measures and Their Effects	Investment Amount (¥ Million)	Cost (¥ Million)
	1) Costs in manufacturing field	Appropriate measures for water quality, air quality, noise, vibration, chemical substances, waste, etc. Reduction of energy and resource usage and recycling	173	582
Breakup	1) -1 Preventing pollution	Improvement of discharge treatment facilities, development of industrial waste storage facilities, installation of automatic measurement gauges for nitrogen and phosphorous, management of discharge treatment facilities, measurement of water quality, emitted gases, noise and vibration, compliance with restrictions	105	213
Breakup	1) -2 Environmental preservation	Investment in energy conserving facilities, repair work on water leakages, monitoring of electricity demand, temperature management	68	30
Breakup	1) -3 Resources recycling	Recycling of waste wood, paper, oil and garbage (organic waste), reuse of solvents Collection, transport, treatment and disposal of waste, reduction of waste	0	339
	2) Upstream and downstream manufacturing processes	"Green purchasing" of office goods, use of low-sulfur heavy oil	0	3
	3) Environmental management	Maintenance and management for ISO14001, staff training (general, specific, examiner, in-house supervisor), program monitoring Periodical inspection, expansion of green areas, maintenance and management of green areas, PRTR assessments	21	115
	4) R&D	Development of incinerators for household garbage and industrial waste, development of water supply and sewage facilities, development for reducing noise from pressing	63	545
	5) Local community activities	Subsidies for land improvement areas and water utilization associations	0	0
	6) Compensation for environmental damage	Soil pollution measures, charges for air pollutant loads Contributions by regional enterprises for green areas and compensation for damage from pollution	0	1

Item	Description	Amount (¥ Million)
Total investments for the term	Improvement of discharge treatment facilities, development of industrial waste storage facilities, installation of automatic measurement gauges for nitrogen and phosphorous	257
Total R&D costs for the term	Development of incinerators for household garbage and industrial waste, development of water supply and sewage facilities, development for reducing noise from pressing	608
Amount of sales of valuable articles related to 1)-3	Metal scrap resulting from the effective use of remnant materials	266

FINANCIAL STATEMENTS

Eleven-Year Summary

SUMITOMO HEAVY INDUSTRIES CO., LTD. and Consolidated Subsidiaries

	FY1994	FY1995	FY1996	FY1997	FY1998
Summary of Income (For the year) :					
Net sales	¥490,776	¥499,990	¥606,537	¥556,786	¥554,488
Cost of sales	410,697	418,576	505,636	460,254	464,286
Selling, general and administrative expenses	66,029	65,200	78,367	75,743	80,572
Research and development expenses	9,628	8,845	9,763	8,121	8,983
Operating income	14,050	16,214	22,534	20,789	9,630
EBITDA*2	28,998	30,461	32,297	35,128	23,800
Net income (loss)	(2,858)	6,024	5,923	4,613	(12,298)
Cash Flows (For the year) :					
Cash flows from operating activities	¥ 33,752	¥ 5,506	¥ 12,503	¥ 516	¥ 11,348
Cash flows from investing activities	5,795	9,699	(15,254)	(4,198)	(9,050)
Free cash flows*3	39,547	15,205	(2,751)	(3,682)	2,298
Cash flows from financing activities	(38,093)	5,292	(1,539)	(1,933)	19,709
Cash and cash equivalents at the end of year	44,209	45,308	41,018	35,403	57,410
Financial Position (At year-end) :					
Total assets	¥653,553	¥698,610	¥740,091	¥748,017	¥723,673
Total current assets	483,573	528,376	559,900	566,559	542,689
Property, plant and equipment	116,584	116,051	128,396	128,757	124,757
Interest-bearing debt	345,752	364,381	363,894	365,923	387,199
Net interest-bearing debt	301,543	319,073	322,876	330,520	329,789
Stockholders' equity	65,409	71,023	76,123	78,909	72,975
Amounts per Share of Common Stock :					
Net income (loss)*4	¥ (4.85)	¥ 10.23	¥ 10.06	¥ 7.83	¥ (20.88)
Stockholders' equity	111.10	120.64	129.30	134.04	123.96
Cash dividends	0	0	3.0	3.0	0
Financial Indexes:					
Operating ratio	2.9	3.2	3.7	3.7	1.7
EBITDA margin	5.9	6.1	5.3	6.3	4.3
R&D expenses ratio to net sales	2.0	1.8	1.6	1.5	1.6
Return on assets (ROA)	(0.4)	0.9	0.8	0.6	(1.7)
Return on equity (ROE)	(4.4)	8.5	7.8	5.8	(16.9)
Stockholders' equity ratio	10.0	10.2	10.3	10.5	10.1
Interest-bearing debt ratio	52.9	52.2	49.2	48.9	53.5
D/E ratio	5.3	5.1	4.8	4.6	5.3
ROIC*5	2.3	2.6	3.2	2.8	1.6
Investment in Plant and Equipment, and Others:					
Capital expenditures	—	¥ 13,688	¥ 20,732	¥ 16,208	¥ 14,763
Depreciation and amortization	—	14,271	15,378	15,805	14,170
Number of employees	—	—	14,842	14,357	13,840

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥107=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2005.
2. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization.
3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities
4. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.
5. ROIC (Return on Invested Capital) = $\frac{\text{(Operating income + Interest and dividend received)} \times 55\% \text{ (= 1 − Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$

FY1999	FY2000	FY2001	FY2002	FY2003	FY2004	FY2004
					Millions of yen	Thousands of U.S. dollars *1
¥566,668	¥513,753	¥517,138	¥481,289	¥482,765	¥521,310	$4,872,059
473,798	434,544	430,399	400,460	378,422	407,512	3,808,524
80,162	71,724	72,564	63,616	64,112	65,025	607,711
12,206	8,688	6,777	5,800	6,263	6,317	59,033
12,709	7,485	14,175	17,213	40,231	48,773	455,824
26,910	20,402	26,078	29,322	50,344	58,055	542,570
(6,328)	(28,612)	1,650	2,688	16,262	22,792	213,011
¥ 39,117	¥ (16,957)	¥ 38,808	¥ 29,499	¥ 75,775	¥ 45,451	$ 424,774
(1,969)	29,560	(3,343)	(1,074)	(7,929)	(6,087)	(56,885)
37,148	12,603	35,465	28,425	67,846	39,364	367,889
(48,765)	(21,403)	(32,785)	(22,116)	(56,666)	(46,490)	(434,484)
45,173	36,496	40,846	47,661	57,678	49,108	458,949
¥657,149	¥579,772	¥634,904	¥588,010	¥580,291	¥569,771	$5,324,960
474,059	394,252	371,049	329,231	321,400	316,166	2,954,820
128,784	119,135	199,758	196,104	258,891	253,605	1,691,492
341,912	324,324	294,552	273,544	215,807	169,228	1,581,573
298,617	287,609	254,402	225,571	157,353	119,592	1,117,684
64,829	30,049	87,494	89,331	114,526	137,157	1,281,830
					Yen	U.S. dollars *1
¥ (10.74)	¥ (48.60)	¥ 2.80	¥ 4.57	¥ 27.01	¥ 37.80	$ 0.35
110.12	51.04	148.63	151.86	190.25	227.90	2.13
3.0	0	0	0	0	3.00	0.03
					%	
2.2	1.5	2.7	3.6	8.3	9.4	
4.7	4.0	5.0	6.1	10.4	11.1	
2.2	1.7	1.3	1.2	1.3	1.2	
(1.0)	(4.9)	0.3	0.5	2.8	4.0	
(9.8)	(95.2)	1.9	3.0	14.2	16.6	
9.9	5.2	13.8	15.2	19.7	24.1	
52.0	55.9	46.4	46.5	37.2	29.7	
5.3	10.8	3.4	3.1	1.9	1.2	
1.9	1.3	2.3	2.6	6.5	8.5	
					Millions of yen	Thousands of U.S. dollars *1
¥ 12,606	¥ 14,305	¥ 15,549	¥ 14,406	¥ 10,562	¥ 8,175	$ 76,403
14,201	12,916	11,902	12,118	10,112	9,282	86,745
13,748	12,411	12,457	11,777	11,282	11,149	

Management's Discussion and Analysis

Overview of Operating Environment

During fiscal 2004, the Japanese economy experienced a sudden slowdown in capital investment as a result of factors such as adjustments to inventories of high-technology products and components, such as digital consumer electronics equipment and semiconductors. As a result, the economic recovery marked time. In addition, it was a year in which uncertainty about the future grew stronger, fueled by developments such as sharp rises in prices of crude oil and other commodities, and the fact that the yen grew even stronger against the U.S. dollar than it did in fiscal 2003. Notwithstanding this, the Sumitomo Heavy Industries Group's performance was very strong, with orders, operating income, ordinary income, and net income all at record-high levels for the second year in succession. This was primarily attributable to the fact that negative influences such as the yen's appreciation were more than offset by the success of our strategy of selection and concentration; by the increase in the proportion of sales accounted for by our highly profitable Mass-Produced Machinery segment, with its numerous product groups that outclass any other in the industry; in other segments by the concentration of marketing generally on fields in which we could capitalize on the strong points of products and in which progress has been made in cost-structure reforms in such areas as productivity and efficiency; and by progress made in improving our financial condition. It may be added that whereas the steep rises in commodity and materials prices during the year had a positive side in that they helped to revitalize some heavy manufacturing industries that are major customers for some of our products, such as the steel and shipbuilding industries, they also had a negative side insofar as they pushed up production costs.

Business Performance

Orders and Sales

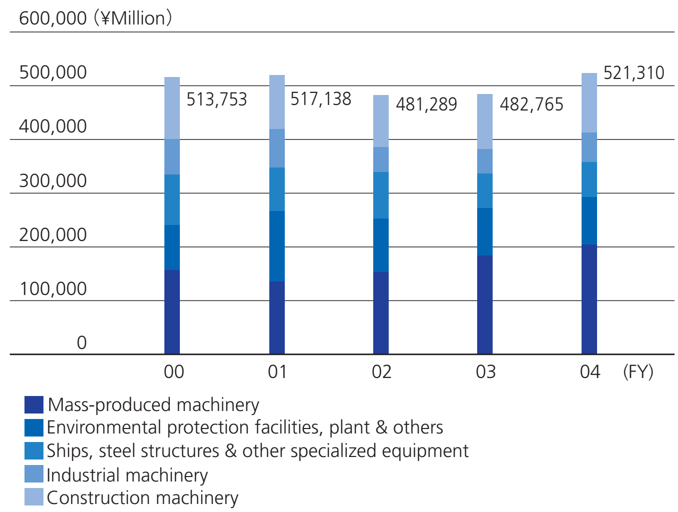
Orders increased by 5.5% from the previous year, to ¥560,731 million, and sales rose by 8.0%, to ¥521,310 million (US$4,872 million). Both orders and sales increased in all five business segments, except the Ship, Steel Structure & Other Specialized Equipment segment in the case of orders. The decline in orders in this segment was attributable to the fact that the backlog of existing orders limited our scope to accept more, and that as a matter of policy we restricted the acceptance of orders owing to the proliferation of causes of uncertainty, for example the sharp rises in commodity and material prices and the yen's appreciation.

Cost of Sales, Selling, General and Administrative Expenses

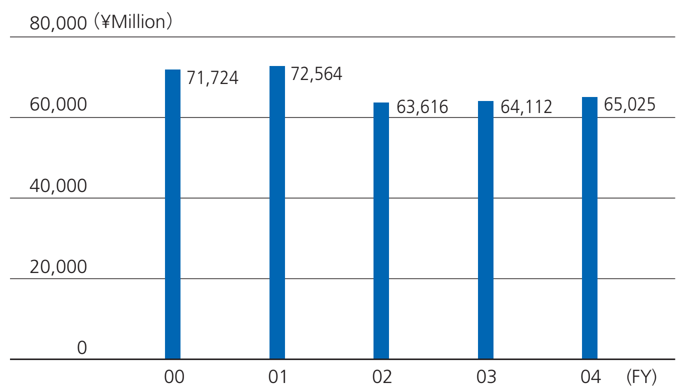
The cost of sales rose by 7.7% from the previous year, to ¥407,512 million (US$3,809 million), but the cost-of-sales ratio showed an improvement of 0.2 of a percentage point, to 78.2%. As stated above, this was primarily because the enhancement of the product mix and the ongoing reform of the cost structure and productivity offset the appreciation of the yen against the U.S. dollar.

Selling, general and administrative expenses as a ratio to sales showed a year-on-year improvement of 0.8 of a point, to 12.5%. Research and development costs, which are included in manufac-

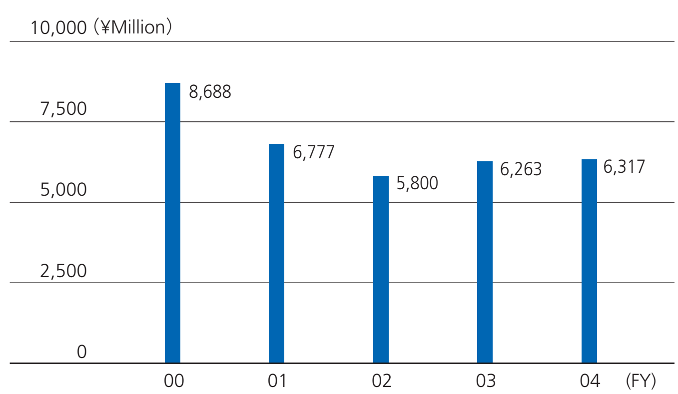
Net Sales



Selling, General and Administrative Expenses



Resarch and Development Expenses



turing costs and selling, general and administrative expenses, increased for the first time in three years, rising by 0.9%, to ¥6,317 million (US$59 million). The reason for this was the investment spending directed at establishing the Company's technical superiority, primarily in the Mass-Produced Machinery and Construction Machinery segments.

Operating Income

As stated above, operating income reached all-time highs for the second term in succession, rising by 21.2%, to ¥48,773 million (US$456 million).

Other Income and Expenses

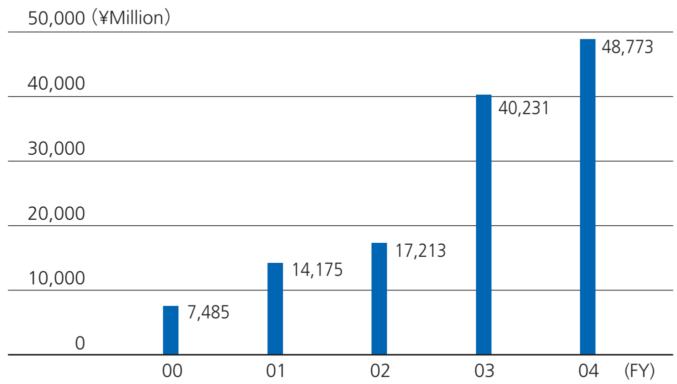
For the purpose of increasing the transparency of the Group's Balance Sheet and raising the profitability of its business portfolio, a large amount of losses stemming from the liquidation of affiliated companies, the restructuring of business operations, and the disposal of property, plant and equipment has been recognized under the category of Other Expenses. The Group also enjoyed a decline in interest expenses thanks to a strengthened financial position. Moreover, adding to this the losses on amortization of the net transition obligation of severance and retirement benefits and related expenses, total Other Expenses amounted to ¥22,685 million.

Meanwhile, gains on investments in subsidiaries and affiliates under the equity method of accounting, including Sumitomo Eaton Nova Corporation and LBX Company,LLC among others, expanded thanks to improved business performance by the said subsidiaries. As a result of the foregoing, in the accounting category of Other Income and Expenses, a year-on-year improvement was posted of ¥20,416 million, to produce net expenses of ¥2,282 million.

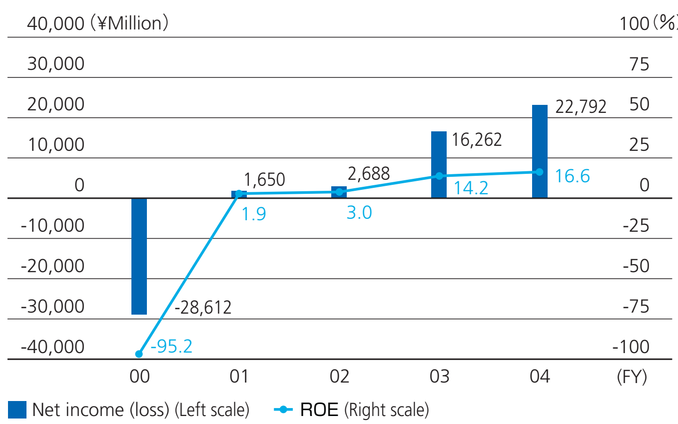
Net Income

As a result of the above, net income for the term increased by 40.2% from the previous year, to ¥22,792 million (US$213 million). Earnings per share rose by ¥10.79, to ¥37.80, and return on equity (ROE) increased by 2.4 points, to 16.6%.

Operating Income



Net Income (Loss), ROE



Segment Information

Mass-Produced Machinery

Orders in this segment (Both here and in the sections below, this excludes internal intersegment sales) were up by 9.0% year-on-year, to ¥213,123 million, and sales rose by ¥11.2%, to ¥205,091 million. The major driving forces behind the sales growth were sales of power transmission control equipment and plastic processing equipment, both mainstay products for which the Company is the industry leader. Sales of precision control equipment and components also remained robust, particularly precision positioning stages for liquid crystal panels.

Operating income in the segment increased by 16.8% year-on-year, to ¥30,415 million, and the operating income margin※ rose from 14.0% in fiscal 2003 to 14.7% in fiscal 2004, up by 0.7 of a point.

Environmental Protection Facilities, Plants & Others

Orders in this segment rose by 21.7% from the previous year, to ¥97,833 million, and sales rose by ¥0.3%, to ¥87,937 million. In the environmental field the scale of projects continued to shrink as a result of the decline in public investment, but in the field of plants there was brisk demand for large-scale incinerating plants and boilers for power generation. As stated above, sales of major lines in fiscal 2004 stayed close to year-earlier levels, but the focusing of efforts on fields in which we have been particularly strong, together with measures to reform our cost structure, bore fruit steadily, and the sale of real estate on the site at our Tanashi Works also had an impact. As a result, the operating income margin showed a substantial improvement, rising from 5.1% to 7.8%, as operating income jumped by 55.3%, to ¥7,094 million.

The Ship, Steel Structure & Other Specialized Equipment

Sales in this segment remained close to their year-earlier level, increasing by 2.9%, to ¥65,288 million. With regard to manufacturing, exhaustive efforts were made to reform production through the introduction of new manufacturing systems for the purpose of raising profitability, but the impact of factors such as the exchange rate caused operating income to fall by 69.1% year-on-year, to ¥478 million, while the operating income margin decreased by 1.7 points, to 0.7%. Meanwhile, orders declined by 25.5% from the previous year, to ¥75,725 million. As referred to above, in shipbuilding operations a substantial backlog of orders had already been built up, and the acceptance of orders was curbed as a matter of policy. The environment for orders in the shipbuilding business was relatively favorable, characterized by very buoyant demand and an uptrend in the pricing of orders. On the other hand, causes of uncertainty have been emerging, such as the yen's appreciation against the U.S. dollar and sharp rises in material prices, and therefore for this segment we are stepping up our strategy of placing emphasis on profitability through the enhancement of production efficiency.

Industrial Machinery

Capital investment within Japan increased, as in the previous term, and we sustained a high level of sales of forging machines and of material handling systems such as large-scale cranes. Orders in this segment rose by 20.8% year-on-year, to ¥60,012 million, and sales were up by 17.4%, to ¥54,008 million. Operating income registered a very strong increase, climbing by 66.2% to ¥4,834 million, driven by the growth in sales and also by improvements in production efficiency. In consequence, the operating income margin rose to 8.9%, up from 6.3% in fiscal 2003.

Construction Machinery

Orders in this segment rose by 7.0%, to ¥111,529 million, and sales were up by ¥7.7%, to ¥108,985 million. In the excavator business, the monetary restraint in China caused sales there to fall steeply, but there was strong growth in demand in North America, where factors such as the lowering of investment taxes stimulated ongoing vigorous investment activity. Similarly, the mobile crane business performed strongly, buoyed by the recovery of market conditions and prices in North America. Profit was adversely impacted by sharp rises in materials costs, but their impact was counterbalanced by improvements in manufacturing efficiency, enabling us to achieve a 15.8% year-on-year increase in operating income, which rose to ¥5,961 million. As a result, the operating income margin rose from 5.1% in fiscal 2003, to 5.5%.

※ The operating income margin in each segment is the ratio of operating income to sales including internal intersegment sales and transfers.

Segment Information by Geographical Region

Sales within Japan (both here and below, this excludes internal intersegment sales) maintained their firm undertone during the term, in spite of a slowdown in private capital investment, and marine transportation rates increased. As a result of factors such as these, sales rose by 5.3% year-on-year, to ¥458,947 million, and operating income grew by 15.7%, to ¥45,192 million.

In North America there was an increase in demand for construction machinery such as cranes, helping to drive sales growth to 27.5% year-on-year, reaching a total of ¥39,535 million.

In other regions, principally Singapore, China, the United Kingdom, and Germany, sales showed a considerable improvement, rising by 42.0% year-on-year, to ¥22,829 million. The prime factor behind this was that although sales to China were depressed as a result of the financial restraint there, sales were brisk in other parts of Asia.

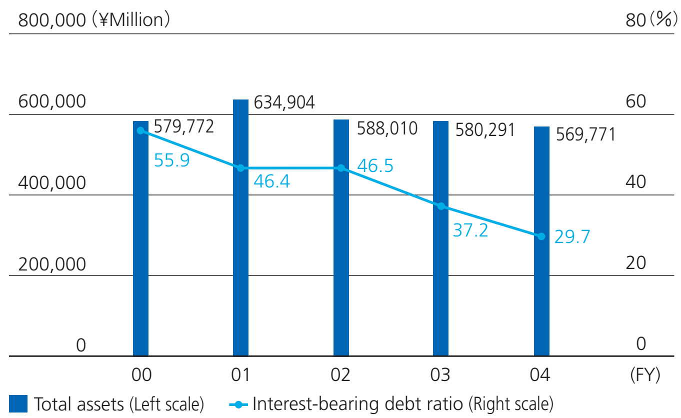
Financial Position and Cash Flows

Total assets declined by 1.8% from the previous year, to ¥569,771 million, owing to factors such as a decrease in cash and deposits made possible by greater efficiency in the management of Group finances, and the reduction of inventories as a result of production innovations. In addition, in pursuit of our medium-term management plan goal of reducing interest-bearing debt to less than ¥200 billion we made improvements to our financial position and conducted painstaking cash-flow management, with the result that interest-bearing debt fell to ¥169,227 million. Our financial position has been strengthened in this way by the reduction of the ratio of interest-bearing debt to total assets from 55.9% at its peak, to 29.7%.

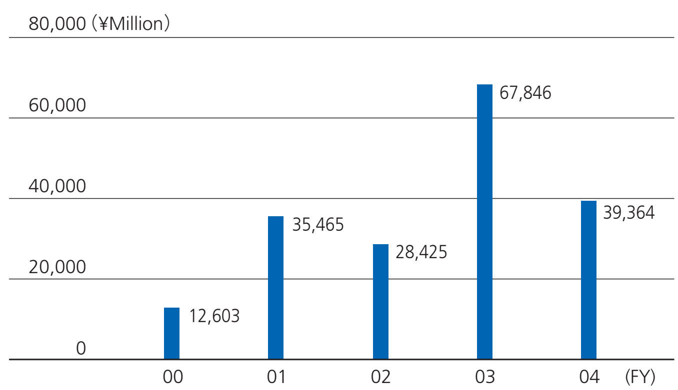
Net cash provided by operating activities declined by ¥30,324 million from the previous year, to ¥45,451 million. The principal causes of this fall were a decline in advance payments resulting from the curbing of the acceptance of shipbuilding orders, and an increase in trade receivables arising as a result of the growth in sales. Net cash used in investing activities fell by ¥1,842 million to ¥6,087 million, owing to the absence of one-time factors in the previous term, including a cash outflow for the cancellation of a real estate sale contract. As a result, free cash flow declined by ¥28,482 million, to ¥39,364 million. Net cash used in financing activities totaled ¥46,490 million as a result of the reduction of interest-bearing debt through repayments of borrowings.

As a result of these movements, the balance of cash and cash equivalents at the end of the term stood at ¥49,108 million (US$459 million), representing a decline of ¥8,570 million from the balance of ¥57,678 million at the end of the previous term.

Total Assets, Interest-Bearing Debt Ratio



Free Cash Flows



Consolidated Balance Sheets

Years ended March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Current assets :			
Cash and deposits (Note 2)	¥ 49,636	¥ 58,454	$ 463,889
Trade receivable :			
Notes receivable	20,034	22,136	187,232
Account receivable	131,584	120,552	1,229,760
Allowance for doubtful accounts	(1,937)	(2,509)	(18,103)
Inventories (Note 3)	88,859	93,907	830,455
Deferred income taxes (Note 5)	7,838	10,738	73,256
Prepaid expenses and other current assets	20,152	18,122	188,331
Total current assets	316,166	321,400	2,954,820
Property, plant and equipment :			
Land	115,536	116,288	1,079,779
Buildings and yards	114,583	116,842	1,070,870
Machinery and equipment	113,950	123,185	1,064,952
Construction in progress	1,462	2,528	13,660
	345,531	358,843	3,229,261
Accumulated depreciation	164,541	171,235	1,537,769
Total property, plant and equipment	180,990	187,608	1,691,492
Investments, long-term loans and other assets :			
Unconsolidated subsidiaries and affiliated companies	19,809	14,671	185,132
Long-term loans receivable and investments (Note 10)	22,126	25,356	206,784
Deferred income taxes (Note 5)	11,498	11,049	107,462
Other assets	24,046	26,277	224,732
Allowance for doubtful accounts	(4,864)	(6,070)	(45,462)
Total Investments, long-term loans and other assets	72,615	71,283	678,648
	¥569,771	¥580,291	$5,324,960

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Current liabilities :			
Bank loans (Note 4)	¥ 44,883	¥ 70,439	$ 419,471
Long-term debt due within one year (Note 4)	53,471	34,795	499,733
Commercial paper (Note 4)	11,500	10,000	107,477
Trade payable :			
Notes payable	53,060	50,596	495,891
Accounts payable	81,379	80,323	760,549
Advance payments received on contracts	27,417	28,669	256,238
Accrued income taxes	10,720	5,608	100,186
Accrued expenses and other current liabilities	27,925	27,826	260,974
Total current liabilities	310,355	308,256	2,900,519
Long-term liabilities :			
Long-term debt due after one year (Note 4)	59,373	100,573	554,892
Employees' severance and retirement benefits (Note 12)	20,049	16,202	187,370
Deferred income taxes on revaluation reserve for land (Note 1)	31,055	31,216	290,229
Other long-term liabilities	7,953	5,585	74,335
Total long-term liabilities	118,430	153,576	1,106,826
Minority interests	3,829	3,933	35,785
Contingent liabilities (Note 7)			
Stockholders' equity (Note 6) :			
Common stock :			
Authorized-1,200,000 thousand shares	30,872	30,872	288,520
Issued-602,626 thousand shares			
Capital surplus	16,803	16,800	157,033
Retained earnings	42,677	19,848	398,849
Revaluation reserve for land, net of income taxes (Note 1)	45,265	45,500	423,040
	135,617	113,020	1,267,442
Unrealized gains on securities, net of income taxes	4,476	5,362	41,830
Foreign currency translation adjustments	(2,741)	(3,783)	(25,619)
Less treasury stock at cost, 981,014 shares (636,359 shares in 2004)	(195)	(73)	(1,823)
Total stockholders' equity	137,157	114,526	1,281,830
	¥569,771	¥580,291	$5,324,960

See accompanying notes.

Consolidated Statements of Operations

Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales (Note 8)	¥521,310	¥482,765	$4,872,059
Costs and expenses (Note 8) :			
Cost of sales	407,512	378,422	3,808,524
Selling, general and administrative expenses	65,025	64,112	607,711
	472,537	442,534	4,416,235
Operating income (Note 8)	48,773	40,231	455,824
Other income (expenses) :			
Interest and dividend income	461	552	4,312
Interest expense	(2,995)	(4,074)	(27,992)
Amortization of prior service cost	2,515	—	23,508
Gain on sale of property, plant and equipment-net	1,361	683	12,716
Gain on sale of securities-net	502	1,302	4,693
Gain on securities contributed to employee retirement benefit trust	—	212	—
Foreign currency exchange losses, net	(250)	(186)	(2,337)
Amortization of net transition obligation of severance and retirement benefits	(5,584)	(5,516)	(52,191)
Loss from liquidation of subsidiaries	(3,053)	(4,143)	(28,534)
Loss from reorganization of business	(2,810)	—	(26,266)
Loss on disposal of property, plant and equipment, and other assets	(2,999)	(1,459)	(28,032)
Loss on disposal of inventories	(768)	(2,307)	(7,176)
Loss from cancellation of a sale contract for a piece of factory land	—	(4,067)	—
Loss from plant relocation	—	(1,671)	—
Equity in earnings of unconsolidated subsidiaries and affiliated companies	4,080	1,830	38,133
Other-net	(645)	(3,853)	(6,021)
	(10,185)	(22,697)	(95,187)
Income before income taxes	38,588	17,534	360,637
Income taxes (Note 5) :			
Current	13,416	8,639	125,378
Deferred	2,406	(7,609)	22,487
Total	15,822	1,030	147,865
Minority interests in consolidated subsidiaries	26	(242)	239
Net income	¥ 22,792	¥ 16,262	$ 213,011

	Yen		U.S. dollars (Note 1)
	2005	2004	2005
Amounts per share of common stock :			
Net income	¥ 37.80	¥ 27.01	$ 0.35
Diluted net income	—	—	—
Cash dividends applicable to the year	¥ 3.00	¥ —	$ 0.03

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Years ended March 31, 2005 and 2004

	Number of shares of common stock (Thousand)	Millions of yen						
		Common stock	Capital surplus	Retained earnings	Revaluation reserve for land, net of income taxes	Unrealized gains (losses) on securities, net of income taxes	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	588,697	¥30,872	¥15,712	¥ 3,493	¥45,619	¥ (398)	¥(5,929)	¥ (38)
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	1	—	—	—	—
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(27)	—	—	—	—
Transfer from revaluation reserve for land, net of income taxes to retained earnings	—	—	—	119	(119)	—	—	—
Increase due to an exchange of stocks	13,929	—	1,086	—	—	—	—	—
Sales of treasury stock	—	—	2	—	—	—	—	—
Net income	—	—	—	16,262	—	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	2,146	—
Adjustment for unrealized gains on securities	—	—	—	—	—	5,760	—	—
Treasury stock	—	—	—	—	—	—	—	(35)
Balance at March 31, 2004	602,626	¥30,872	¥16,800	¥ 19,848	¥45,500	¥ 5,362	¥(3,783)	¥ (73)
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(185)	—	—	—	—
Transfer from revaluation reserve for land, net of income taxes to retained earnings	—	—	—	235	(235)	—	—	—
Sales of treasury stock	—	—	3	—	—	—	—	—
Net income	—	—	—	22,792	—	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	1,042	—
Adjustment for unrealized gains on securities	—	—	—	—	—	(886)	—	—
Treasury stock	—	—	—	—	—	—	—	(122)
Bonuses to directors and corporate auditors	—	—	—	(13)	—	—	—	—
Balance at March 31, 2005	602,626	¥30,872	¥16,803	¥ 42,677	¥45,265	¥ 4,476	¥ (2,741)	¥(195)

	Number of shares of common stock (Thousand)	Thousands of U.S. dollars (Note 1)						
		Common stock	Capital surplus	Retained earnings	Revaluation reserve for land, net of income taxes	Unrealized gains (losses) on securities, net of income taxes	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	602,626	$288,520	$157,013	$ 185,493	$425,232	$50,115	$(35,352)	$ (680)
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(1,725)	—	—	—	—
Transfer from revaluation reserve for land, net of income taxes to retained earnings	—	—	—	2,192	(2,192)	—	—	—
Sales of treasury stock	—	—	20	—	—	—	—	—
Net income	—	—	—	213,011	—	—	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	—	9,733	—
Adjustment for unrealized gains on securities	—	—	—	—	—	(8,285)	—	—
Treasury stock	—	—	—	—	—	—	—	(1,143)
Bonuses to directors and corporate auditors	—	—	—	(122)	—	—	—	—
Balance at March 31, 2005	602,626	$288,520	$157,033	$ 398,849	$423,040	$41,830	$(25,619)	$(1,823)

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities :			
Income before income taxes	¥38,588	¥17,534	$360,637
Adjustments to reconcile net income before income taxes to net cash provided by operating activities :			
Depreciation	9,282	10,112	86,746
Amortization of consolidation adjustment	(649)	(934)	(6,080)
Gain on sale of property, plant and equipment-net	(1,361)	(683)	(12,716)
Loss on disposal of property, plant and equipment, and other assets	2,999	1,459	28,032
Loss from cancellation of a sale contract for a piece of factory land	—	4,067	—
Gain on sale of securities	(502)	(1,302)	(4,693)
Loss from liquidation of subsidiaries	3,053	4,143	28,534
Loss from reorganization of business	2,810	—	26,266
Gain on securities contributed to employee retirement benefit trust	—	(212)	—
Increase in employees' severance and retirement benefits	3,826	7,118	35,758
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(4,080)	(1,830)	(38,133)
Decrease in allowance for doubtful and other allowances	(161)	(2,612)	(1,506)
Interest and dividend income	(461)	(552)	(4,312)
Interest expense	2,995	4,074	27,992
Changes in operating assets and liabilities :			
(Increase) decrease in notes and accounts receivable	(9,483)	27,974	(88,622)
Decrease (increase) in inventories	4,126	(2,944)	38,563
Increase in notes and accounts payable	4,421	16,818	41,320
Other-net	518	5,212	4,839
Sub-total	55,921	87,442	522,625
Interest and dividend received	481	629	4,499
Payments for interest	(3,023)	(3,880)	(28,256)
Payments for income taxes	(7,928)	(7,789)	(74,094)
Other-net	—	(627)	—
Net cash provided by operating activities	¥45,451	¥75,775	$424,774

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash flows from investing activities :			
Decrease (increase) in time deposits	¥ 256	¥ (461)	$ 2,392
Purchase of securities	(2,338)	(2,840)	(21,848)
Proceeds from sale of securities	2,758	2,652	25,779
Proceeds from redemption of securities	—	2,000	—
Payments for purchases of property, plant and equipment	(10,178)	(10,811)	(95,124)
Proceeds from sale of property, plant and equipment	3,257	5,351	30,439
Payments for cancellation of a sale contract for a piece of factory land	—	(2,281)	—
Proceeds from sale of securities which decreased the number of consolidated subsidiaries	—	100	—
Payments for long-term loans receivables	(344)	(1,851)	(3,216)
Collection of long-term loans receivables	936	688	8,748
Other-net	(434)	(476)	(4,055)
Net cash used in investing activities	(6,087)	(7,929)	(56,885)
Cash flows from financing activities :			
Decrease in short-term loans	(25,355)	(52,563)	(236,960)
Increase in commercial paper	1,500	2,000	14,019
Proceeds from long-term debt	2,930	38,958	27,383
Repayments for long-term debt	(31,916)	(44,174)	(298,284)
Proceeds from issue of bonds	10,000	—	93,458
Payments for redemption of bonds	(3,521)	(1,000)	(32,907)
Other-net	(128)	113	(1,193)
Net cash used in financing activities	(46,490)	(56,666)	(434,484)
Effect of exchange rate changes on cash and cash equivalents	1	(323)	10
Net (decrease) increase in cash and cash equivalents	(7,125)	10,857	(66,585)
Cash and cash equivalents at beginning of year	57,678	47,661	539,044
Net decrease from the change in consolidated companies	(1,445)	(840)	(13,510)
Cash and cash equivalents at the end of year (Note 2)	¥ 49,108	¥ 57,678	$ 458,949

See accompanying notes.

Notes to Consolidated Financial Statements

1. Significant accounting policies

Basis of presenting consolidated financial statements — The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of Sumitomo Heavy Industries, Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Principles of consolidation — The consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies"). All significant inter-company transactions, accounts and profits have been eliminated in consolidation.

Investments in unconsolidated subsidiaries and significant affiliated companies are accounted for by the equity method. The difference between costs and net assets acquired of subsidiaries and affiliated companies, consolidated or accounted for by the equity method, are deferred and amortized over 5 years 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 stockholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

Accounting standard for impairment of fixed assets — In the year ended March 31, 2005, the Company did not adopt early the new accounting standard for impairment of fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). These standards are required to be adopted in periods beginning no later than April 1, 2005.

The Company has begun its analysis of possible impairment of fixed assets. The Company cannot currently estimate the effect of adoption of the new standard, because the Company has not yet completed its analysis. However, adoption of the new standard could have a material effect on the Company's financial statements.

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

Marketable and investment securities — Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with fair market values are stated at fair market value. (Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity. Realized gains or losses on sale of such securities are computed using the moving- average cost.) Equity securities issued by subsidiaries and affiliated company which are not consolidated or accounted for using the equity method, are stated at moving-average cost. Available-for-sale securities with no available fair market value are stated at cost based on moving-average method.

If the market value of equity securities issued by subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between the fair market value and the carrying amount is recognized as loss in the period of the decline unless the declined values are considered to be recovered.

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

Some subsidiaries of construction machinery segment adopted the lower of cost or market based on the specific-identification method, for certain finished products.

Property, plant and equipment and depreciation — Property, plant and equipment are carried at cost except for certain land revalued. Depreciation is computed primarily using the declining-balance method at rates based on respective useful lives, except that buildings acquired after March 31, 1998 are depreciated using the straight-line method.

Allowance for doubtful accounts — The Company and 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, etc.), an allowance is booked based on an estimation of the uncollectible amount, on a case by case basis.

Revaluation reserve for land — The Company revaluated land used for operations on March 31, 2002 in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land effective march 31, 1998, as revised on March 31, 2001. As a result of the revaluation, the land, which previously had a book value of ¥32,412million ($302,918 thousand), was revaluated at ¥109,349 million ($1,021,954 thousand), which was determined primarily based on real estate tax value. At March 31,2002,the Company recorded ¥44,585 million ($416,682 thousand) as revaluation reserve for land in stockholders' equity section, after deducting deferred income tax effects of ¥32,352 million ($302,355 thousand) which were recorded as long-term liabilities.

The current value of the land, on March 31, 2005 fell ¥19,152 million ($178,990 thousand) in comparison with the book value of the land after revaluation.

Employees' severance and retirement benefits — In order to provide for employees' retirement benefits, the amount considered to have accrued as at the end of the fiscal year is stated based on the estimated amount of retirement benefit obligations and pension plan assets as at the end of the fiscal year.

The "net transition obligation" arising from adopting new accounting standards as of April 1, 2000, amounted to ¥51,934 million ($485,369 thousand), some of the amount was expensed as a result of the contribution of investment securities to the employee retirement benefit trust and some of the amount was charged to income by some of the consolidated subsidiaries in the year ended March 31, 2001. The remaining net transition obligation amounting to ¥27,897 million ($260,717 thousand) is recognized as expenses in equal amounts primarily over 5 years commencing with the year ended March 31, 2001.

Prior service costs are recognized in expenses as incurred by the Company, and in equal amounts over a period within the average remaining service years of employees (mainly 12 years) by consolidated subsidiaries.

The actuarial gains (losses) are recognized in expenses in equal amounts over a period within the average remaining service years of employees (mainly 12 years) commencing with the next year of the accrual.

The Company revised its employees' retirement benefit plans and transferred its defined-benefit corporate pension plan into a lump-sum benefit plan and a defined-contribution pension plan. As a result, prior service cost amounting to ¥2,515 million ($23,508 thousand) was recognized as income in the year ended March 31, 2005.

Sales — Sales are principally recognized on a delivery basis except those for long- term (over 1 year) contracts of ¥1 billion or more, which are recognized, based on the percentage-of-completion method.

Selling, general and administration expenses — Prior to April 1, 2003, the Company allocated a certain portion of selling, general and administrative expenses (expenses other than those relating to management division, which are corporatewide expenses) to work in process.

Effective April 1, 2003, the Company changed its accounting policy and expensed as incurred certain selling, general and administrative costs which had previously been allocated to work in process.

This change was made because the period between the commencement of production and recognition of the related sale is becoming short due to reduction in the scale of recent longterm contracts and the application of percentage-of-completion method. This tendency became even stronger because the shipbuilding business (excluding the sales division) was transferred to Sumitomo Heavy Industries Marine & Engineering Co., Ltd., a wholly-owned subsidiary of the Company, on April 1, 2003. The Company changed the accounting policy with the intent to increase financial soundness by currently recognizing certain selling, general and administrative costs which had previously been allocated to work in process.

As a result of this change, in the year ended March 31, 2004, selling, general and administrative expenses increased by ¥172 million, operating income decreased by ¥172 million and income before income taxes decreased by ¥1,319 million.

Software costs — The Company amortizes costs of software for its own use using the straight-line method over the estimated useful life (5 years).

Research and development costs — Research and development costs included in cost of sales, and selling, general and administrative expenses were ¥6,317 million ($59,033 thousand) and ¥6,263 million for the years ended March 31, 2005 and 2004, respectively.

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

The Company and its wholly-owned consolidated domestic subsidiaries adopted the consolidated tax return filing under Japanese tax regulations from the year ended March 31, 2005.

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

Foreign currency translation — Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates in effect at the balance sheet date of the foreign subsidiaries, except for common stock and capital surplus, which are translated at historical rates.

Expenses and income are translated at the rates at the balance sheet date. The resulting foreign currency translation adjustment is reported in stockholders' equity.

Information for Certain Leases as Lessee — The Company and its consolidated domestic subsidiaries account for finance leases which do not transfer ownership of leased assets to lessees as operating leases.

Derivatives and hedge accounting — Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner.

If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

a) The difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
b) The discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.
Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Amounts per share — The computation of net income per share of common stock is based on the weighted-average number of shares of common stock outstanding during each fiscal year.
The diluted net income per share is not presented, because the Company does not have convertible bond or bond with warrant.
Cash dividends applicable to the year represent the actual amount declared as applicable to the respective years.

Change in accounting policy — The board of directors of the Company and one of its consolidated domestic subsidiaries resolved (1) to abolish their unfounded retirement benefit plans for their directions, corporate auditors and corporate officers as of the end of the shareholders' meetings to be held in June, 2005, and (2) to propose to the shareholder's meetings for their approval to pay the retirement benefits upon their retirement the amounts calculated based on the internal rules for their services up to the close of the respective shareholders' meetings.
The Company accrued retirement benefit to directors and corporate auditors up to March 31, 2005 amounting to ¥629million($5,880 thousand). In the accompanying consolidated balance sheets at March 31, 2005, the amount of accrued retirement benefit to directors and corporate auditors is included in Other long-term liabilities. Previously, retirement benefits to director, corporate auditors and corporate officers had been expensed upon their retirement.
As a result of this change, in the year ended March 31, 2005, operating income decreased by ¥141 million ($1,314 thousand) and income before income taxes decreased by ¥629million ($5,880 thousand).

2. Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.
Cash and cash equivalents as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash and deposits	¥49,636	¥58,454	$463,889
Time deposit over three months	(528)	(776)	(4,940)
Cash and cash equivalents	¥49,108	¥57,678	$458,949

3. Inventories

Inventories as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Finished products and semi-finished products	¥25,627	¥28,705	$239,503
Work in process	53,182	56,062	497,027
Raw materials and supplies	10,050	9,140	93,925
	¥88,859	¥93,907	$830,455

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

Bank loans at March 31, 2005 and 2004 consisted of short-term loans, bearing interest principally at 0.59% and 0.83% per annum.

At March 31, 2005 and 2004, commercial paper principally bore an average annual interest rate of 0.09% and 0.28%, respectively.
Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
1.0 % domestic bonds due in March 2010	¥ 10,000	¥ —	$ 93,458
3.0 % domestic bonds due in January 2005	—	3,000	—
U.S. dollar variable rate industrial development revenue bonds due in May 2008	—	535	—
1.7 % domestic mortgage bonds due in November 2005	1,000	1,000	9,346
Loans principally from banks and insurance companies due serially through March 2015 with interest ranging from 1.00% to 7.00% in 2005			
Secured	5,545	6,571	51,824
Unsecured	96,299	124,262	899,997
	112,844	135,368	1,054,625
Less amount due within one year	53,471	34,795	499,733
Amount due after one year	¥ 59,373	¥100,573	$ 554,892

U.S. dollar variable rate industrial development revenue bonds due in May 2008 have been redeemed before its scheduled maturity.
Annual maturities of long-term debt as of March 31, 2005 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2006	¥53,471	$499,733
2007	30,491	284,967
2008	13,864	129,568
2009	2,622	24,510
2010	11,176	104,448
Thereafter	1,220	11,399

At March 31, 2005, assets pledged as collateral for bank loans, secured long-term loans from banks and insurance companies and domestic mortgage bonds were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash deposit	¥ 200	$ 1,869
Land	36,152	337,870
Other property, plant and equipment, at cost less accumulated depreciation	3,749	35,037
	¥40,101	$ 374,776

The Company has agreements with seven banks for revolving lines of credit for timely operating-fund raising for the aggregate maximum amount of ¥25,000 million ($233,645 thousand). As of March 31, 2005, there were no borrowings under the agreements.

5. Income Tax

The Company and its domestic consolidated subsidiaries are subject to a number of income taxes, which, in the aggregate indicate a statutory tax rate in Japan of approximately 41% and 42% for the years ended March 31, 2005 and 2004, respectively.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for consolidated financial statement purposes for the year ended March 31, 2004.

	2004
Statutory tax rate	42.05%
Increase (decrease) in tax rates resulting from:	
Expenses not deductible for tax purposes	6.67%
Per capital inhabitant tax	1.15%
Income not counted for tax purpose	(0.19%)
Elimination of dividend received	5.85%
Equity in earnings of affiliated companies	(4.39%)
Reversal of taxable temporary differences on the consolidated financial statements for eliminated devaluation loss on investments in a subsidiary	(53.41%)
Valuation allowance for eliminations	8.51%
Others	(0.36%)
Effective tax rate	5.88%

Since the effective tax rate for consolidated financial statement purposes for the year ended March 31, 2005 differed from the statutory tax rate by less than 5%,disclosure of reconciliation between these tax rates is omitted.

Significant components of deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Deferred tax assets :			
Accrued bonuses	¥ 2,895	¥ 2,512	$ 27,052
Allowance for doubtful accounts	3,764	2,896	35,172
Allowance for warranty	1,199	1,165	11,209
Allowance for employees' severance and retirement benefit	13,323	11,301	124,515
Devaluation of inventories	771	1,852	7,208
Unrealized profit on inventories	961	959	8,979
Devaluation of marketable securities and investments	2,660	2,547	24,862
Excess depreciation	658	818	6,151
Operating losses carry forward	3,746	6,992	35,009
Others	3,146	2,938	29,399
Total deferred tax assets	33,123	33,980	309,556
Less-valuation allowance	(9,621)	(7,626)	(89,915)
Deferred tax assets-net	23,502	26,354	219,641
Deferred tax liabilities :			
Difference on revaluation of assets and liabilities of subsidiaries	(1,391)	(1,391)	(13,001)
Accelerated depreciation	(416)	(523)	(3,882)
Excess tax depreciation reserve	(206)	(174)	(1,928)
Net unrealized holding gains on securities	(2,926)	(3,713)	(27,348)
Undistributed earnings in consolidated subsidiaries overseas	(508)	(302)	(4,746)
Others	(97)	(89)	(908)
Deferred tax liabilities	(5,544)	(6,192)	(51,813)
Net deferred tax assets	¥ 17,958	¥ 20,162	$167,828

6. Stockholders' equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, is required to be designated as common stock. The portion which is to be designated as common stock is determined by resolution of the Board of Directors. Proceeds in excess of amount designated as common stock are credited to additional paid-in capital.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

Under the Code, certain amount of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal earnings reserve (a component of retained earnings) until the total amount of additional paid-in capital and legal earnings reserve, which is not available for dividends, equals 25% of common stock. Subject to both resolution of stockholders and legal requirement, the amount of total additional paid-in capital and legal earnings reserve that exceeds 25% of common stock may be transferred to a reserve which the Company can distributed as dividends.

Appropriations of retained earnings are reflected in the consolidated financial statements for the year in while the appropriations are approval by the stockholders.

Retained earnings at March 31, 2005 include amounts representing the bonuses to directors and corporate auditors approved at the shareholders' meeting held on June 29, 2005.

The maximum amount that the Company can distribute as dividends at March 31, 2005 amounted to ¥9,966 million (¥93,139 thousand).

7. Contingent liabilities

The Companies were contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥338 million ($3,155 thousand) at March 31, 2005. In addition, at the same date the Companies were contingently liable as guarantors of bank loans to unconsolidated subsidiaries, affiliated companies and employees in the amount of ¥7,042 million ($65,815 thousand) (net of guarantees by co-guarantors).

8. Segment information

(A) The Companies' primary business activities include (1) mass-produced machinery, (2) environmental protection facilities, plants & others, (3) ship, steel structure & other specialized equipment, (4) industrial machinery, and (5) construction machinery.

A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 2005 and 2004, and a summary of identifiable assets, depreciation expenses and capital expenditures by segment of business activities for the years ended March 31, 2005 and 2004 are presented below:

	Millions of yen						
2005	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other special-ized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	¥ 205,092	¥ 87,937	¥ 65,288	¥ 54,008	¥ 108,985	¥ —	¥ 521,310
Intersegment	1,253	2,654	553	397	69	(4,926)	—
Total	206,345	90,591	65,841	54,405	109,054	(4,926)	521,310
Costs and expenses	175,930	83,497	65,363	49,571	103,093	(4,917)	472,537
Operating income	¥ 30,415	¥ 7,094	¥ 478	¥ 4,834	¥ 5,961	¥ (9)	¥ 48,773
II Identifiable assets	¥ 220,286	¥ 83,427	¥ 91,635	¥ 48,134	¥ 100,585	¥ 25,704	¥ 569,771
Depreciation expenses	4,896	934	1,397	597	1,458	—	9,282
Capital expenditures	4,126	842	1,174	375	1,658	—	8,175
2004							
I Sales and operating income							
Sales:							
Unaffiliated customers	¥ 184,489	¥ 87,691	¥ 63,439	¥ 45,988	¥ 101,158	¥ —	¥ 482,765
Intersegment	1,074	2,629	325	364	97	(4,489)	—
Total	185,563	90,320	63,764	46,352	101,255	(4,489)	482,765
Costs and expenses	159,517	85,753	62,217	43,444	96,105	(4,502)	442,534
Operating income	¥ 26,046	¥ 4,567	¥ 1,547	¥ 2,908	¥ 5,150	¥ 13	¥ 40,231
II Identifiable assets	¥ 202,787	¥ 96,267	¥ 100,867	¥ 45,079	¥ 98,101	¥ 37,190	¥ 580,291
Depreciation expenses	5,153	979	1,544	698	1,738	—	10,112
Capital expenditures	6,177	1,184	1,250	457	1,494	—	10,562

Effective for the year ended March 31, 2004, products such as medical equipment, which had previously been classified in the industrial machinery group, are classified in the mass-produced machinery group in order to reflect more appropriately the organization of the Company and current status and nature of the products to the segmentation. Also, as for the products of one of our subsidiaries, we changed the segment from the ship, steel structure & other specialized equipment group to the mass-produced machinery group for the same reason.

	Thousands of U.S. dollars (Note 1)						
2005	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other special-ized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	$1,916,742	$821,844	$610,172	$504,752	$1,018,549	$ —	$4,872,059
Intersegment	11,712	24,797	5,172	3,707	648	(46,036)	—
Total	1,928,454	846,641	615,344	508,459	1,019,197	(46,036)	4,872,059
Costs and expenses	1,644,203	780,342	610,874	463,280	963,488	(45,952)	4,416,235
Operating income	$ 284,251	$ 66,299	$ 4,470	$ 45,179	$ 55,709	$ (84)	$ 455,824
II Identifiable assets	$2,058,746	$779,696	$856,397	$449,849	$ 940,050	$240,222	$5,324,960
Depreciation expenses	45,756	8,734	13,055	5,577	13,623	—	86,745
Capital expenditures	38,561	7,871	10,974	3,505	15,492	—	76,403

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

(B) Information by geographic area for the years ended March 31, 2005 and 2004 is as follows:

	Millions of yen				
2005	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	¥458,947	¥39,535	¥22,828	¥ —	¥521,310
Intersegment	23,920	871	2,894	(27,685)	—
Total	482,867	40,406	25,722	(27,685)	521,310
Costs and expenses	437,675	38,390	23,962	(27,490)	472,537
Operating income	¥ 45,192	¥ 2,016	¥ 1,760	¥ (195)	¥ 48,773
II Identifiable assets	¥470,361	¥31,925	¥18,510	¥ 48,975	¥569,771
2004					
I Sales and operating income					
Sales:					
Unaffiliated customers	¥435,671	¥31,017	¥16,077	¥ —	¥482,765
Intersegment	17,870	1,038	2,606	(21,514)	—
Total	453,541	32,055	18,683	(21,514)	482,765
Costs and expenses	414,485	31,697	17,798	(21,446)	442,534
Operating income	¥ 39,056	¥ 358	¥ 885	¥ (68)	¥ 40,231
II Identifiable assets	¥478,875	¥30,356	¥15,326	¥ 55,734	¥580,291

	Thousands of U.S. dollars (Note 1)				
2005	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	$4,289,224	$369,483	$213,352	$ —	$4,872,059
Intersegment	223,548	8,146	27,048	(258,742)	—
Total	4,512,772	377,629	240,400	(258,742)	4,872,059
Costs and expenses	4,090,420	358,783	223,949	(256,917)	4,416,235
Operating income	$ 422,352	$ 18,846	$ 16,451	$ (1,825)	$ 455,824
II Identifiable assets	$4,395,899	$298,364	$172,986	$ 457,711	$5,324,960

Identifiable assets under the elimination and/or corporate column primarily consisted of cash, 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, 2005 and 2004 were as follows:

	Millions of yen			
2005	To North America	To Asia	To other areas	Total
Overseas Sales	¥ 78,471	¥ 63,125	¥ 56,211	¥ 197,807
	15.0%	12.1%	10.8%	37.9%
	Thousands of U.S. dollars (Note 1)			
Overseas Sales	$733,370	$589.959	$525,336	$1,848,665

Other areas include mostly the United Kingdom and Germany.

Overseas sales of the Companies for the year ended March 31, 2004 were ¥190,187 million and accounted for 39.4% 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 effect of the changes in accunting policies on segment information.

As explained in Note 1, effective this fiscal year, the Company changed its accounting policy and accrued retirement benefit to directors and statutory auditors up to March 31, 2005 which had previously been expensed upon their retirement.

The effects of the change on the mass-produced machinery group are to increase costs and expenses by ¥70 million ($653 thousand), to decrease operating income by ¥70 million ($653 thousand). Those on the environmental protection facilities, plants & others group are to increase costs and expenses by ¥26 million ($245 thousand), to decrease operating income by ¥26 million ($245 thousand). Those on the ship, steel structure & other specialized equipment group are to increase costs and expenses by ¥16 million ($145 thousand), to decrease operating income by ¥16 million ($145 thousand). Those on the industrial machinery group are to increase costs and expenses by ¥29 million ($271 thousand), to decrease operating income by ¥29 million ($271 thousand). Also the effects of the change on Japan segment are to increase costs and expenses by ¥141 million ($1,314 thousand), to decrease operating income by ¥141 million ($1,314 thousand).

As explained in Note 8 (A), effective for the year ended March 31, 2004, the Company changed its classification in the segments of certain products.

The effects of the change on the mass-produced machinery group are to increase net sales by ¥12,006 million, costs and expenses by ¥10,422 million, operating income by ¥1,584 million, identifiable assets by ¥10,864 million, depreciation expenses by ¥166 million, and capital expenditures by ¥103 million. Those on the ship, steel structure & other specialized equipment group are to decrease net sales by ¥598 million, costs and expenses by ¥479 million, operating income by ¥119 million, identifiable assets by ¥573 million, depreciation expenses by ¥9 million, and capital expenditures by ¥8 million. Those on the industrial machinery group are to decrease net sales by ¥11,069 million, costs and expenses by ¥9,605 million, operating income by ¥1,464 million, identifiable assets by ¥10,244 million, depreciation expenses by ¥157 million, and capital expenditures by ¥96 million.

As explained in Note 1, effective April 1, 2003, the Company changed its accounting policy and expensed as incurred certain selling, general and administrative costs which had previously been allocated to work in process.

The effects of the change on the mass-produced machinery group are to increase costs and expenses by ¥81 million, to decrease operating income by ¥81 million, and to decrease identifiable assets by ¥136 million. Those on the environmental protection facilities, plants & others group are to increase costs and expenses by ¥20 million, to decrease operating income by ¥20 million, and to decrease identifiable assets by ¥295 million. Those on the ship, steel structure & other specialized equipment group are to increase costs and expenses by ¥74 million, to decrease operating income by ¥74 million, and to decrease identifiable assets by ¥766 million. Those on the industrial machinery group are to decrease costs and expenses by ¥3 million, to increase operating income by ¥3 million, and to decrease identifiable assets by ¥122 million. Also the effects of the change on Japan segment are to increase costs and expenses by ¥172 million, to decrease operating income by ¥172 million, and to decrease identifiable assets by ¥1,319 million.

9. Information for certain leases

1.The summary of assumed amounts of acquisition cost, accumulated depreciation and net book value with respect to finance leases accounted for in the same manner as operating leases as of March 31, 2005 is as follows:

(1) Lessees

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥25,678	¥12,355	¥13,323
Others	288	114	174
Total	¥25,966	¥12,469	¥13,497

	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	$239,983	$115,464	$124,519
Others	2,688	1,069	1,619
Total	$242,671	$116,533	$126,138

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥4,305 million ($40,236 thousand) and ¥4,591 million for the years ended March 31, 2005 and 2004, respectively.

Future lease payments as of March 31, 2005 and 2004, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Due within one year	¥ 3,953	¥ 4,140	$ 36,946
Due after one year	9,544	9,338	89,192
Total	¥13,497	¥13,478	$126,138

(2) Lessors

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥88	¥48	¥40
Total	¥88	¥48	¥40

	Thousands of U.S. dollars (Note 1)		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	$821	$449	$372
Total	$821	$449	$372

Total lease receipts for finance leases which do not transfer ownership to lessees amounted to ¥17 million ($159 thousand) for the year ended March 31, 2005.

Future lease receipts as of March 31, 2005, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Due within one year	¥16	¥ —	$146
Due after one year	24	—	226
Total	¥40	¥ —	$372

2. Also, future lease payments under operating leases as of March 31, 2005 were ¥210 million ($1,967 thousand), including ¥86 million ($806 thousand) due within one year.

10. Securities

(A) The following tables summarize book values of securities not stated at fair value as of March 31, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Held-to-maturity debt securities :			
Non-listed corporate bonds	¥ 10	¥ —	$ 93
Available-for-sale securities :			
Non-listed equity securities	4,776	6,813	44,631
Others	1,024	1,027	9,571
Total	¥ 5,810	¥ 7,840	$ 54,295

(B) The following tables summarize acquisition costs and book values of securities with fair value as of March 31, 2005 and 2004:

Available-for-sale securities	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Acquisition cost :			
Equity securities	¥ 8,232	¥ 7,105	$ 76,932
Bonds	—	8	—
Others	—	13	—
Total	¥ 8,232	¥ 7,126	$ 76,932
Book value :			
Equity securities	15,717	16,149	146,891
Bonds	—	11	—
Others	—	11	—
Total	¥15,717	¥16,171	$146,891
Difference :			
Equity securities	7,485	9,045	69,959
Bonds	—	2	—
Others	—	(2)	—
Total	¥ 7,485	¥ 9,045	$ 69,959

(C) Total sales amount of available-for-sale securities sold in the year ended March 31, 2005 amounted to ¥2,059 million ($19,242 thousand) and the net gain amounted to ¥502 million ($4,693 thousand).

(D) The following tables summarize maturities of available-for-sale securities and held to maturity securities as of March 31, 2005

	Millions of yen				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	—	¥10	—	—	¥10
Total	—	¥10	—	—	¥10

	Thousands of U.S. dollars (Note 1)				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	—	$93	—	—	$93
Total	—	$93	—	—	$93

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 minimize the risk of exchange rate fluctuations. Interest rate swap transactions are made in order to minimize the risk of interest rate hike on borrowings.The Companies deal with international financial institutions with higher credit ratings as counter-parties of transactions to avoid credit risk exposure. Details of transactions are reviewed and approved by responsible officials of the Companies in accordance with the Companies' internal regulations, which include allowed transactions and maximum amounts thereof. Counter-parties of derivative transactions are creditworthy financial institutions, and the Companies believe that the risk of default by the counter-parties is minimal.

(A) Forward foreign exchange contracts
The aggregate amounts contracted to be paid / received and the fair values of forward foreign exchange contracts in Japanese yen of the Companies at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Contracted amount to be paid/received:			
To sell foreign currencies	¥2,103	¥ 662	$19,650
To buy foreign exchange options	2,893	788	27,033
To sell foreign exchange options	3,734	1,238	34,902
Fair value:			
To sell foreign currencies	2,049	649	19,147
To buy foreign exchange options	30	32	282
To sell foreign exchange options	(60)	(10)	(558)
Net unrealized exchange gain	¥ 24	¥ 35	$ 227

(B) Interest rate swap contracts
There were no interest rate swap contracts of the Companies at March 31, 2005.
The contract amounts and the fair values of interest rate swap contracts of the Companies at March 31, 2004 were as follows:

	Millions of yen		
Year ended March 31, 2004	Contract amount	Fair value	Unrealized loss
Interest rate swaps:			
Received float/Pay fix	¥500	¥(4)	¥(4)
	¥500	¥(4)	¥(4)

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 (Note 1)
	2005	2004	2005
(1) Projected benefit obligation	¥ (61,494)	¥ (64,154)	$ (574,707)
(2) Fair value of employee retirement benefit trust	32,167	30,771	300,623
(3) Unfunded projected benefit obligation	(29,327)	(33,383)	(274,084)
(4) Unrecognized net transition obligation	—	5,585	—
(5) Unrecognized actuarial difference	9,187	11,390	85,856
(6) Unrecognized prior service cost	161	227	1,509
(7) Prepaid pension benefit expenses	(70)	(21)	(651)
(8) Allowance for severance and pension benefit	(20,049)	(16,202)	(187,370)

2. Included in the statements of operation for the years ended March 31, 2005 and 2004 are the following severance and pension benefit expenses:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
(1) Service cost	¥ 3,898	¥ 4,002	$ 36,431
(2) Interest cost on projected benefit obligation	1,412	1,675	13,200
(3) Expected return on plan assets	(316)	(311)	(2,956)
(4) Amortization of net transition obligation	5,585	5,459	52,191
(5) Recognized actuarial difference	1,364	1,968	12,751
(6) Recognized prior service cost	(2,444)	107	(22,845)
(7) Severance and pension benefit expense	9,499	12,900	88,772

3. Assumptions for calculating:

	2005	2004
(1) Allocation of the estimated amount of all retirement benefits to be paid at the future retirement date	Equally to each service year using the estimated number of total service years	
(2) Assumed discount rate	2.0%	2.0%
(3) Expected rate of return on plan assets	1.5%	1.5%
(4) Amortization period of unrecognized net transition obligation	5years	5years
(5) Amortization period of actuarial differences	12years	12years
(6) Amortization period of prior service cost (consolidated subsidiaries)	1year (12years)	12years

Independent Auditors’ Report

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

We have audited the accompanying consolidated balance sheets of Sumitomo Heavy Industries, Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Heavy Industries, Ltd. and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 1, effective for the year ended March 31, 2005, the Company and one of the consolidated subsidiaries changed its accounting policy for retirement benefits for directors, corporate auditors and corporate officers from upon-retirement basis to accrual basis.
As discussed in Note 1 to the consolidated financial statements, effective April 1, 2003, the Company changed its accounting policy and expensed as incurred certain selling, general and administrative expenses which had previously been allocated to work in process.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Tokyo, Japan
June 29, 2005

KPMG AZSA & Co.

Network

【Domestic Network】

Offices

Head Office
9-11, Kitashinagawa 5-chome,
Shinagawa-ku, Tokyo 141-8686, Japan
Tel: 81-3-5488-8000
URL: http://www.shi.co.jp

Kansai Office
7-28, Kitahama 4-chome, Chuo-ku,
Osaka-shi, Osaka 541-0041, Japan
Tel: 81-6-6223-7111

Tanashi Works
1-1, Yato-cho 2-chome, Nishitokyo-shi,
Tokyo 188-8585, Japan
Tel: 81-424-68-4104

Chiba Works
731-1, Naganumahara-machi, Inage-ku,
Chiba-shi, Chiba 263-0001, Japan
Tel: 81-43-420-1355

Yokosuka Works
19, Natsushima-cho,Yokosuka-shi,
Kanagawa 237-8555, Japan
Tel: 81-46-869-1842

Nagoya Works
1, Asahi-machi 6-chome, Obu-shi,
Aichi 474-8501, Japan
Tel: 81-562-48-5111

Okayama Works
8230, Tamashima-Otoshima, Kurashiki-shi,
Okayama 713-8501, Japan
Tel: 81-86-525-6101

Ehime Works - Niihama Factory
512, Sobiraki-cho, Niihama-shi,
Ehime 792-8588, Japan
Tel: 81-897-32-6211

Ehime Works - Saijo Factory
1501, Imazaike, Saijo-shi,
Ehime 799-1393, Japan
Tel: 81-898-64-4811

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

Major 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.
Tel: 81-3-5421-8600
URL: http://www.sumitomokenki.co.jp
100% owned subsidiary

Shin Nippon Machinery Co., Ltd.
9-11, Kitashinagawa 5-chome,
Shinagawa-ku, Tokyo 141-8686, Japan
Principal business: Steam turbines, pumps and industrial fasteners
Tel: 8-3-5421-8343
URL: http://www.snm.co.jp
100% owned subsidiary

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
9-11, Kitashinagawa 5-chome,
Shinagawa-ku, Tokyo 141-8686, Japan
Principal business: Sales, design, production, repair and reconstruction of vessel (excluding naval vessels). Marine engineering.
Tel: 03-5488-8204
100% owned subsidiary

Seisa Gear, Ltd.
16-1, Wakihama 4-chome, Kaizuka-shi,
Osaka 597-8555, Japan
Principal business: Power transmission equipment
Tel: 81-724-31-3021
URL: http://www.seisa.co.jp
53.5% owned subsidiary

Sumitomo Heavy Industries Engineering & Services Co., Ltd.
9-11, Kitashinagawa 5-chome,
Shinagawa-ku, Tokyo 141-8686, Japan
Principal business: Design, production and distribution of general industrial machinery, as well as remodeling, repairs, inspection and maintenance
Tel: 81-3-5421-8441
100% owned subsidiary

Sumitomo Heavy Industries Techno-Fort Co., Ltd.
5-2,Sobiraki-cho, Niihama-shi, Ehime
792-0001, Japan
Principal business: Forging press and other industrial machinery
Tel: 81-897-32-6397
100% owned subsidiary

Lightwell Co., Ltd.
18-10, Moto-Asakusa 3-chome, Taito-ku,
Tokyo 111-0041, Japan
Principal business: Software and related equipment
Tel: 81-3-5828-9230
URL: http://www.lightwell.co.jp
100% owned subsidiary

Sumitomo Heavy Industries Himatex Co., Ltd.
16-4,Isoura-cho, Niihama-shi, Ehime
792-0002, Japan
Principal business: Castings, rolls and bimetallic cylinders
Tel: 81-897-32-6482
URL: http://www.shiff.co.jp
100% owned subsidiary

Sumiju Environmental Engineering, Inc.
9-11, Kitashinagawa 5-chome,
Shinagawa-ku, Tokyo 141-8686, Japan
Principal business: Operation and maintenance for environmental systems and plants
Tel: 81-3-5421-8484
100% owned subsidiary

SHI Plastics Machinery, Ltd.
9-11, Kitashinagawa 5-chome,
Shinagawa-ku, Tokyo 141-8686, Japan
Principal business: Plastics machinery
Tel: 81-3-5421-8425
100% owned subsidiary

Synex Corporation
19 Natushima-tyo, Yokosuka-shi, Kanagawa
237-8555, Japan
Principal business: Automold system for semi-conductor devices and its mold die-set
Tel: 81-46-869-2467
100% owned subsidiary

SKK Ueda Gear, Ltd.
758 Kuroda, Sasayama-shi,
Hyogo 669-2726, Japan
Principal business: Power transmission equipment
Tel: 81-79-593-1000
URL: http://www.sskgm.co.jp
100% owned subsidiary

Sumitomo Heavy Industries PTC Sales Co., Ltd.
2-2-900, Umeda 1-chome, Kita-ku,
Osaka-shi, Osaka 530-0001, Japan
Principal business: Power transmission equipment
Tel: 81-6-6346-0820
URL: http://www.sumiju.co.jp
100% owned subsidiary

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
Tel: 81-6-6543-3500
URL: http://www.izumifood.co.jp
50% owned subsidiary

Sumitomo NACCO Materials Handling Co., Ltd.
75, Daitoh-cho 2-chome, Obu-shi,
Aichi 474-8555, Japan
Principal business: Forklift trucks and other materials handling equipments
Tel: 81-562-48-5251
URL: http://www.sumitomonacco.co.jp
50% owned subsidiary

Sumitomo Eaton Nova Corporation
10-1, Yoga 4-chome, Setagaya-ku,
Tokyo 158-0097, Japan
Principal business: Semiconductor equipment, especially ion implantation systems
Tel: 8-3-5491-7800
50% owned subsidiary

Nihon Spindle Mfg. Co., Ltd.
2-30, Shioe 4-chome, Amagasaki-shi, Hyogo 661-8510, Japan
Principal business: Industrial machinery, environmental protection equipment and building materials
Tel: 81-6-6499-5551
URL: http://www.spindle.co.jp
23.4% owned subsidiary

【Overseas Network】

Offices

Sumitomo Heavy Industries (Shanghai), Ltd.
26th Floor Raffles City (Office Tower) 268 Xi Zang Middle Road, Shanghai 200001, China
Tel: 86-21-6340-3993
100% owned subsidiary

Major Subsidiaries

Sumitomo Machinery Corporation of America
4200 Holland Boulevard, Chesapeake, Virginia 23323, U.S.A.
Principal business: Power transmission equipment
Tel: 1-757-485-3355
URL: http://www.smcyclo.com
100% owned subsidiary

Sumitomo (SHI) Cyclo Drive Germany, GmbH
Postfach 62 (PLZ85227) Cyclostrasse 92 D-85229 Markt Indersdorf, Germany
Principal business: Power transmission equipment
Tel: 49-8136-66-0
URL: http://www.sumitomodriveeurope.com
100% owned subsidiary

Sumitomo (SHI) Cyclo Drive Asia Pacific Pte. Ltd.
No.36 Tuas South Street 3, Singapore 638031
Principal business: Power transmission equipment
Tel: 65-6863-2238
URL: http://www.sumitomodrive.com.sg
100% owned subsidiary

Sumitomo (SHI) Cyclo Drive China, Ltd.
No.7 Sanijing Road, Dongli Economic Development Zone, Tianjin, China
Principal business: Power transmission equipment
Tel: 86-22-2499-3501
URL: http://www.cyclodrive.com/china
66.67% owned subsidiary

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
Tel: 1-770-447-5430
URL: http://www.sumitomopm.com
100% owned subsidiary

SHI Plastics Machinery (Europe) B.V.
Breguetlaan 10A, 1438 BC OUDE MEER, Netherlands
Principal business: Plastics machinery
Tel: 31-20-65-33-111
URL: http://www.spm-europe.com
100% owned subsidiary

S.H.I. Plastics Machinery (S) Pte., Ltd.
67 Ayer Rajah Crescent #01-15 to 26, Singapore 139950
Principal business: Plastics machinery
Tel: 65-6779-7544
URL: http://www.spm-singapore.com
100% owned subsidiary

SHI Plastics Machinery (Taiwan) Inc.
3F-1, No.687, Sec.5, Chung Shan North Road Taipei, Taiwan
Principal business: Plastics machinery
Tel: 886-2-2831-4500
URL: http://www.spm-northasia.com
100% owned subsidiary

SHI Plastics Machinery (Hong Kong) Ltd.
RM601, Telford House, 12-16 Wang Hoi Road, Kowloon Bay, Hong Kong
Principal business: Plastics machinery
Tel: 852-2750-6630
URL: http://www.spm-northasia.com
100% owned subsidiary

SHI Plastics Machinery (Shanghai) Co., Ltd.
Dept. D, 2nd Fl., No.188, HeDan Rd., Waigao Qiao FTZ, Pudong New Area, Shanghai, 200020, China
Principal business: Plastics machinery
Tel: 86-21-6340-3488
URL: http://www.spm-northasia.com
100% owned subsidiary

SHI Plastics Machinery (Malaysia) Sdn. Bhd.
Lot AG 16, 17 & 18, PJ Industrial Park, Jalan Kemajuan, Section 13, 46200 Petaling Jaya, Selangor, D.E. Malaysia
Principal business: Plastics machinery
Tel: 60-3-7958-2079
49% owned subsidiary

SHI-APD Cryogenics, Inc.
1833 Vultee St. Allentown, Pennsylvania 18103-4783, U.S.A.
Principal business: Manufacturer of MRI magnet cryocoolers,cryopumps and laboratory cryostats for research and development
Tel: 1-610-791-6700
URL: http://www.apdcryogenics.com
100% owned subsidiary

SHI-APD Cryogenics (Europe) Ltd.
2 Eros House, Calleve Park, Aldermaston, Berkshire, RG7 8LN, U.K.
Principal business: Manufacturer of MRI magnet cryocoolers, cryopumps and laboratory cryostats for research and development
Tel: 44-011-8981-9373
100% owned subsidiary

Sumitomo (SHI) Cryogenics of America, Inc.
1500-C Higgins Road Elk Grove Village, IL 60007, U.S.A.
Principal business: Service and sales of cryocooler
Tel: 1-847-290-5801
100% owned subsidiary

SHI Cryogenics Europe GmbH
Daimlerweg 3, Darmstadt, D-64287, Germany
Principal business: Service and sales of cryocooler
Tel: 49-6151-860610
100% owned subsidiary

Link-Belt Construction Equipment Company
2651 Palumbo Drive, P.O. Box 13600, Lexington, Kentucky 40583-3600, U.S.A.
Principal business: Construction crane
Tel: 1-859-263-5200
URL: http://www.linkbelt.com
100% owned subsidiary

LBX Company, LLC
2333 Alumni Park Plaza, Lexington,Kentucky 40517,U.S.A.
Principal business: Construction machinery
Tel: 1-859-245-3900
URL: http://www.lbxco.com
50% owned subsidiary

SHI Machinery Service Hong Kong Ltd.
Unit 2203, Level 22, Tower II, Metroplaza, No.223 Hing Fong Road, Kwai Chung, New Territories, Hong Kong
Principal business: Maintenance service for harbor cranes
Tel: 852-2521-8433
100% owned subsidiary

SHI Designing & Manufacturing Inc.
32nd Floor Raffles Corporate Center Emerald Avenue, Ortigas Center, Pasig Cita, Metro Manila, Philippines
Principal business: Plant engineering, machinery design and software development
Tel: 632-914-4260
100% owned subsidiary

SHI Manufacturing & Services (Philippines), Inc.
Barangay Sta.Anastacia, Sto.Tomas, Batangas, Philippines
Principal business: Manufacture of key component for XY stage, cryocooler, controller and metal injection molding
Tel: 63-43-405-6263
100% owned subsidiary

Management (As of July 1, 2005)

Board of Directors *a director with representive rights

Yoshio Hinoh*
President and
Chief Executive Officer

Eiichi Fujita*
Director

Kensuke Shimizu*
Director

Naoki Takahashi
Director

Yukio Kinoshita
Director

Yoshinobu Nakamura
Director

Shinji Nishimura
Director

Mikio Ide
Director

Toshiaki Kakimoto
Director

Corporate Auditors

Shuji Toyoda, Standing Auditor

Masaaki Takeuchi, Standing Auditor

Mohachi Sugiyama, Auditor

Hideki Kumagai, Auditor

Exeucutive Officers

Yoshio Hinoh
President

Eiichi Fujita
Senior Executive Vice President
General Manager, Export Administration Dept.

Kensuke Shimizu
Senior Executive Vice President

Naoki Takahashi
Executive Vice President
General Manager, Power Transmission
& Controls Group

Yukio Kinoshita
Executive Vice President
General Manager, Coporate Finance,
Accounting & Administration Group

Yoshinobu Nakamura
Executive Vice President
General Manager, Precision Equipment Group
General Manager, Laser System Div.,
Precision Equipment Group
General Manager, Mechatronics Div.

Shinji Nishimura
Senior Vice President
General Manager,Corporate Planning
& Development Dept.
General Manager, Ship & Marine Div.

Mikio Ide
Vice President
Director, Executive Vice President,
Sumitomo (S.H.I.) Construction Machinery Co., Ltd.

Toshiaki Kakimoto

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

Yasuo Naide
Executive Vice President
Head, Energy & Environment Group

Shigeru Nisugi
Senior Vice President
Regional General Manager, Kansai Office

Akihiko Yoshii
Senior Vice President
General Manager,
Corporate Technology Operation Group
General Manager,
Research & Development Center

Tsuneo Nagano
Senior Vice President
CEO, SHI-APD Cryogenics, Inc.

Osamu Sekiya
Senior Vice President
General Manager, Cryogenics Div.,
Precision Equipment Group
CEO, Sumiju Forging CO., Ltd.

Shigeru Toyosumi
Senior Vice President
General Manager, Planning & Control Dept.,
Power Transmission & Controls Group

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

Corporate Data

Head office	: Sumitomo Heavy Industries, Ltd. 9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan Tel : +81-3-5488-8336 Fax : +81-3-5488-8057 URL : http://www.shi.co.jp
Founded	: 1888
Incorporated	: November 1, 1934
Paid-in Capital	: ¥ 30,871,651,300
Number of Employees*:	11,149 (Consolidated) 2,840 (Non-consolidated)
Transfer Agent	: The Sumitomo Trust and Banking Co., Ltd.
Stock Exchange Listings	: Tokyo, Osaka
Shares Outstanding*	: 602,625,585
Number of Shareholders*	: 76,947

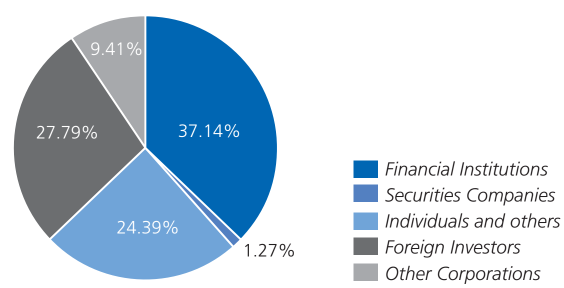
Major Shareholders* :

Name of shareholder	Percentage of voting rights
The Master Trust Bank of Japan, Ltd.	8.4%
Japan Trustee Services Bank, Ltd.	8.3%
State Street Bank and Trust Company	5.5%
Sumitomo Life Insurance Company	3.6%
Trust & Custody Services Bank, Ltd.	3.4%
Mellon Bank, N.A.	2.4%
Sumitomo Heavy Industries, Ltd. Kyoei-kai	1.9%

* As of March 31, 2005

Breakdown of Shareholders as of March 31, 2005

Breakdown of shareholders	Number of shares held (unit 1,000)
Financial Institutions	223,802
Securities Companies	7,634
Individuals and others	147,010
Foreign Investors	167,486
Other Corporations	56,693



"Other Corporations" category also includes treasury stock, government institution and local government, and Japan Securities Depository Center, Inc. Number of shares held are rounded down to the nearest 1,000.

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

Corporate Communications Department, Sumitomo Heavy Industries, Ltd.
9-11, Kitashinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan
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