Sumitomo Heavy Industries

Sumitomo Heavy Industries
Annual Report 2011
For the year ended March 31, 2011

For the Future, For the Dream

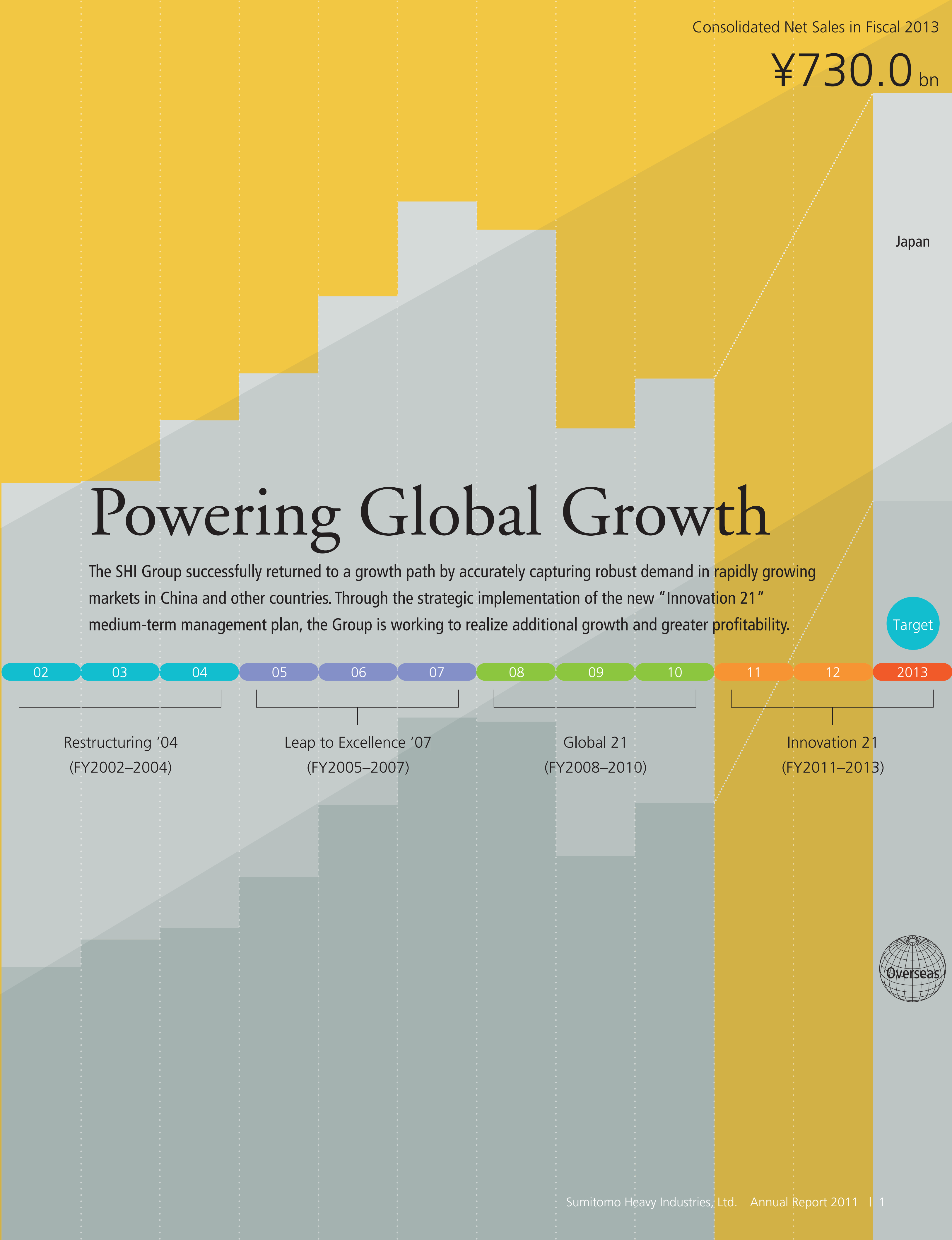
Leading the Way with Innovation

Cautionary Note Concerning Forward-Looking Statements

This annual report includes forward-looking statements regarding the future performance of Sumitomo Heavy Industries, Ltd. These forward-looking statements are based on information currently available to the Company and determined subjectively. Future performance is not guaranteed and all information related to future performance contained herein is subject to changes in the business environment.

Powering Global Growth

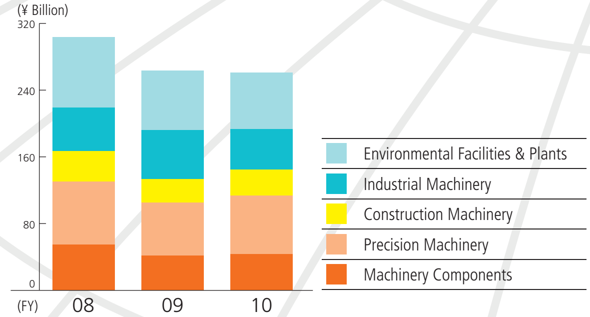
The SHI Group successfully returned to a growth path by accurately capturing robust demand in rapidly growing markets in China and other countries. Through the strategic implementation of the new "Innovation 21" medium-term management plan, the Group is working to realize additional growth and greater profitability.

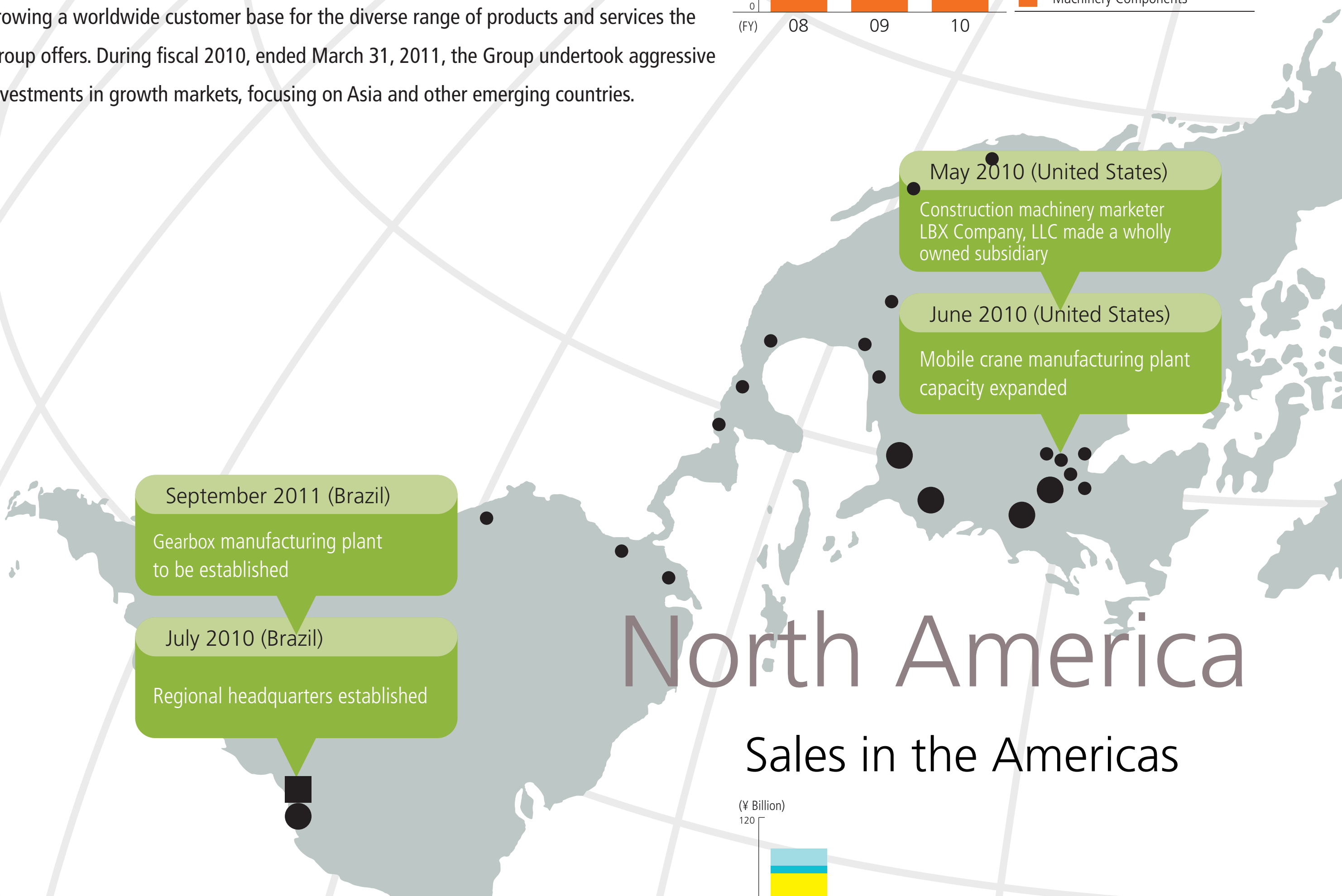


Increasing Our Global Presence

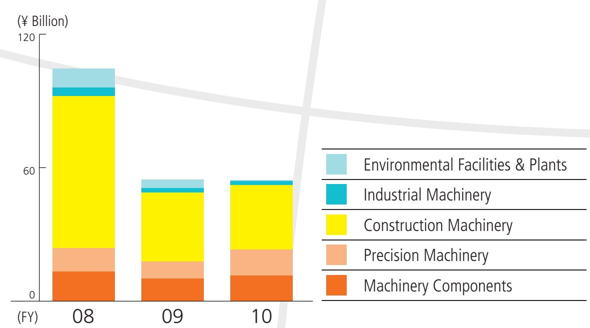
The SHI Group is expanding its global presence and today operates business bases in 25 countries across the world. We are bolstering our position in the global market by growing a worldwide customer base for the diverse range of products and services the Group offers. During fiscal 2010, ended March 31, 2011, the Group undertook aggressive investments in growth markets, focusing on Asia and other emerging countries.

Sales in Japan





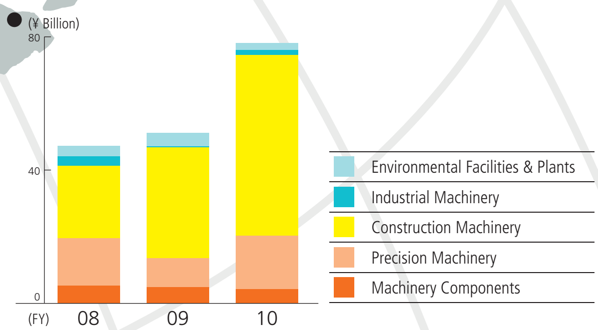
Sales in the Americas



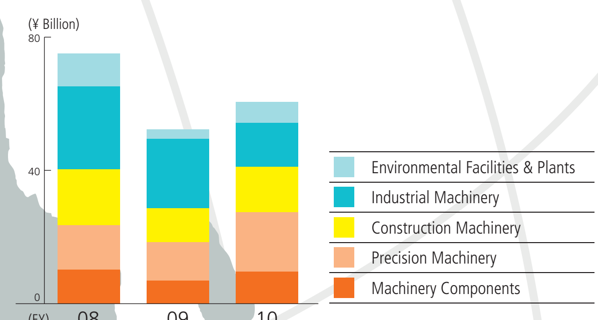
■ Regional headquarters
● Manufacturing base
• Principal sales and service bases

Note: Sales in the graphs do not include Ships segment sales.

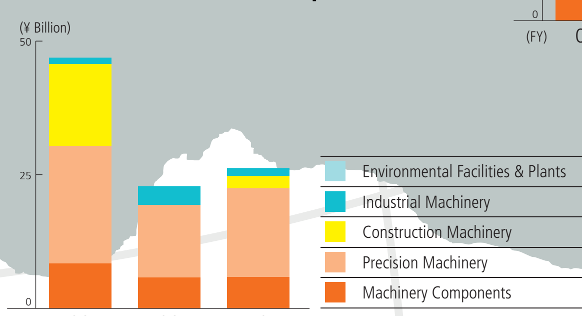
Sales in China (excluding Taiwan and Hong Kong)



Sales in Asia and Others



Sales in Europe



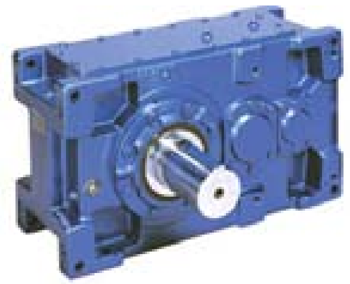
Enhancing Our Business Portfolio

The SHI Group is pursuing business development in fields ranging from industrial machinery to large-scale plants. The Group consistently offers first-class products and services that maximize customer value in each of these business fields while striving to secure high market shares and profitability. At the same time, we are strengthening inter-segment R&D collaboration, thereby enhancing our product-innovation capabilities and the product value we deliver. In fiscal 2010, SHI was able to secure profitability in all of its business segments.

Machinery Components

Sales **74.6** Billion yen

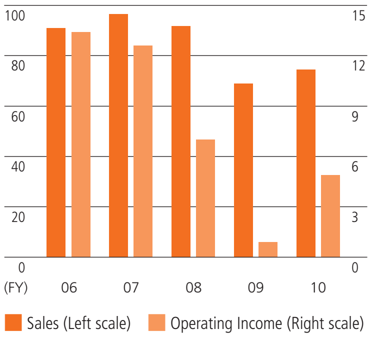
Operating income **4.9** Billion yen



Main Products

Power Transmission and Control Equipment
Inverters

Sales and Operating Income (¥ Billion)



Precision Machinery

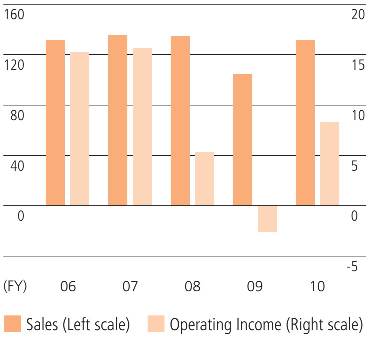
Sales **131.9** Billion yen

Operating income **8.3** Billion yen

Main Products

Plastic Injection Molding Machines
Cyclotrons for Medical Use, Ion Accelerators
Plasma Coating System for FPDs (Flat Panel Displays)
Laser Processing Systems
Cryogenic Equipment, XY Stages
Transfer Molding Press Machines
Precision Forgings, Defense Equipment

Sales and Operating Income (¥ Billion)



Construction Machinery

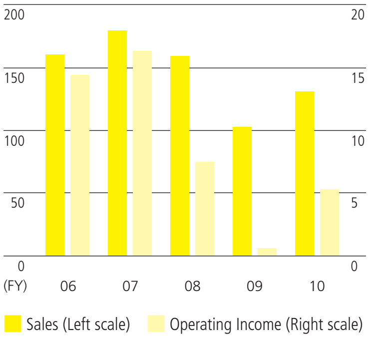
Sales **130.8** Billion yen

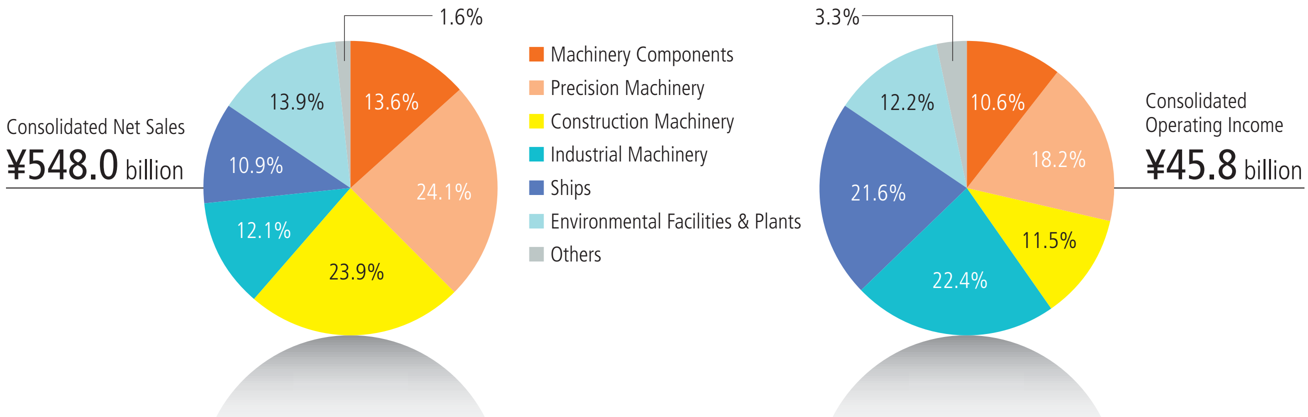
Operating income **5.3** Billion yen

Main Products

Hydraulic Excavators
Mobile Cranes
Road Machinery

Sales and Operating Income (¥ Billion)





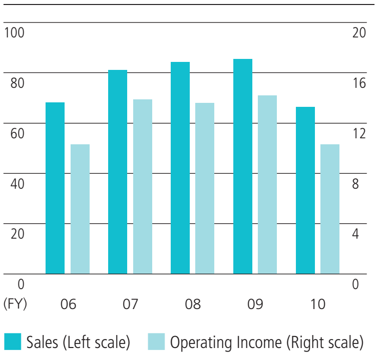
Industrial Machinery

Sales	Operating income
66.5	10.3
Billion yen	Billion yen

Main Products

Forging Machines
Material Handling Systems
Logistics & Handling Systems
Turbines
Pumps

Sales and Operating Income (¥ Billion)



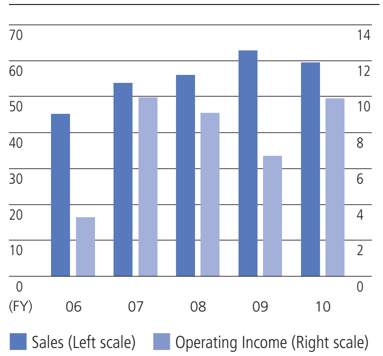
Ships

Sales	Operating income
59.5	9.9
Billion yen	Billion yen

Main Products

Ships

Sales and Operating Income (¥ Billion)



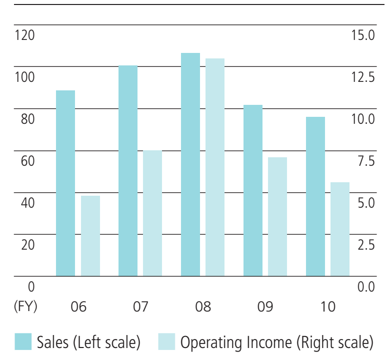
Environmental Facilities & Plants

Sales	Operating income
76.1	5.6
Billion yen	Billion yen

Main Products

Power Generation Systems
Industrial Wastewater Treatment Systems
Water and Sewage Treatment Systems
Landfill Leachate Treatment System
Air Pollution Control Plants
Chemical Process Equipment & Plants
Pressure Vessels, Mixing Vessels
Steel Structures, Food Processing Machinery

Sales and Operating Income (¥ Billion)



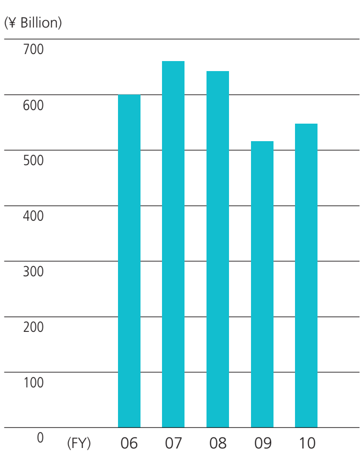
Financial Highlights

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

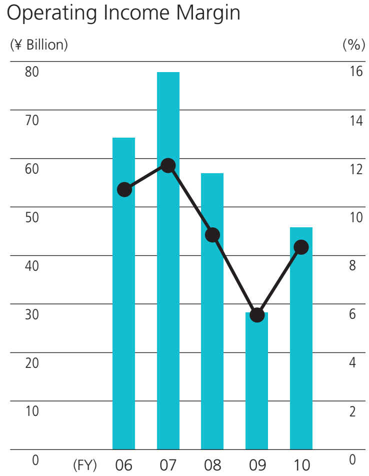
	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2006	FY2007	FY2008	FY2009	FY2010	FY2010
Summary of Income (for the year):						
Net sales	¥600,256	¥660,769	¥642,918	¥516,165	**¥548,015**	**$6,602,594**
Machinery Components	91,116	96,522	91,876	69,040	**74,591**	**898,686**
Precision Machinery	131,789	136,071	135,351	105,191	**131,944**	**1,589,691**
Construction Machinery	160,177	179,370	159,154	102,650	**130,811**	**1,576,042**
Industrial Machinery	68,286	81,163	84,310	85,637	**66,544**	**801,736**
Ships	45,175	53,781	56,028	62,927	**59,496**	**716,824**
Environmental Facilities & Plants	88,738	100,682	106,479	81,884	**76,070**	**916,511**
Others	14,974	13,181	9,720	8,835	**8,558**	**103,104**
Operating income	64,224	77,790	56,940	28,254	**45,803**	**551,847**
Machinery Components	13,433	12,579	7,033	861	**4,874**	**58,724**
Precision Machinery	15,186	15,647	5,307	(2,603)	**8,340**	**100,484**
Construction Machinery	14,396	16,286	7,543	571	**5,290**	**63,735**
Industrial Machinery	10,302	13,930	13,585	14,167	**10,252**	**123,517**
Ships	3,349	9,969	9,098	6,664	**9,897**	**119,238**
Environmental Facilities & Plants	4,750	7,526	13,040	7,101	**5,566**	**67,055**
Others	2,568	1,710	1,131	1,376	**1,518**	**18,293**
EBITDA (Note 3)	74,873	91,578	75,260	47,979	**63,744**	**768,003**
Net income	37,352	42,974	13,649	13,280	**27,926**	**336,461**
Capital expenditure	17,257	28,180	31,753	24,465	**14,292**	**172,193**
R&D expenses	8,581	9,908	10,047	8,187	**8,228**	**99,133**
Depreciation and amortization	10,649	13,788	18,320	19,725	**17,941**	**216,156**
Cash flows from operating activities	56,789	29,096	34,676	57,513	**36,521**	**440,012**
Cash flows from investing activities	(12,461)	(41,250)	(35,924)	(13,954)	**(23,513)**	**(283,287)**
Free cash flows (Note 4)	44,328	(12,154)	(1,248)	43,559	**13,008**	**156,725**
Cash flows from financing activities	(41,193)	(5,238)	15,625	(26,686)	**(22,020)**	**(265,304)**

Notes:
1. The U.S. dollar amounts have been translated, for convenience only, at ¥83=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2011.
2. From fiscal 2010, SHI adopted the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17 of March 27, 2009). In line with this adoption, SHI has changed its business segmentation from the period under review. Past figures are presented pro forma based on the new segmentation.
3. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) = Operating income + Depreciation and amortization
4. Free cash flows = Cash flows from operating activities + Cash flows from investing activities

Net Sales

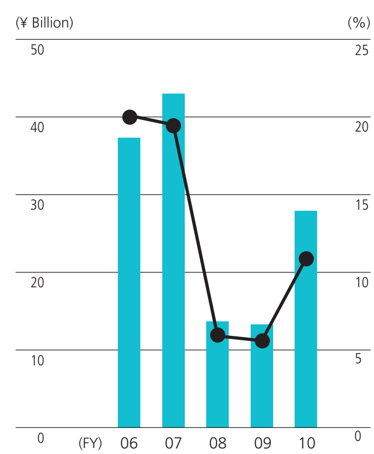


Operating Income and Operating Income Margin



Operating Income (Left scale)
Operating Income Margin (Right scale)

Net Income and ROE

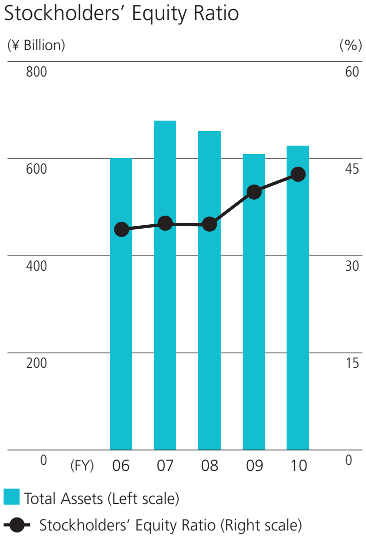


Net Income (Left scale)
ROE (Right scale)

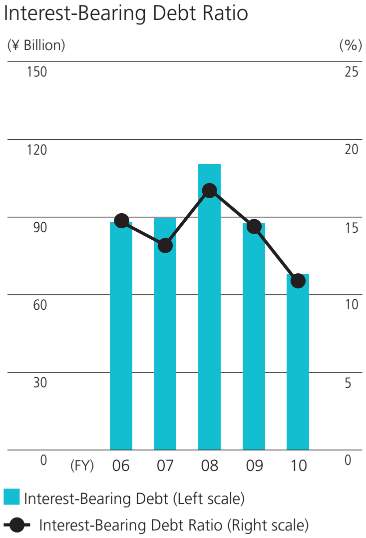
	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2006	FY2007	FY2008	FY2009	FY2010	FY2010
Financial Position (at year-end):						
Total assets	¥600,890	¥678,634	¥657,436	¥610,087	¥626,829	$7,552,160
Interest-bearing debt	88,045	89,567	110,339	87,660	67,833	817,271
Total net assets	206,010	246,371	238,697	254,153	269,380	3,245,537
Amounts per Share of Common Stock:	Yen					U.S. dollars (Note 1)
Net income (Note 5)	¥ 61.99	¥ 71.19	¥ 22.62	¥ 22.01	¥ 45.87	$0.55
Stockholders' equity	338.95	392.80	378.78	404.73	435.10	5.24
Cash dividends	7.00	10.00	6.00	4.00	8.00	0.10
Share Data:	Yen					U.S. dollars (Note 1)
Stock price at year-end	¥1,174	¥644	¥325	¥563	¥543	$6.54
	Millions of yen					Thousands of U.S. dollars (Note 1)
Market value	¥708,972	¥388,707	¥196,127	¥339,720	¥333,622	$4,019,543
Financial Indexes:	%					
ROIC (Note 6)	12.2	14.0	9.6	4.8	7.8	
Operating income margin	10.7	11.8	8.9	5.5	8.4	
EBITDA margin	12.5	13.9	11.7	9.3	11.6	
Stockholders' equity ratio	34.1	34.9	34.8	40.0	42.6	
ROA (Return on assets)	6.3	6.7	2.0	2.1	4.5	
ROE (Return on equity)	20.1	19.5	5.9	5.6	10.9	
Interest-bearing debt ratio	14.7	13.2	16.8	14.4	10.8	
	Yen					
US$/Yen exchange rate (at year-end)	¥118	¥100	¥98	¥93	¥83	

Notes:
5. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.
6. ROIC (Return on Invested Capital) = $\frac{\text{(Operating income + Interest and dividends received) x 55\% (= 1- Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$

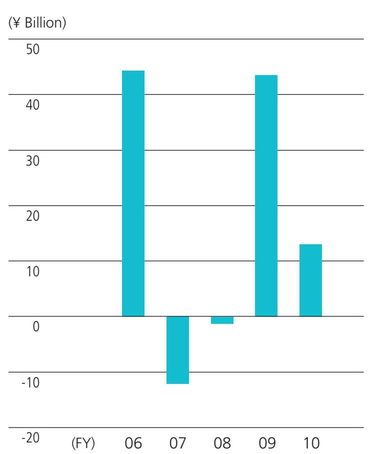
Total Assets and Stockholders' Equity Ratio



Interest-Bearing Debt and Interest-Bearing Debt Ratio



Free Cash Flows



We are Strengthening Our Competitive Advantages and Growing into a "Strong and Powerful SHI" Capable of Achieving Sustainable Growth.

During fiscal 2010, ended March 31, 2011, the Japanese economy witnessed signs of recovery supported by economic growth in emerging countries. Nevertheless, severe conditions persisted, exacerbated by such factors as the rapid appreciation of the yen. In contrast, overall conditions overseas remained on a path toward recovery. China and other emerging countries continued to enjoy steady economic expansion, and the United States and other developed countries in Europe and other regions sustained mild recovery throughout the period.

In such an environment, the SHI Group continued to implement cost reduction measures, including those aimed at improving its production efficiency. At the same time, the Group aggressively promoted business development overseas, especially in China and other emerging countries where economies are rapidly gaining momentum. As a result, in the reporting term, SHI posted results that were higher across the board than in fiscal 2009. In particular, the volume of orders received and operating income showed significant improvement. We were able to increase orders by accurately capturing demand in growth markets. We were also able to increase earnings by promoting cost reductions and structural reforms, which, in turn, enhanced profitability.

The SHI Group launched the previous "Global 21" medium-term management plan in fiscal 2008. Shortly after the launch of "Global 21," the world economy was shaken hard by the U.S. financial crisis and the resultant global recession, and the business environment remained difficult for some time. However, the SHI Group prioritized securing a satisfactory level of revenues and earnings through the agile implementation of the aforementioned reforms. Moreover, we shifted focus toward growth, striving to precisely grasp opportunities in areas where demand was recovering due to rapid economic growth in emerging countries. From the second half of fiscal 2009, SHI has seen a steady rise in performance. Unfortunately, the negative impact of the sluggish market conditions in the aftermath of the 2008 global recession kept the Group from meeting its "Global 21" targets in fiscal 2010, the final year of the plan.

Despite the temporary suspension of certain investment plans, we undertook growth-focused investments toward the end of the "Global 21" term. Through these investments, we worked to better prepare the ground for implementing the future strategies that will lead the Group into global growth, such as the establishment of new overseas production bases.

Then, in April 2011 we launched "Innovation 21," our new medium-term management plan. Extending over the next three years to March 31, 2014, "Innovation 21" upholds the principles of "Global 21"; therefore, the SHI Group will continue to promote growth strategies with an eye to securing success in the global arena. We will flexibly adjust to changes in the global market structure and strive to swiftly enhance our competitiveness in order to ensure that we grow into a "Strong and Powerful SHI," a company capable of achieving sustainable growth under any operating conditions. To overcome the various management issues we are facing today and realize business breakthroughs, innovation is a must. Innovation will empower us to bring about drastic improvements in our corporate constitution for greater competitiveness. Therefore, the SHI Group will aggressively promote innovation in its products and business processes.

The SHI Group has always tried to contribute to the development of society through the provision of first-class products and services. This is our corporate mission. Winning the enduring confidence of customers worldwide is key to realizing sustainable growth and enhancing corporate value, and will, in turn, enable us to better meet the expectations of shareholders, customers and employees as well as the local communities in which we operate.

As we endeavor to develop into a "Strong and Powerful SHI," we thank all shareholders, customers and employees for their understanding and support.

Yoshio Hinoh
Chairman

Yoshinobu Nakamura
President and CEO

Left:
Yoshio Hinoh
Chairman

Right:
Yoshinobu Nakamura
President and CEO

Review of the “Global 21” Medium-Term Management Plan

(Plan Period: April 1, 2008 to March 31, 2011)

Keywords for Growth and Specific Initiatives

The SHI Group launched the “Global 21” three-year plan in fiscal 2008. Under this plan, we have worked hard to grow in the global market and take a leap forward toward making SHI a world-leading brand. During the term of the plan, the domestic market continued to mature, while the ongoing rapid market expansion in China and other emerging countries provided many business opportunities. In this environment, the quick establishment of the Group’s competitive advantages in the global market became a priority issue.

The SHI Group abided by its keywords for growth—namely, “globalization” and “innovation”—under “Global 21,” implementing initiatives aimed at securing continuous expansion. Specifically, we worked to create first-class products and services that are competitive on the global level while using these products and services to selectively target overseas markets.

We also established and adhered to three-year investment policies aimed at ensuring growth on a global scale. These policies included facility investments totaling ¥100.0 billion and R&D investments totaling ¥50.0 billion. Based on these policies, we promoted investments in global business network expansion and the creation of first-class, competitive products and services.

Financial Performance

For fiscal 2010, the final year of “Global 21,” SHI set the targets of achieving net sales totaling ¥850.0 billion and operating income totaling ¥100.0 billion. Unfortunately, due to the global recession during much of the plan’s period, the SHI Group was unable to meet these targets. As the recession eased, operating conditions remained severe, and the entire Group strove to reduce fixed and other costs while promoting business restructuring, prioritizing certain operations to secure a viable level of profitability. Simultaneously, by accurately capturing business opportunities that arose along with the rising demand accompanying rapid economic development in China and other emerging countries, we were able to shift back into expansion mode.

Review of “Global 21”

- The SHI Group promoted business restructuring to overcome the global recession and return to a recovery course while undertaking investments in line with its investment policies.

	“Global 21”	Result
Fiscal 2010 targets	• Net sales of ¥850.0 billion • Operating income of ¥100.0 billion • ROIC* of 10% or more	Despite the impact of the global recession, the SHI Group embarked on a recovery course through business restructuring.
Keywords for growth	• Globalization • Innovation	Globalization progressed remarkably. The SHI Group will concentrate on innovation from fiscal 2011 onward.
Three-year investment policies	• Facility investments totaling ¥100.0 billion • R&D investments totaling ¥50.0 billion	The SHI Group carried out growth-focused investments while prioritizing financial soundness.

The SHI Group Performance in Fiscal 2010 (Final Year of “Global 21”)

- Although the Group was unable to achieve its net sales and operating income targets, it embarked on a recovery course.

	Target	Result
Orders received	—	¥534.9 billion
Net sales	¥850.0 billion	¥548.0 billion
Operating income	¥100.0 billion	¥45.8 billion
ROIC	10% or more	7.8%

Total Investments over the “Global 21” Period (Fiscal 2008 to Fiscal 2010)

- The SHI Group carried out facility investments to expand its overseas production network. The Group undertook M&A to enhance operations in Machinery Components and Precision Machinery while implementing R&D investments to create first-class products and services. Three-year investments totaled approximately ¥130.0 billion.

	Plan	Result
Facility investments	¥100.0 billion	¥70.6 billion
R&D investments	¥50.0 billion	¥31.1 billion
M&A	—	¥26.8 billion
Total	¥150.0 billion	¥128.5 billion

* Return on invested capital

This strategic shift proved effective, enabling the Group to embark on a course of recovery in the second half of fiscal 2009.

With the easing of the global recession, SHI placed priority on ensuring financial soundness and, accordingly, slowed down investments temporarily. However, once it had been confirmed that economic recovery centered on emerging countries was under way, we resumed growth-focused investments and laid out steppingstones on the path toward achieving global growth.

Steppingstones for Future Global Growth

In addition to creating first-class competitive products and services, the SHI Group promoted the "Global 21" plan to strengthen its sales network and marketing activities, reinforce its production network and bolster its global supply chain. Meanwhile, the Group undertook M&A activities aimed at generating synergies that enhance the efficiency and profitability of its established businesses. The following illustrates major projects undertaken by the Group under "Global 21."

• **Construction of a New Hydraulic Excavator Plant in Indonesia**

In May 2010, the SHI Group decided to construct a new hydraulic excavator plant in Indonesia. The total investment is estimated at around ¥2.3 billion, and the planned initial capacity is set at 1,000 units a year. The new plant is scheduled to begin operations in September 2011. This Indonesian plant will be the Group's third hydraulic excavator production and supply base after the Chiba Works in Japan and the Tangshan Plant in China. Indonesia is the largest market in Southeast Asia, accounting for the majority of construction machinery demand in the region. Supported by increasing demand for natural resources and the quickening pace of social infrastructure development, the country is expected to show an even greater rise in construction machinery demand. Along with the Indonesian plant, we have decided to establish a local sales and servicing subsidiary. Through these business bases, we aim to expand our construction machinery business in the entire Southeast Asian market.

• **Construction of a New Gearbox Manufacturing Plant in Brazil**

In May 2010, the SHI Group decided to build a new plant in Brazil for the production of medium- and large-sized gearboxes. The Group will invest approximately ¥5.2 billion and plans to commence operations at this new plant by the end of 2011. The gearboxes to be manufactured at this new plant have various applications, such as in cranes, cement and coal mills, power generation systems and elevators. Infrastructure investments are anticipated to further accelerate in Brazil due to increased demand for iron ore and other natural resources as well as because of preparations in anticipation of the 2014 FIFA World Cup Brazil and the 2016 Summer Olympics. To maintain stable supplies and increase sales of its products, the SHI Group plans to establish a local subsidiary, thereby expanding its business in Brazil and South America.

• **Expansion of the Tangshan Plant to Increase Gearbox and Hydraulic Excavator Output**

In August 2010, the SHI Group decided to invest about ¥10.0 billion to more than double the production capacity of its Tangshan Plant, which manufactures gearboxes and hydraulic excavators. The Tangshan Plant commenced production in 2009 and has steadily expanded its operations since. Falling into the category of medium- and large-sized gearboxes, these products are used in a wide range of industrial machinery for mining and steelmaking and in a variety of infrastructure facilities for water treatment and other purposes. Markets for such machinery and facilities are slated to expand further. Regarding hydraulic excavators, robust demand in China has caused supply to constantly fall short, and such short supplies are expected to prevail over the medium term. In response, the SHI Group resolved to enhance capacity. Backed by the expansion of the Tangshan Plant, the Group will step up sales in China—a country with strong potential for additional growth—and otherwise develop its Chinese operations further.

• **Acquisition of Belgium-Based Hansen Industrial Transmissions NV**

In March 2011, SHI acquired equity in Belgium-based Hansen Industrial Transmissions NV (HIT), making the company a wholly owned subsidiary. Total acquisition costs amounted to approximately ¥10.0 billion.

The SHI Group has continued to strengthen its speed reducer business, one of its core businesses. With speed reducer demand expected to increase along with stable economic growth in emerging countries, the market for industrial gearboxes is anticipated to expand, buoyed by robust capital investments in China, South America, South Africa, Australia, India and other resource-rich countries. With its production base near Antwerp serving as its center of operations, HIT operates six assembly bases worldwide. Through these bases, HIT boasts powerful sales channels not only in Europe but also in South Africa and Australia, both of which are major resource-producing countries boasting markets with significant growth potential. SHI has received gearbox-related technological support from Hansen Transmissions International NV—the former parent company of HIT—since 1973. Building on this relationship, we expect to quickly generate synergies by working with HIT in product development. Through this new subsidiary, SHI aims to expand its sales channels and increase sales of its industrial gearboxes in overseas markets.

"Innovation 21" New Medium-Term Management Plan

(Plan Period: April 1, 2011 to March 31, 2014)

Basic Policy

The SHI Group launched a new medium-term management plan, "Innovation 21" in April 2011. Under this new plan, the SHI Group aims to realize a "Strong and Powerful SHI." This "Strong and Powerful SHI" must be capable of sustaining growth by reinforcing its competitive advantages and flexibly adjusting to changes in operating conditions.

Under the previous "Global 21" plan, the SHI Group promoted various initiatives, such as structural reforms, growth-focused investments and aggressive product development. Through these activities, we have identified certain issues needing addressing, including the weak growth potential, poor profitability and stagnation of domestic operations. In response we formulated the "Innovation 21" plan, which is in line with the basic principles under the "Global 21" plan but places particular emphasis on solving the issues that have been identified in order to realize additional corporate growth. Through the promotion of "Innovation 21," the SHI Group will further expand its global network and build a strong corporate structure underpinned by product and process innovation.

Concerning quantitative targets for fiscal 2013, ending March 31, 2014, the SHI Group is aiming for net sales totaling ¥730.0 billion, operating income totaling ¥73.0 billion and return on invested capital (ROIC) of 10% or more. As a long-term target, the Group is working toward achieving ¥1 trillion in annual net sales. We have set out an investment policy that earmarks a total of ¥150.0 billion for use in facilities enhancement and R&D to secure future growth.

Strategies and Targets by Segment

In Machinery Components and Construction Machinery, the SHI Group will leverage its global business network to selectively target emerging countries and expand sales. In Precision Machinery, the Group will work to expand its scope of operations particularly in medical equipment and other cutting-edge fields. In heavy machinery and environmental facilities and plants, the Group will concentrate on its fields of expertise while expanding the global operations of certain businesses.

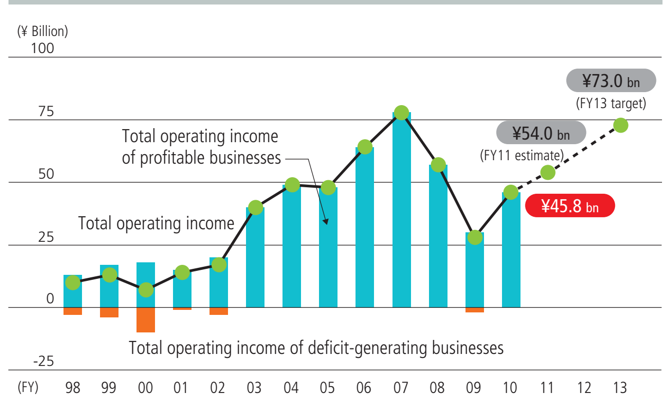
Specific "Innovation 21" Initiatives

To achieve the quantitative targets of the "Innovation 21" plan, the SHI Group must establish a strong corporate structure

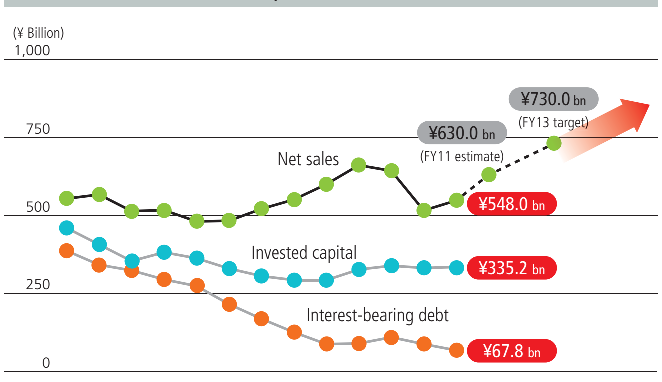
Outline of "Innovation 21"

Financial targets (for Fiscal 2013)	Net sales	¥730.0 billion
	Operating income	¥73.0 billion
	ROIC	10% or more
Corporate concept	"Strong and Powerful SHI" Redesign the Group's competitive corporate structure and establish superiority to work towards sustained growth and an improved earning capacity	
Keywords for growth	"Globalization" and "Innovation"	
Investment policy	¥150.0 billion over three years	
Long-term target	Achieve net sales totaling ¥1 trillion	

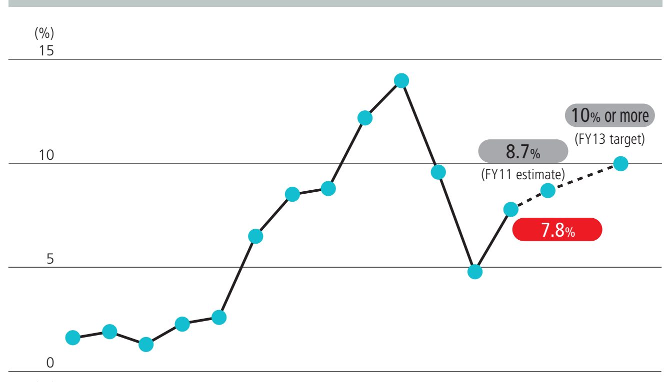
Operating Income



Net Sales and Invested Capital



ROIC



underpinned by product and process innovation. Accordingly, the SHI Group will implement the following initiatives to expand its global network and realize product and process innovation.

1. Enhancing and Effectively Employing the Global Network

SHI will continue to enhance its global network of manufacturing, sales and service bases, recognizing that this is essential to the Group's further growth. Under "Global 21," the SHI Group concentrated on strengthening its production bases in emerging countries. Also, we focused on establishing bases to facilitate our global expansion, such as the acquisition of HIT in Belgium. Through "Innovation 21," we will work to bolster these new overseas bases' functions while promoting both their autonomy and collaboration with each other. In addition, SHI plans to set up regional headquarters throughout the world and develop a structure for local operations to enable speedier management that more flexibly reflects real-time conditions in each region and market.

2. Promotion of Product Innovation

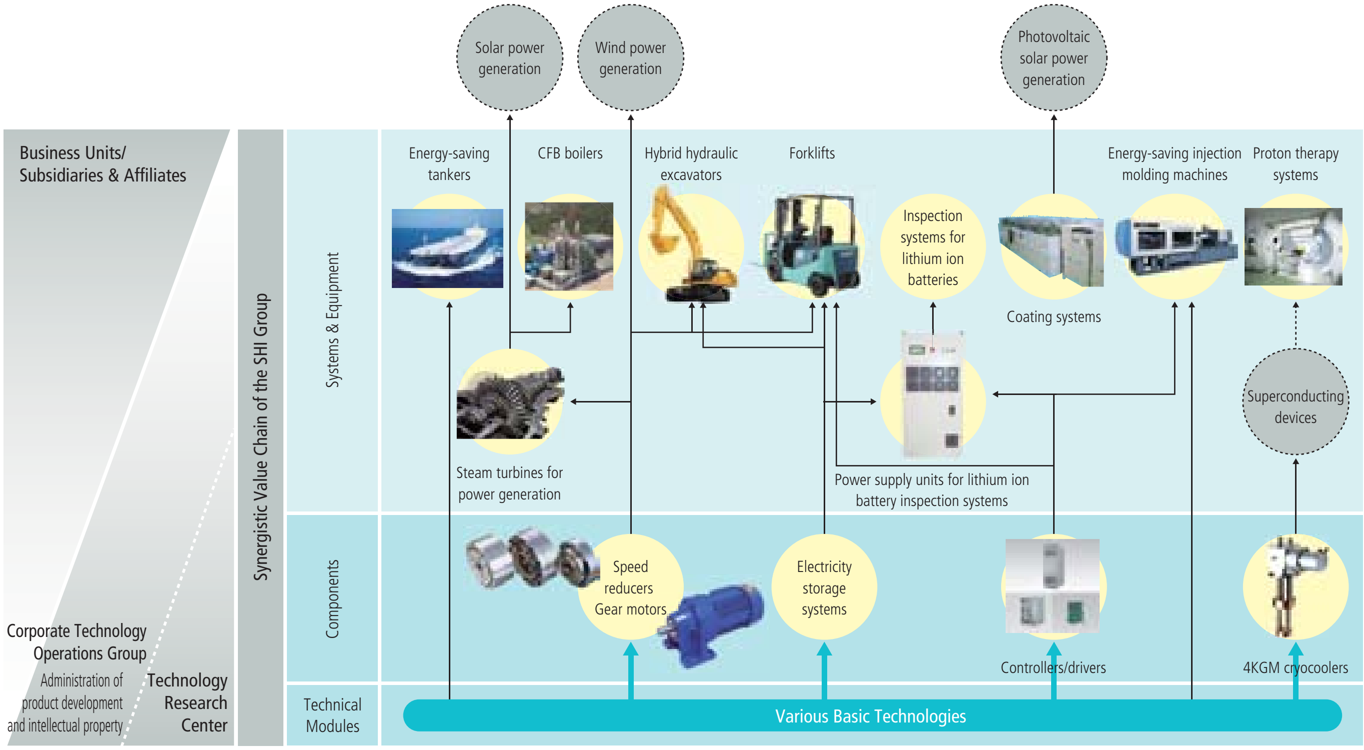
SHI will strengthen collaborative product development among the Corporate Technology Operations Group and business units, thereby ensuring the consistent delivery of first-class products and services to the market. Through the launch of competitive, innovative products in priority markets, the SHI Group aims to accelerate its sustainable growth and improve its earnings power on a global scale. Our Corporate Technology Operations Group will channel the constituent and fundamental technologies it develops into the development of components, equipment and systems. Moreover, it will incorporate those technologies into SHI Group products. In this way, SHI will speed up the development of innovative products.

3. Promotion of Process Innovation

Mainly in Japan, the SHI Group has introduced process innovation to enhance its business execution capabilities in development, design, manufacturing, sales, services and other areas. A major example of this is the Toyota Production System, which we implemented in our tanker building processes in the shipbuilding business, resulting in the halving of our lead times. Looking ahead, SHI plans to introduce similar process innovation and other expertise to Group companies on a global scale.

Product Innovation

- Strengthen collaborative product development among the Corporate Technology Operations Group and business units and thereby consistently deliver first-class products and services to the market
- Increase the value of equipment and systems through the use of innovative components and technical modules



Interview with the President

"Innovation 21" New Medium-Term Management Plan

Q The SHI Group announced the launch of "Innovation 21" in May 2011. Can you give us an overview of this new medium-term management plan?

A Our keywords for growth—"globalization" and "innovation"—remain in effect. By swiftly establishing our competitive advantages, we aim to grow into a "Strong and Powerful SHI" to achieve sustainable growth.

Under "Innovation 21," the SHI Group is pursuing operations that are in line with these keywords, which we adhered to under "Global 21." In other words, we will further accelerate the expansion of our global business network while implementing innovation-focused initiatives to establish a truly strong and powerful corporate structure.

During the "Global 21" period, the worldwide recession triggered a deterioration in market conditions. To overcome the severe operating conditions, the SHI Group promoted cost reductions and structural reforms. At the same time, by tapping demand expansion in emerging countries and other growth markets, we managed to turn around our performance, which once again embarked on an upward trend. In the course of our business endeavors, however, we started to see new issues arising. For example, although we are fully aware that we must strengthen our focus on certain promising markets, a number of businesses do not have the level of growth potential and profitability required to sustain expansion in a global market where emerging countries continue to gain greater presence. So, under "Innovation 21," the SHI Group will solve these issues, bolster its global competitiveness and thereby become a "Strong and Powerful SHI" capable of meeting any operating conditions and realizing sustainable growth.

To gain the strengths required in these efforts, the SHI Group must take a radically innovative approach as it redesigns the Group's corporate structure to ensure competitiveness. To steer all Group companies along the same vector as it undertakes these efforts, the Group has established a corporate slogan "Innovation of Half and Double." In line with this slogan, we will push ahead with initiatives on different scales and based on concepts other than those previously implemented.

Q Could you describe the future operating conditions that were assumed for the formulation of "Innovation 21"?

A We expect to see the continuation of robust economic growth in emerging countries.

We have set our performance targets for the final year of "Innovation 21," fiscal 2013, ending March 31, 2014. Specifically, we are targeting net sales totaling ¥730.0 billion and operating income totaling ¥73.0 billion. Of the net sales amount, we plan to post overseas sales totaling around ¥470.0 billion for an overseas sales ratio of 64%. Compared with the 51% recorded in fiscal 2010, the figure will represent a major shift when realized, and we will work to bring this shift about over the next three years.

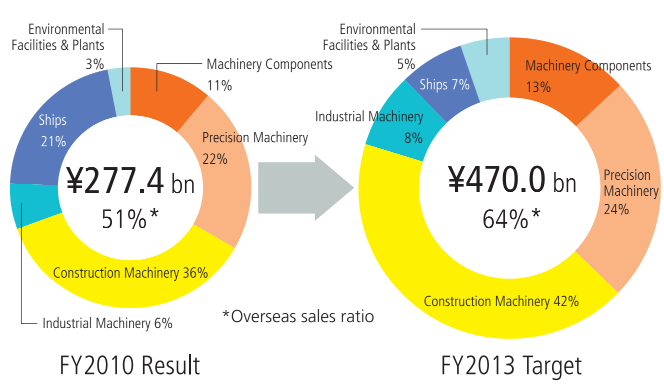
Looking at the global economy, the robust economic expansion in China and other emerging countries are expected to persist, while it is anticipated that market conditions will recover in the United States and developed countries in Europe and other regions. By capturing demand in overseas growth markets, we aim to meet our targets.

Q With regard to "globalization" and "innovation," has SHI defined which priority regions or businesses it will promote?

A We will accelerate our operations in Machinery Components, Construction Machinery and Precision Machinery.

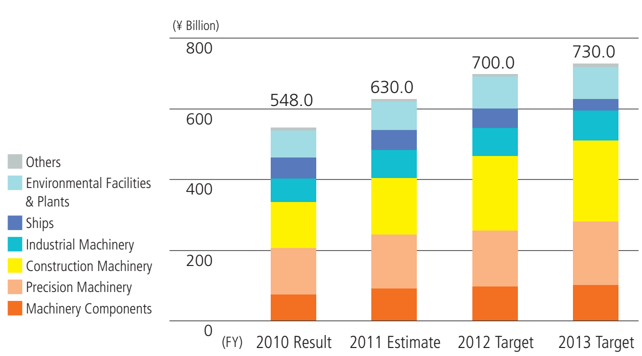
In Machinery Components and Construction Machinery—segments falling into the category of mass-produced machinery—the SHI Group will strive to expand its operations, particularly in emerging countries. As part of efforts to realize global expansion

Overseas Sales

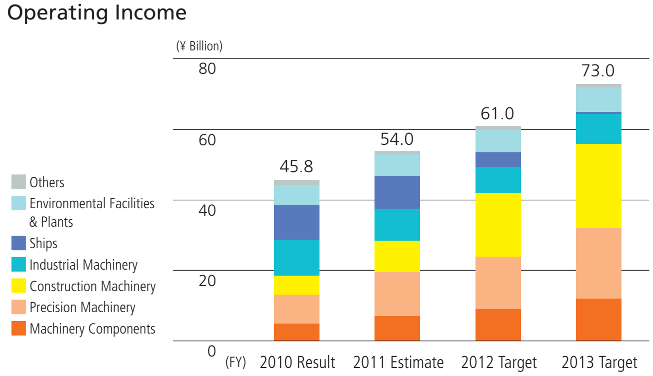


Net Sales and Operating Income by Segment

Net Sales



Operating Income



under the three-year "Global 21" plan, the SHI Group has directed investments toward strengthening production facilities in these segments. In 2009, the Group established the new Tangshan Plant in China for the manufacture of gearboxes and hydraulic excavators. The Tangshan Plant has promoted steady production since then. In 2010, we began constructing a new hydraulic excavator plant in Indonesia and a new gearbox manufacturing plant in Brazil. These new facilities are scheduled to launch operations by the end of 2011. By increasing local production, we intend to expand our share of demand for these products, which are being increasingly sought after along with the acceleration of investments in social infrastructure and natural resource development in emerging countries.

In Precision Machinery, the medical equipment field is likely to see continued stable expansion, both in developed and emerging countries. Accordingly, the SHI Group will work to expand sales of its cyclotrons for positron emission tomography (PET) and proton therapy systems in markets worldwide.

Q How will you manage SHI's global business network?

A We will establish a system for regional management.

During the "Global 21" period, the SHI Group established new production and sales bases throughout the world. From this point forward, we intend to strengthen collaboration among these bases while enhancing their operational functions to improve the efficiency of our global network as a whole. In addition, we plan to introduce the concept of regional management to enable the more effectively control of Group operations in each region. Until now, Group operations overseas had relied heavily on the authority of our headquarters in Japan, where responsibility had been concentrated. We will shift away from this system and move toward a decentralized management system under which each regional headquarters is delegated authority and responsibility for regional operations. This approach will enable speedier responses to changes in markets. We have already established regional headquarters in the United States and China. Looking ahead, we plan to introduce the same system in Indonesia and Brazil.

Q Can you explain SHI's investment and financial policies for the next three years?

A To ensure further corporate growth, we will invest a total of ¥150.0 billion through the "Innovation 21" period.

Under our new management plan, we plan to make growth-focused investments totaling ¥150.0 billion, including in facilities, R&D and M&A. The SHI Group invested a total of ¥128.5 billion under the "Global 21" plan. So, our pace of investment will accelerate under the new plan. While strictly maintaining financial discipline, we will invest aggressively to achieve growth.

Q We would like to hear your thoughts on future M&A activities.

A M&A must bring business growth. We will examine every opportunity from multiple perspectives, taking a comprehensive approach.

The potential of that an M&A has for generating synergies within the SHI Group is the yardstick we use when judging suitability. We can envision a number of scenarios where M&A could further the Group's growth. Some companies may boast valuable sales channels the Group has yet to tap and other companies may provide opportunities for the Group to become the industry leader through business integration. Therefore, we will examine every potential case carefully and thoroughly search for the best choices before implementing any M&A.

Outlook for Fiscal 2011

Q What is your outlook for fiscal 2011, the first year of "Innovation 21"?

A We forecast a steady performance supported by robust emerging countries.

For fiscal 2011, the SHI Group expects to record new orders totaling ¥620.0 billion, net sales totaling ¥630.0 billion and

(¥ Billion, unless otherwise stated)

Fiscal 2011 Performance Forecasts

	FY11 1H (Forecast)	FY11 2H (Forecast)	FY11 (Forecast)	FY10
Orders	290.0	330.0	620.0	534.9
Net sales	294.0	336.0	630.0	548.0
Operating income	18.5	35.5	54.0	45.8
Operating income margin (%)	6.3%	10.6%	8.6%	8.4%
Ordinary income	16.5	34.0	50.5	44.2
Ordinary income margin (%)	5.6%	10.1%	8.0%	8.1%
Extraordinary gains or losses	—	—	—	0.9
Net income	9.0	21.0	30.0	27.9
Profit margin (%)	3.1%	6.3%	4.8%	5.1%
Dividends (¥)	4	6	10	8
Payout ratio (%)			20.5%	17.3%
ROIC (after tax) (%)			8.7%	7.8%
Exchange rate (¥ to US$1.00)			85	92

operating income totaling ¥54.0 billion. These forecasts are based on our assumption that emerging countries will continue to enjoy dynamic economic expansion and that developed countries will see continued recovery in market conditions. The volume of orders is expected to increase year on year across all segments. In particular, it is likely to expand significantly in the Machinery Components and Construction Machinery segments, buoyed by healthy market conditions in emerging countries. We anticipate that net sales and operating income will grow in line with the increase in the volume of orders, with both exceeding fiscal 2010 results. Thus, the Group's overall performance is likely to show a steady upward trend, backed by strong demand, particularly in the markets of emerging countries.

Returning Profits to Shareholders

Q

Finally, what is SHI's policy on distributing profits to shareholders? Also, can you explain cash dividends for fiscal 2010 and tell us SHI's dividend forecasts for the coming fiscal year?

A

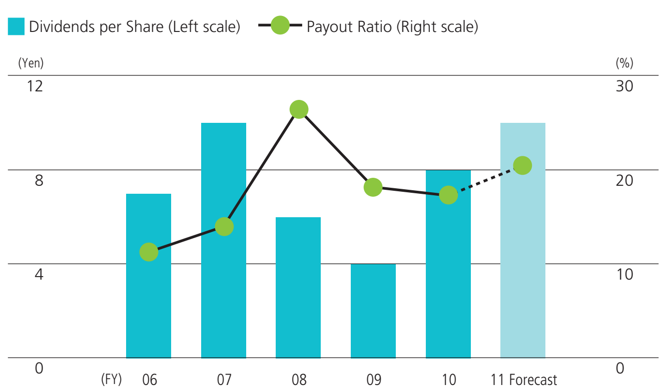
SHI adheres to a policy of paying performance-linked cash dividends for each period while working to constantly increase returns.

SHI pays out cash dividends based on its profits for each period and continually strives to increase shareholder return. The determination of actual dividend amounts takes into consideration the need to accumulate and maintain internal reserves at the level required to ensure future business development as well as various other factors.

For fiscal 2010, in line with this policy and reflecting the Group's performance, SHI declared an annual per-share cash dividend of ¥8, up ¥4 from fiscal 2009. For fiscal 2011, the Company plans to pay an annual per share cash dividend of ¥10, including an interim dividend of ¥4, the payment of which has been resumed from this year, reflecting its expectations for improved performance.

SHI will precisely implement new initiatives under the "Innovation 21" plan in order to achieve additional corporate growth and thereby maximize its corporate value. Through increases in profit distribution, the Company will continue to meet the expectations of its shareholders.

Dividends per Share and Payout Ratio



Capturing Growth Markets

Japan, the United States and developed countries in Europe have yet to achieve full-fledged recovery from economic stagnation. In contrast, China, India and certain other emerging countries are seeing sustained growth at a relatively faster pace. Reflecting this, the SHI Group's fiscal 2010 sales in Asia increased 41% from fiscal 2009. Also, the ratio of sales in Asia to consolidated net sales has risen to 24%. Accordingly, SHI views Asia—a market presenting significant potential for rapid expansion—as a strategic region capable of helping SHI achieve future growth. Based on this view, the Group is accelerating operations in this region.

In this special feature, we illustrate the activities and strategies that the SHI Group is currently promoting.

Sales in Asia

China

Enhancing the Tangshan Plant's Capacity

To bolster its business development in the booming Chinese market, the SHI Group began building a new plant in Tangshan City, Hebei Province, in December 2007. The Tangshan Plant launched the full-scale production of medium- and large-sized gearboxes and hydraulic excavators in June 2009. The plant has operated steadily since then, and in August 2010 the SHI Group decided to undertake additional facility investments aimed at more than doubling the plant's capacity by 2012 to further accelerate its operations in the promising Chinese market.

External view of Tangshan Plant

The SHI Group is promoting global operations in power transmission and control equipment, which is one of its core businesses. We have been producing small- and medium-sized gearboxes locally in Tianjin City for more than 10 years while steadily expanding this business in China. Gearboxes are used in the prime movers of a wide range of industrial machinery and are sold in a variety of markets, including for mining machinery, steelmaking machinery, chemical processing machinery, harbor cranes and power generation facilities.

In addition, the SHI Group's hydraulic excavators offer a number of features that are attracting a steadily increasing stream of repeat orders in China. Among the models on offer is one that became the first construction machine to win the Energy Conservation Grand Prize, which has been promoted mainly by the Ministry of Economy, Trade and Industry of Japan. Along with other models, this excavator demonstrates superior fuel efficiency and excellent operator-friendliness. Also driving the escalation in demand for hydraulic excavators is a chronic shortage due to the country's robust economic growth, which has meant that many hydraulic excavators are being used in general construction and mine development and supplies are being squeezed.

By bolstering its local production structure, the SHI Group aims to reduce costs and speed up the pace of hydraulic excavator production, thereby aggressively expanding its presence in the Chinese market.

Capturing Demand Associated with Environmental and Infrastructure Development

In step with its economic expansion, China is showing greater-than-ever demand for power generation facilities, water treatment facilities and other environment-friendly products and solutions. The SHI Group manufactures circulating fluidized-bed (CFB) boilers for use in private power generation. Because the Group's CFB boilers are compatible with low-grade coal, waste materials and biomass fuels, they help reduce fuel costs. Accordingly, these environment-friendly CFB boilers have drawn significant praise and won the Group steady orders.

In the meantime, calls are heightening for plants to implement environmental measures, including appropriate flue gas treatment. The SHI Group has established dry desulfurization technology that enables the water-free treatment of plants' gaseous byproducts. This technology provides the Group with an advantage, particularly in those regions of China where access to water is limited, and has won it a number of orders for its flue gas treatment facilities.


Dry activated carbon desulfurization and denitration facility

The SHI Group commands the top domestic share of the aerator market. To expand sales of aerators and other water treatment facilities in China, we plan to establish a sales base in the country to pursue strategic market penetration.

A New Investment Company Supporting the Group's Expansion in China

In January 2011, SHI established an investment company in China. Given the rapid growth in the Chinese market, it is expected that local Group companies will need funds for facility and other investments. Through this investment company, SHI will form a framework to provide support for the funding activities of its local arms. Also, the investment company will work to balance the levels of capital held by Group companies in China—totaling 16 at present—thereby promoting the centralized management of the Group's capital resources in the country.

In August 2010, SHI established an area management company in China. This company is working to build frameworks that will reinforce the management of and speed up decision making by the Group's Chinese operations. In cooperation with the investment company, the area management company will strongly drive the Group's business development in the country.

Indonesia


Groundbreaking ceremony of a new hydraulic excavator plant in Indonesia (October 2010)

Constructing a New Hydraulic Excavator Plant

In May 2010, the SHI Group decided to construct a new hydraulic excavator plant in Indonesia. Shortly thereafter, we acquired land and began construction work. The new plant is scheduled to start operations in September 2011, and the initial annual capacity is planned at 1,000 units. Indonesia is the largest market for construction machinery in Southeast Asia, commanding approximately half of the total demand in the region. Target industries include mining and forestry. Along with this production base, the SHI Group plans to form a new local company to promote sales and service operations. Through these Indonesian bases, we aim to expand our construction machinery operations throughout Southeast Asia.

Establishing Regional Headquarters in Indonesia

In December 2010, SHI established a new regional headquarters in Indonesia. Boasting a population totaling approximately 200 million, Indonesia is expected to develop further as a central market in Southeast Asia as global demand for natural resources expands and the country's social infrastructure development accelerates. The SHI Group is already operating

Indonesian sales and service bases for plastic injection molding machines and construction machinery. In 2011, we will open a new plant and sales company for hydraulic excavators. With an eye to penetrating other markets in the country in other business areas, the SHI Group is striving to boost its share of the Indonesian market. To this end, the Group is building a business support structure—including accounting and procurement functions—that will enable it to leverage its collective strengths and develop business efficiently.

India

Steam turbine

Strengthening the Steam Turbines for Biomass Power Generation Business

India is the second largest sugar producer in the world. Bagasse, the sugarcane refuse left over after sugar production, is used in a biomass fuel for private power generation. Such private power generation facilities are widely used not only in India but also in other warm locales, such as Southeast Asia, South and Central America and Australia. The SHI Group took notice of the potential of biomass power generation from early on and has steadily built a track record by delivering steam turbines for private biomass power generation to markets worldwide. More specifically, since 1970, we have delivered more than 6,500 units to 82 countries in Asia, Africa, the Middle and Near East, North and South America and other regions. One of these steam turbines, delivered to a sugar factory in India, has earned a high evaluation for its superior performance and quality. In addition to the sugar processing market, the SHI Group is currently working to penetrate the GTCC* market with its steam turbines. At the same time, we are striving to expand sales of our steam turbines in Thailand, Indonesia and other Asian countries.

* Gas turbine combined cycle. GTCC power generation uses the combination of gas and steam turbines to improve generation efficiency.

Thailand

CFB boiler

Opening a Regional Office to Promote Energy-Related and Environmental Businesses

In June 2010, the SHI Group opened a regional office in Bangkok, Thailand, that began tracking market trends in preparation for expanding sales of CFB boilers. As biomass-based

Capturing Growth Markets

fuels can be used in CFB boilers, the units help prevent the further advance of global warming. Because of this feature, demand for these boilers is steadily increasing in recent years. Also, in February 2010, the SHI Group received an order from a major power producer in Singapore for a CFB boiler, which is in the world's largest class of biomass fuel-compatible boilers. This boiler is designed to burn fuels that combine tropical biomass* with coal. Southeast Asia is a warehouse for such biomass resources as palm shells and oil palm empty fruit bunch (OPEFB) that traditionally have been thrown away. Our Thai regional office will promote market investigation targeting power generation facilities using these resources and accelerate activities to expand sales of CFB boilers in Indonesia, Vietnam, the Philippines and other Southeast Asian countries.

* A collective term referring to a variety of plant waste, such as palm shells, OPEFB, coconut shells and plant chaff. The CFB boiler to be delivered to Singapore burns fuels that combine palm shells with coal.

Vietnam

External view of motor plant (Hanoi, Vietnam)

Motor for speed reducers

Boosting Motor Manufacturing Plant Capacity

The SHI Group launched operations at its motor manufacturing plant in Hanoi, Vietnam, in 2006. In 2008, the Group completed the extension of this plant to boost production capacity. The motors manufactured at the plant are exclusively designed for use in speed reducers, one of SHI's core businesses. The SHI Group has established a comprehensive production process for these motors that covers everything from material procurement to assembly and inspection. The plant boasts a monthly production capacity of approximately 50,000 motors, which are supplied to the SHI Group's speed reducer assembly plants throughout the world. The concentration of motor production in Vietnam has enabled the Group to reduce costs, while comprehensive in-house production has allowed it to better control the quality of its motors. This highly effective business model has ensured that our motors—as core components of speed reducers—are underpinning the global development of our speed reducer business.

Tapping the Rapidly Industrializing Vietnam Market

Vietnam is accelerating its shift from an agricultural to an industrialized country. The nation's GDP growth rate has been steady over the past several years, and the country is expected to enjoy sustained economic expansion that is likely to attract foreign companies wanting to make large-scale investments in new plants. By the same token, the expansion is likely to be accompanied by increasing demand for industrial products as social infrastructure develops. Through its sales bases, the SHI Group is working to cultivate the Vietnamese market for the gearbox and injection molding machine businesses. Looking forward, the SHI Group aims to investigate and identify opportunities to expand other businesses in Vietnam.

Machinery Components

Main Products

Power Transmission and Control Equipment

Inverters

Major Units

SEISA Gear, Ltd.

Sumitomo Heavy Industries PTC Sales Co., Ltd.

Sumitomo Machinery Corporation of America

Sumitomo (SHI) Cyclo Drive Germany GmbH

Sumitomo Heavy Industries (Tangshan), Ltd.

Hansen Industrial Transmissions NV

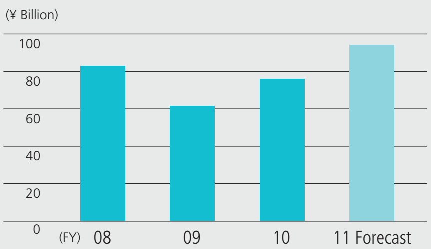
Sumitomo Industrias Pesadas Do Brasil Ltda.

Fiscal 2010 Segment Results

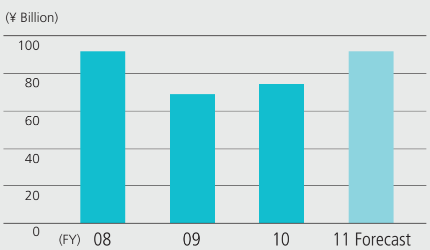
Market recovery was clearly seen in China and other emerging nations. Also, demand for components for use in factory automation equipment, such as machine tools and industrial robots, was robust, enabling us to expand both orders and sales in this segment.

As a result, total segment orders increased 23% year on year to ¥75.8 billion, and total segment sales rose 8% to ¥74.6 billion. Segment operating income soared 466% to ¥4.9 billion.

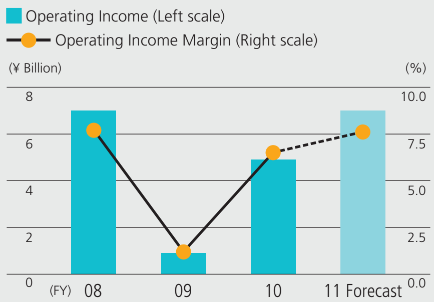
Orders



Sales



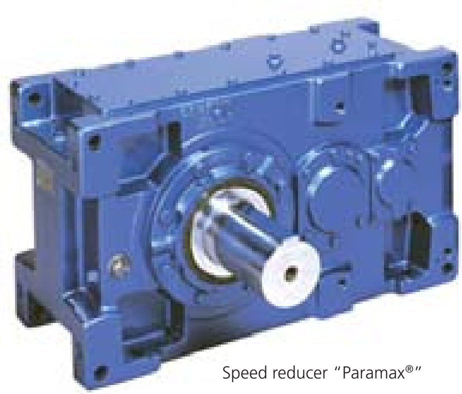
Operating Income



Power Transmission and Control Equipment

Market Environment

The SHI Group provides power transmission and control equipment as well as inverters to many customers in a variety of industries. Impacted by the Great East Japan Earthquake, the Japanese economy will require a certain period of time until it experiences recovery in market conditions. In contrast, overseas markets for our products continue to show robust trends toward economic recovery, driven by strong exports to emerging countries. Thus, markets outside Japan are expected to see steady turnover.



Speed reducer "Paramax®"

Fiscal 2010 Review and Topics

Amid rapid market recovery from the beginning of fiscal 2010, the SHI Group conducted aggressive marketing activities worldwide. During the period under review, SHI released a larger model in the Bevel BUDDYBOX® series of right-angle-shaft gear motors with built-in CYCLO® speed reducers. Also, we launched speed reducers with highly efficient motors that comply with the standards set by the International Electrotechnical Commission (IEC) and other motor efficiency-related standards and regulations in various countries. In March 2011, SHI acquired equity in Belgium-based Hansen Industrial Transmissions NV (HIT), turning that company into a wholly owned subsidiary.

Fiscal 2011 Strategies and Initiatives

Steady demand expansion is anticipated, particularly in emerging countries. The SHI Group plans to begin operations of its new Brazil plant in September 2011 and to step up efforts to expand sales in the wider South American market. Moreover, we will extend our sales channels through cooperation with HIT, thereby increasing global sales of our industrial gearboxes. In Japan, we will fulfill our social responsibility by accommodating all repair and replacement requests that we receive from customers affected by the disaster.

Precision Machinery

Main Products

Plastic Injection Molding Machines
Cyclotrons for Medical Use
Ion Accelerators
Plasma Coating System for FPDs (Flat Panel Displays)
Laser Processing Systems
Cryogenic Equipment
XY Stages
Transfer Molding Press Machines
Precision Forgings
Defense Equipment

Major Units

Sumitomo Heavy Industries Mechatronics, Ltd.
SEN Corporation
Sumiju Examination & Inspection, Ltd.
SHI Plastics Machinery, Inc. of America
Sumitomo (SHI) Demag Plastics Machinery GmbH
Sumitomo (SHI) Cryogenics of America, Inc.

Plastics Machinery

Market Environment

Conditions are strong in overseas markets, particularly in China, Southeast Asia and South Asia and are slated to remain robust in China and most regions of Asia, supported mainly by growing demand for such IT-related equipment as smartphones and tablet PCs. Consequently, industry players are expected to maintain their aggressive stance toward capital investment. On the other hand, with no major movements in sight, the Japanese market is anticipated to show trends on par with the period under review.

Fiscal 2010 Review and Topics

In Asia, centered on China, the SHI Group's products—particularly those used for IT-related equipment—enjoyed brisk performances. With the aim of creating value for customers in a wider range of markets, SHI upgraded its products, including the flagship SE-DUZ series of full-electric injection molding machines. More specifically, for these products, we added functions to our new-concept "Zero-molding®" system and our new-theory plasticization system. The Zero-molding® system realizes innovative molding processes using less clamp force than conventional injection molding systems thanks to its optimized filling and mold-clamping functions.

Fiscal 2011 Strategies and Initiatives

Building on its full-electric injection molding machines, SHI will enhance the functionality of its products while strengthening its lineups tailored to the needs of customers in various end-product categories. Also, in cooperation with Germany-based Demag Plastics Group, which we acquired in 2008, we will accelerate business development worldwide, especially in Europe and Asia. SHI will bolster its product competitiveness and marketing capabilities through these activities, thereby becoming the world-leading plastics machinery manufacturer.

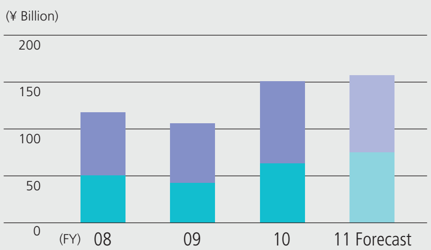
Full-electric injection molding machine "SE75DUZ"

Fiscal 2010 Segment Results

In plastics machinery, recovery in the East Asian market centered on China enabled the SHI Group to expand orders and sales. In other businesses in this segment, medical equipment gave a strong performance and semiconductor and electronic production equipment showed recovery. The upturns yielded an overall expansion in segment orders and sales. As a result, total segment orders surged 42% year on year to ¥150.5 billion, and total segment sales jumped 25% to ¥131.9 billion. Segment operating income totaled ¥8.3 billion, a turnaround from the loss of ¥2.6 billion posted in fiscal 2009.

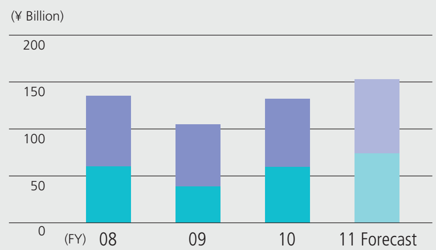
Orders

Plastics Machinery ■ Precision Equipment and Others



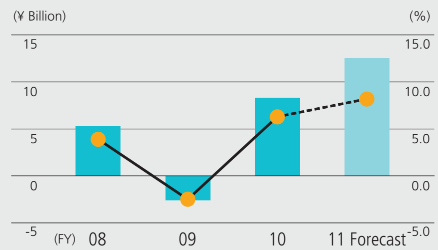
Sales

Plastics Machinery ■ Precision Equipment and Others



Operating Income

Operating Income (Left scale)
Operating Income Margin (Right scale)



Vertically arranged compact proton therapy system

Rotating gantry irradiation system

Precision Equipment and Others

Market Environment

Overall market conditions are on a recovery course. In semiconductor- and electronics-related equipment, markets for cell phones and PCs are showing recovery trends, and the Asian market is presenting particular strengths. In medical equipment, SHI provides systems and services, primarily in the market for cancer diagnosis and treatment equipment. As maintaining quality of life (QOL) is gradually becoming an important consideration,* the performance of our medical equipment is rapidly improving. In fiscal 2011, official launches of several potential projects are anticipated.

* In the world of medicine, it is becoming ever more important to respect patients' values and improve their quality of life during and after medical procedures. SHI's advanced medical equipment—the proton therapy system, for example—eliminates the need for invasive surgical procedures, enabling the treatment of patients without hospitalization.

Fiscal 2010 Review and Topics

During the period under review, SHI received an order for a proton therapy system from a hospital in Japan. This is the world's first proton therapy system with the gantry treatment room and cyclotron accelerator in a vertical arrangement. This arrangement allows the facilities housing the proton therapy systems to be smaller and thus less expensive in total. With another order received in South Korea for our proton therapy system, our performance in the medical equipment field was strong. SHI's semiconductor- and electronics-related equipment performed robustly, particularly in markets related to smartphones.

Fiscal 2011 Strategies and Initiatives

The SHI Group will focus on the medical equipment and other robust fields while striving to increase the volume of orders received for products in these fields. To this end, we will bolster our sales and marketing structure overseas. In addition, we will work to cultivate new markets with particular emphasis placed on new energy fields presenting exceptional growth potential, including photovoltaic power generation and secondary cells.

As for semiconductor- and electronics-related equipment, market conditions are continuing to recover in China, Taiwan, South Korea and other Asian countries. To capitalize on such market trends, we will aggressively launch ion-implantation devices and other high-quality, high-precision products.

Construction Machinery

Main Products	Major Units
Hydraulic Excavators	Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Mobile Cranes	Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.
Road Machinery	Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.
	Link-Belt Construction Equipment Company, L.P., LLLP
	LBX Company, LLC

Hydraulic Excavators and Road Machinery

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

Market Environment

Demand for hydraulic excavators is expanding worldwide, buoyed by robust growth in China and other emerging countries and recovery in the markets of developed countries in North America and Europe. Demand is also expanding in Japan due to active investments made by rental businesses and the increasing use of excavators in such non-engineering fields as forestry and scrap metal. Overall, the hydraulic excavator market is showing healthy conditions worldwide.

Fiscal 2010 Review and Topics

Against a backdrop of global expansion in demand for hydraulic excavators, our Chiba Works went into full-fledged production during the period under review. In addition, the SHI Group further increased output at its Tangshan Plant in China, which entered its second year of operation. Based on these plants' expanded output, the SHI Group worked to capture demand in China, a country that has grown to become the world's largest market. Looking ahead, we have decided to further boost annual output at the Tangshan Plant to around 5,000 units. We have also decided to undertake large-scale investments aimed at constructing a plant and establishing a sales company in Indonesia. These Indonesian bases will be responsible for supplying SHI Group products across Southeast Asia. Meanwhile, SHI fully acquired LBX Company, LLC as part of its efforts to establish the structure required to lead operations strategically in the United States.

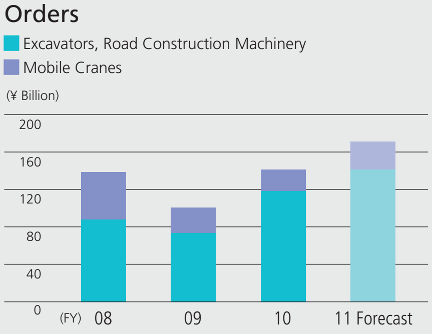
Fiscal 2011 Strategies and Initiatives

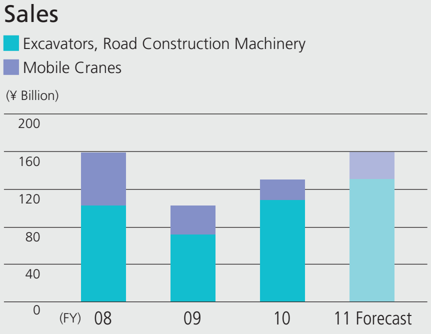
Supported by growth in emerging countries and recovery in developed countries, global demand is expected to expand further. With this tailwind, the SHI Group will accelerate the establishment of a global structure for production and marketing through, for example, the launch of the Indonesian plant. Regarding our product strategies, we will upgrade the safety functions of our excavators by incorporating a system that helps operators confirm ambient safety in operations. In road machinery, we will accelerate steps to introduce our asphalt pavers in overseas markets.

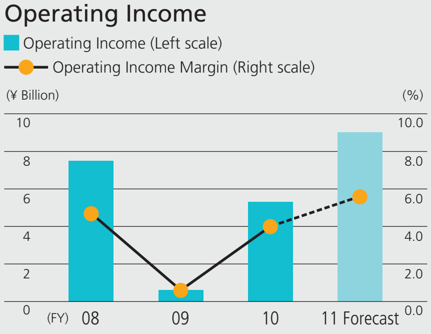
Hydraulic excavator "SH360"

Fiscal 2010 Segment Results

In hydraulic excavators, our operations steadily expanded in the booming Chinese market. In Europe and the United States, industry players are accelerating inventory adjustments, leading to a partial improvement in market conditions. Reflecting these positive developments, our hydraulic excavator orders and sales both increased year on year. In mobile construction cranes, our performance was weak, negatively affected by a lagging pace of recovery in the North American market. Accordingly, our orders and sales in this sector declined year on year. As a result, total segment orders leaped 41% to ¥141.2 billion, and total segment sales climbed 27% to ¥130.8 billion. Segment operating income skyrocketed 827% to ¥5.3 billion.







Mobile Cranes

Link-Belt Construction Equipment Company, L.P., LLLP

Market Environment

The North American crane market began to show signs of modest improvement in the fourth quarter of 2010 as dealers began to replenish inventories and rental fleets. The outlook for 2011 remains cautiously optimistic as new orders and order backlogs continue to increase. The Latin American market improved in 2010 and is projected to increase further in 2011, while the Near East markets still remain depressed.

Fiscal 2010 Review and Topics

Link-Belt Construction Equipment Company, L.P., LLLP ("Link-Belt") recorded a 24% decrease in sales in 2010 as a result of the global economic recession that began late in 2008 continuing to impact the demand for construction equipment. The North American mobile telescopic and crawler crane markets declined approximately 35% from 2009 levels, with all market segments declining. While the majority of international markets continued to decline, Link-Belt increased international sales in line with long-term strategic goals. Link-Belt continued strategic initiatives implemented in 2009 to align production volume with demand and reduce inventory while focusing on cost reduction activities to maximize profitability.

Link-Belt continued the Lean Sigma® initiatives and the development of new products to support future sales.

Fiscal 2011 Strategies and Initiatives

The North American crane markets have slowly begun to recover in certain segments. The order volume and backlog have shown steady improvement since the third quarter of 2010. Link-Belt strategies for 2011 will be focused on further expanding in international markets, minimizing the impact of inflationary pricing pressure, maintaining new product development timelines and continuing to support Lean Sigma® activities.

All terrain crane "ATC-3275"

Industrial Machinery

Main Products

Forging Machines

Material Handling Systems

Logistics & Handling Systems

Turbines

Pumps

Major Units

Sumitomo Heavy Industries Engineering and Services Co., Ltd.

Sumitomo Heavy Industries Techno-Fort Co., Ltd.

Shin Nippon Machinery Co., Ltd.

SHI Machinery Service (Hong Kong) Ltd.

Continuous ship unloader

Material Handling Systems

Sumitomo Heavy Industries Engineering and Services Co., Ltd.

Market Environment

Up to March 2011, the Japanese economy was continuing to recover slowly in the aftermath of the 2008 financial crisis. Following the Great East Japan Earthquake, however, concerns began mounting that capital investment in domestic industries would slow. In contrast, capital investment in the steel-related industries of emerging markets is expected to expand.

Fiscal 2010 Review and Topics

Many principal customers in the shipbuilding industry continued to postpone or cancel their capital investments in fiscal 2010. Despite the adverse conditions, the SHI Group was able to secure orders for continuous ship unloaders from power producers while winning an order for copper electrolysis cranes in China. As a result, the Group recorded a year-on-year increase in orders received during the period under review.

Fiscal 2011 Strategies and Initiatives

The SHI Group is supporting the reconstruction efforts of customers affected by the earthquake and tsunami. At the same time, we continue to extend our reach in the markets where our major customers operate. Through these activities, we aim to meet demand related to capital investment in new facilities and the renewal and renovation of aging facilities and equipment. In addition, we will bolster our services business to ensure that we not only offer after-sales services for our own products but also actively provide similar services for products manufactured by our competitors. Through the integration of products and services, the SHI Group will advance sales activities that create added value for customers across East Asia, Southeast Asia and Japan.

Steam turbine for power generation

Turbines and Pumps

Shin Nippon Machinery Co., Ltd.

Market Environment

In line with growing domestic demand, India and emerging countries in Southeast Asia and other regions are stepping up investments in natural resource and infrastructure development. Meanwhile, price competition is intensifying, reflecting the acceleration of yen appreciation against the dollar and the euro.

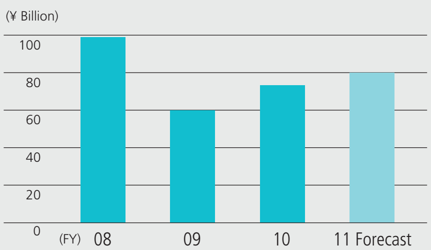
Fiscal 2010 Review and Topics

In turbines, through its Thai sales base, the SHI Group won orders from a sugar factory project in Southeast Asia. In India, the Group

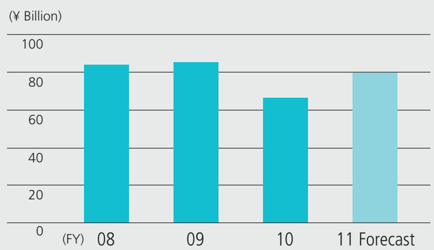
Fiscal 2010 Segment Results

In material handling systems, equipment for power generation facilities showed robust performance, and we were able to expand orders. Overall sales nevertheless dropped year on year, reflecting a relatively low number of orders carried forward from fiscal 2009. In turbines and pumps, capital investment in resource- and energy-related facilities showed recovery in Asia, and the SHI Group saw an expansion in orders, mainly for biomass power generation systems. Sales of turbines and pumps, however, declined year on year due to a relatively low number of orders carried forward from fiscal 2009. As a result, total segment orders expanded 22% to ¥73.2 billion, while total segment sales decreased 22% to ¥66.5 billion. Segment operating income sank 28% to ¥10.3 billion.

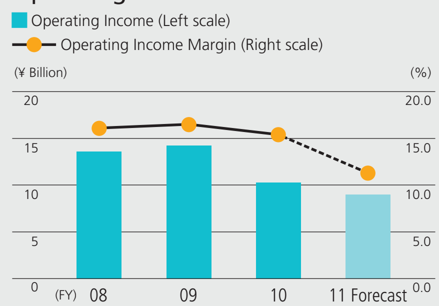
Orders



Sales



Operating Income



received orders from a steel company. In North America, owing to hesitant financing activities, the volume of orders received remained low. In pumps, we received orders from an EPC company* in South Korea. Also, thanks to the high acclaim we have earned from EPC companies in Europe and the United States for our technological cooperation from the project planning stage, we won orders for projects to be undertaken in Saudi Arabia.

Fiscal 2011 Strategies and Initiatives

Taking advantage of the high efficiency and reliability of its turbines, the SHI Group will focus on securing orders from GTCC** power generation projects in Southeast Asia and renewable energy power generation projects in North America. Regarding pumps, the Group will work to expand business with EPC companies in South Korea, Europe and the United States and thereby increase the volume of orders received. Meanwhile, we will further strengthen our competitiveness by promoting automated production processes for greater efficiency.

* EPC stands for engineering, procurement and construction. EPC companies primarily undertake plant engineering projects.

** GTCC power generation entails the combination of gas and steam turbines to improve generation efficiency.

Hot forging press

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

Market Environment

In the forging press businesses, an increase in the number of projects is anticipated thanks to Japanese automakers reinforcing their overseas production bases and to U.S. automakers expanding capital investments in line with performance recovery. In the industrial machinery business, an increase is particularly expected in aftermarket projects for steelmaking machinery.

Fiscal 2010 Review and Topics

A new, compact FPR series forging press was well received in the domestic market, and the SHI Group won a number of orders during the period under review. Overseas, we secured an order for a large forging press. In addition, reflecting the significant recognition SHI's technological excellence has earned it in aftermarkets, the Group secured many orders for modifications of forging presses developed by its competitors. In the industrial machinery business, we received an order for our continuous copper caster thanks to the high overall evaluation it has received.

Fiscal 2011 Strategies and Initiatives

Japanese automakers are aggressively expanding their overseas output. Capitalizing on this opportunity in forging presses, the SHI Group aims to boost orders received through technological differentiation. At present, the Group is flooded with an inflow of inquiries from overseas forging companies regarding remodeling and other projects. We will focus on acquiring these potential projects. Moreover, we will work to pioneer new markets with our new servo-driven presses. In the industrial machinery business, we will concentrate on winning orders for modifications to help our customers improve productivity and product quality.

Ships

Main Products

Ships

Major Units

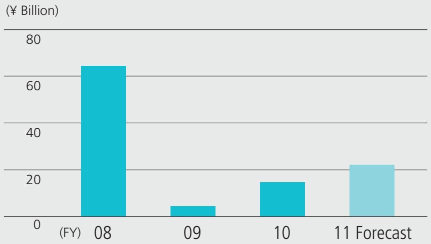
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Fiscal 2010 Segment Results

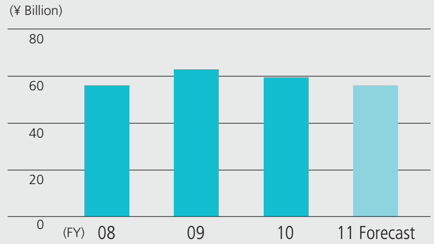
In fiscal 2009, we received no orders for new ships. In fiscal 2010, however, despite the lagging recovery in the shipbuilding market, we were able to win orders for two new ships. Meanwhile, we delivered a total of eight new ships, one fewer than in fiscal 2009.

As a result, total segment orders grew 240% year on year to ¥14.6 billion, while total segment sales slipped 5% to ¥59.5 billion. Segment operating income increased 49% to ¥9.9 billion.

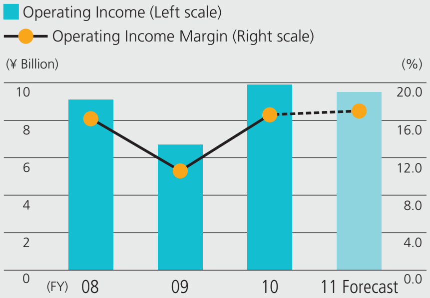
Orders



Sales



Operating Income



Aframax tanker *Guaicaipuro*

Ships

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Market Environment

The shipping market, which had continued to suffer stagnation, started to show some signs of recovery for certain ship types. However, the tanker market still remains lackluster. In the market for new shipbuilding, South Korean shipbuilders are expanding their presence in the offshore field, while Chinese shipbuilders are securing orders for commercial ships thanks to the support of government policies. Nevertheless, due to the ongoing strong yen, Japanese shipbuilders are suffering a severe order environment.

Fiscal 2010 Review and Topics

Having conducted a design overhaul, we released new Aframax tankers—our mainstay ship category—in tandem with aggressive sales promotion. Despite the harsh operating conditions, this approach gained us orders for two new ships in the second half. Meanwhile, the SHI Group has worked to improve shipbuilding productivity through the ongoing implementation of the Toyota Production System. This initiative finally bore fruit, enabling us to post record-high operating income with sales of eight new ships, one fewer than in fiscal 2009.

Fiscal 2011 Strategies and Initiatives

The SHI Group currently has an adequate shipbuilding order backlog and, therefore, has been able to secure sales over the short term. Nevertheless, from fiscal 2011 onward, we must endeavor to secure additional orders even amid ongoing significant market uncertainties. To overcome negative factors in the external environment, such as the disadvantageous exchange rates that Japan's exporters are facing today, we must maintain the high quality of our ships and, simultaneously, improve productivity. The SHI Group will, accordingly, tackle various new challenges to arrange stepping stones toward future business growth in fiscal 2011, the first year of its new medium-term management plan.

Environmental Facilities & Plants

Main Products

Power Generation Systems

Industrial Wastewater Treatment Systems

Water and Sewage Treatment Systems

Landfill Leachate Treatment System

Air Pollution Control Plants

Chemical Process Equipment & Plants

Pressure Vessels

Mixing Vessels

Steel Structures

Food Processing Machinery

Major Units

Sumitomo Heavy Industries Environment Co., Ltd.

Sumiju Environmental Engineering, Inc.

Sumiju Plant Engineering Co., Ltd.

Nihon Spindle Mfg. Co., Ltd.

Izumi Food Machinery Co., Ltd.

Sumitomo Heavy Industries Process Equipment Co., Ltd.

Sumitomo - W+E rotary kiln

Energy-Related Plants

Market Environment

In Japan, severe operating conditions persist and materials-related industries are most likely to require more time to recover to previous capital investment levels. Nevertheless, biomass power generation projects undertaken with an eye to introducing an FIT scheme* provide some hope. Overseas, economies in Southeast Asia are robust, and capital investment in IPP** projects and other infrastructure components as well as in the creation of industrial-use electricity supply networks is slated to expand.

Fiscal 2010 Review and Topics

Even amid market stagnation, the SHI Group received orders for a circulating fluidized-bed (CFB) boiler, one in Japan and three overseas. Also, the Group won an order in Japan for a rotary kiln for use in metal recovery from industrial waste. Meanwhile, we delivered a CFB boiler that exclusively uses biomass-based fuels to a customer in Japan and handed over a coal-fired CFB boiler to a Japanese paper mill operating in China. Also, we made our first delivery in China of a dry activated carbon desulfurization and denitration facility—a full-scale system for eliminating hazardous substances from exhaust gases generated at steelworks. In addition, we delivered two rotary kilns to customers in Japan.

Fiscal 2011 Strategies and Initiatives

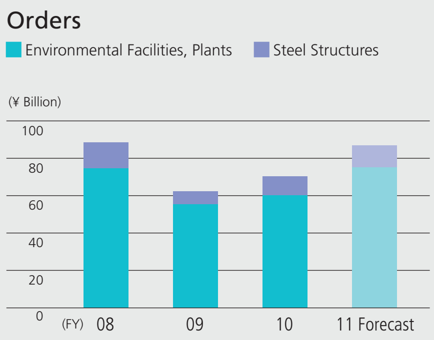
In Japan, the SHI Group will focus on acquiring biomass power generation projects based on the FIT scheme. Simultaneously, SHI will bolster its service and maintenance business centered on customer satisfaction enhancement activities. Through these activities, we will work to identify potential projects, such as preemptive repairs and modifications of existing facilities undertaken by customers wishing to prevent premature deterioration and extend the useful lives of facilities. Overseas, we will strengthen region-specific sales and marketing activities by instating clear customer targeting. As part of such efforts, we have enhanced our business structure in Southeast Asia by establishing a second regional office in Jakarta, Indonesia, following on our first regional office in Bangkok, Thailand. Through these regional offices, we will accelerate our business in CFB boilers that use low-grade coal and biomass-based fuels.

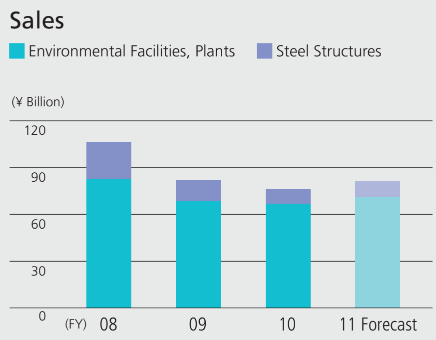
* FIT stands for feed-in tariffs. Under the FIT scheme for government subsidization related to renewable energy sources, selling prices for renewable energy generated by energy users are set by law.

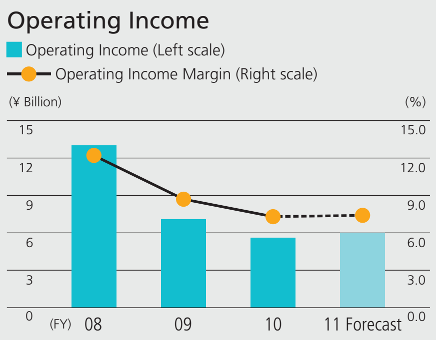
** IPP stands for independent power producer. General businesses serve as IPPs to sell and supply electricity to electric power companies.

Fiscal 2010 Segment Results

In energy-related plants, the sluggish market for industrial power-generation boilers led to year-on-year declines in both orders and sales. In water and wastewater treatment plants, demand for water treatment facilities began to recover, leading to expanded orders and sales. As a result, total segment orders rose 13% to ¥70.6 billion, and total segment sales edged down 7% to ¥76.1 billion. Segment operating income declined 22% to ¥5.6 billion.







Water and Wastewater Treatment Plants
Sumitomo Heavy Industries Environment Co., Ltd.

Market Environment

Despite overall conditions remaining on a recovery course, the domestic market, and particularly the private sector, continued to suffer a harsh business environment. In the private sector, while capital investment in new plant construction decreased, that related to aging facility remodeling and renovation, energy generation and conservation, and operating cost reductions increased. Public-sector conditions have remained flat in the past several years. However, as in the private sector, investments aimed at improving energy-saving performance and reducing costs are expanding. In fiscal 2011, although uncertainties in market conditions are expected to persist due to the aftermath of the earthquake, customers will most likely show greater interest in improving the energy-saving performance of their facilities.

Fiscal 2010 Review and Topics

The volume of orders received remained low amid stagnant market conditions. However, the SHI Group's performance in the private sector showed a year-on-year improvement, reflecting the Group winning an order for wastewater treatment facilities overseas. Our revenues and earnings in this business expanded from fiscal 2009, owing to a significant number of facility handovers for large-scale public projects falling into the period under review.

Fiscal 2011 Strategies and Initiatives

The SHI Group will continue to aggressively implement initiatives aimed at achieving greater stability in its business foundation. For the private sector, the Group will step up sales activities to provide high-value-added products. Through these activities and products, we aim to expand our share in the steel industry—an industry where we boast particular strengths—and to boost sales of our activated sludge reduction systems to the electronic component industry. Also, in response to increased capital investment in connection with facility aging and energy saving, the SHI Group will bolster its services business, which helps enhance the performance of customers' existing facilities and equipment. With regard to public-sector projects, as the adoption of energy-saving equipment gains momentum, the SHI Group will proactively implement strategies based on key products that have been developed with market differentiation in mind. These products include the MICRUS® superfine-bubble membrane tube diffuser, tapered impeller type mixers for anaerobic tanks and the SUMIRATOR® UD vertical-shaft surface aerator.

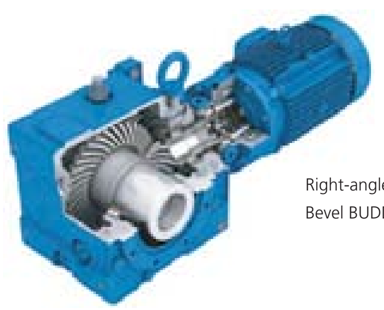
Coagulation sedimentation system "SUMI-THICKENER®"

Initiatives to Support the SHI Group's Sustainable Growth

Research and Development

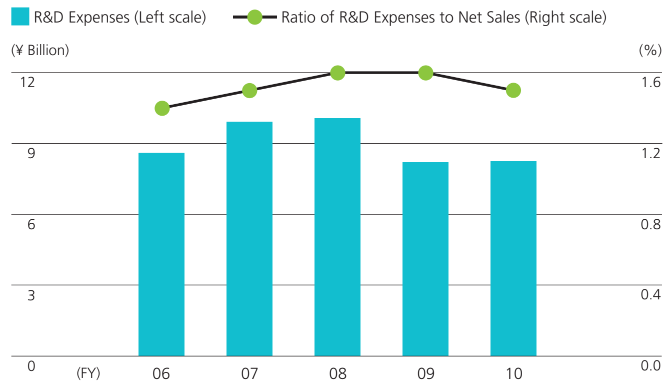
R&D Strategy

The SHI Group made “globalization” and “innovation” the keywords for growth under “Global 21,” its previous medium-term management plan covering the three-year period ended March 31, 2011. Placing priority on reinforcing our global competitiveness and developing innovative products, we aggressively promoted R&D based on a vertically integrated synergistic value chain model. Specifically, we strengthened our fundamental technologies and developed groundbreaking components to enhance the value of our equipment and systems. Under its new “Innovation 21” medium-term management plan covering the period ending March 31, 2014, the SHI Group will adhere to its basic R&D policies under “Global 21” and further bolster its R&D activities.



Right-angle-shaft gear motor
Bevel BUDDYBOX®

R&D Expenses



Major R&D Results by Business Segment

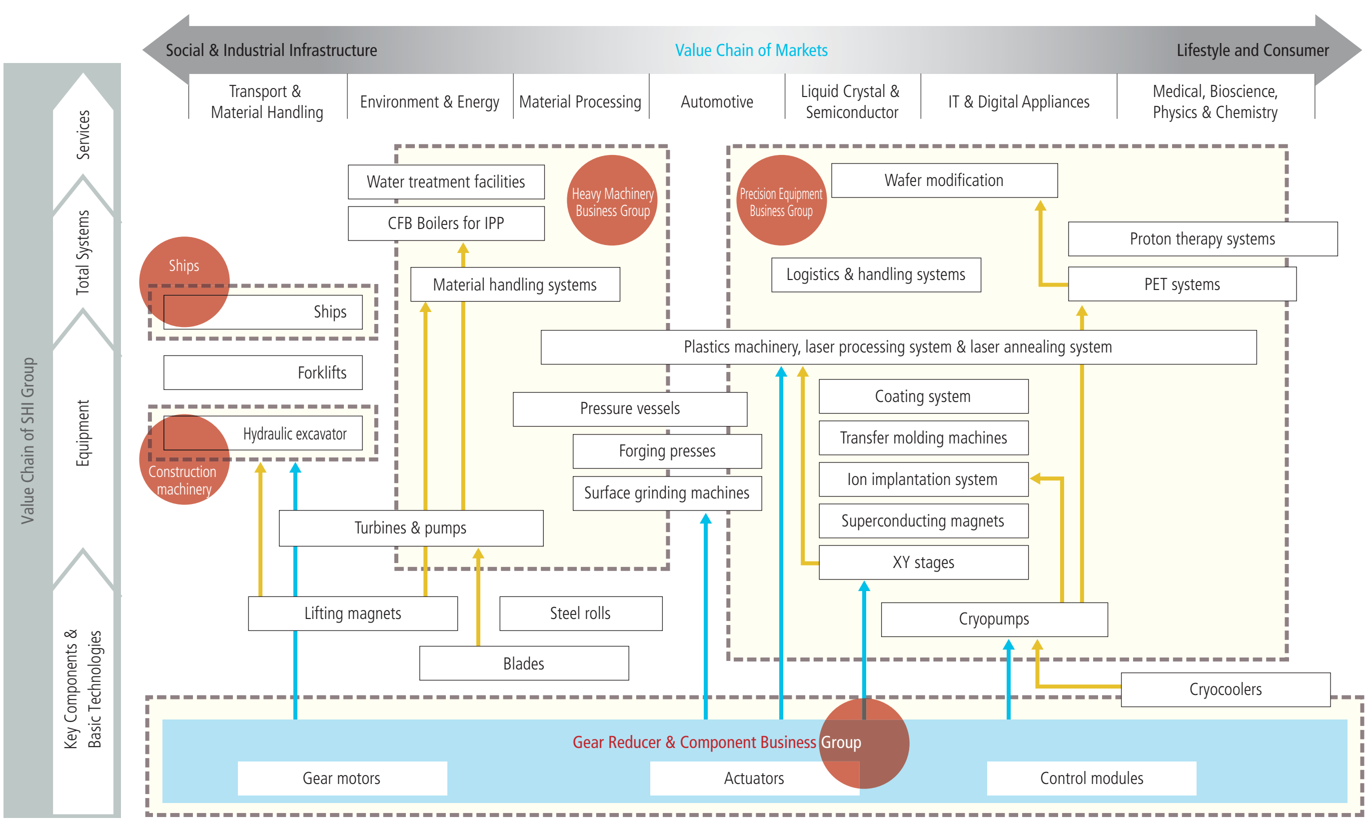
1. Machinery Components

In power transmission equipment, the SHI Group introduced a large right-angle-shaft gear motor with built-in CYCLO® speed reducers in the industrial machinery market. Also, we released speed reducers with highly efficient motors that comply with a couple of international efficiency standards.

2. Precision Machinery

In plastics machinery, we added such new functions as molding process visualization and quality management to our Zero-molding® systems, which are based on the concept of minimizing defects and losses, as well as maximizing operational efficiency. A high-speed,

Business Portfolio and Value Chain of SHI Group



high-response injection molding machine with high-precision control functions has been developed for the light guide plates of large LCD panels.

In quantum equipment, the Group is continuing to perform verification tests on an advanced three-dimensional irradiation system for proton therapy systems.

In precision positioning equipment, we introduced a precision stage in the wafer exposure market.

In semiconductor production equipment, we upgraded our ion-implantation devices, which boast high ion-beam quality and precision. More specifically, we achieved a substantial improvement in the productivity and cost performance of equipment and then launched it on the market.

3. Construction Machinery

In hydraulic excavators, the Group released a next-generation flagship model that complies with interim Tier 4 emissions requirements in Europe and the United States. In addition, we are accelerating research on hybrid technologies, building on the success of LEGEST® HYBRID, which has been certified as low-carbon construction machinery by the Ministry of Land, Transport and Infrastructure.

4. Industrial Machinery

In logistics and automated parking systems, the SHI Group bolstered its lineup of automated guided vehicles (AGVs) for wide film rolls, targeting photovoltaic cell manufacturers.

In forging presses, the Group developed a servo-driven, multi-action press for cold forging to meet the expected rise in demand in the automotive industry.

5. Ships

In ships, the SHI Group released a new Aframax tanker. For this new ship, we applied original advanced energy-saving technologies to the hull forms and propulsion system and adopted a main engine system that is compliant with anticipated environmental regulations while incorporating a ballast water treatment system. In the area of production technology development, the Group is working constantly to shorten lead times and improve the quality of its ships.

Single-wafer, high-current
ion-implantation device "SHX-III/S"

6. Environmental Facilities & Plants

In its water treatment business targeting private-sector customers, the SHI Group is working to expand sales of its facilities for wastewater treatment in the electronics industry. At the same time, the Group is accelerating the development of new facilities that enable great water quality through water recovery and treatment. In the water and sewage business, we introduced new energy-saving unit-type equipment that helps reduce facility lifecycle costs and prevent the further advance of global warming.

In energy and environmental plants, the SHI Group is bolstering initiatives to expand sales of circulating fluidized-bed (CFB) boilers in Southeast Asia. At the same time, we conducted verification tests on the combustibility of biomass resources and low-grade coal while stepping up the development of constituent technologies regarding various fuels.

In metal processing machines, we expanded the application of a flow-forming method, which is a promising alternative to such conventional processing methods as cutting and forging, in automotive parts and components.

In environment equipment, we launched energy- and space-saving, high-performance dust collection equipment.

Planar XY stage "SA&SL Series"
for semiconductor and printed circuit
board exposure and inspection processes

Automated guided vehicle
(AGV) for films

Intellectual Property

The SHI Group is oriented towards growth driven by distinctive technologies. As such, intellectual property is an issue of the utmost importance and the wellspring of the Group's competitive advantage. The principal focus of our efforts is directed at the three elements of intellectual property activity, namely, ensuring that rights to intellectual property are secured, utilizing exclusive rights and respecting other companies' rights. In this way, we devote our Groupwide energies to the active creation, management and protection of SHI Group's invaluable "property."

Promotion Structure

To link the senior management of SHI Group divisions directly with intellectual property activities, the Group has appointed chief intellectual property officers (CIPOs) to the same rank as the general managers of technology and development divisions, a position immediately below and reporting directly to officers in charge of groups or divisional businesses.

The CIPOs prepare optimal intellectual property strategies for each division, make all members of those divisions thoroughly acquainted with these strategies and create the mechanisms to put those strategies into practice. In addition, the Intellectual Property Department participates fully in reform activities implemented by the CIPOs.

Major Activities and Achievements

1. Intellectual Property Inspection Activities

We have formed an Inspection Committee composed principally of CIPOs and established mechanisms for the regular evaluation of inventive proposals and decisions regarding substantive examination requests and rights maintenance. In this way, we foster the efficient and systematic management of patent applications ultimately intended for commercialization. Furthermore, by incorporating intellectual property evaluation in the design review (DR) process, we are striving to make our product capabilities more robust.

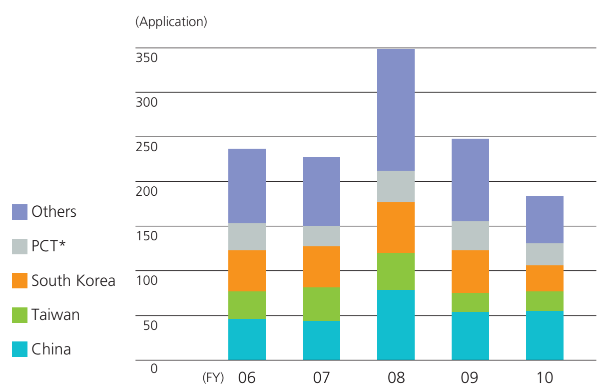
2. Intellectual Property Evaluation Activities

The SHI Group evaluates the strength of individual patents held by the Group and strategically manages the processes for improving this strength. In addition to enhancing the quality of the Group's intellectual property portfolio, such evaluation and management processes enable the Group to keep reinforcing the competitive superiority of its products through the appropriate maintenance of its intellectual property.

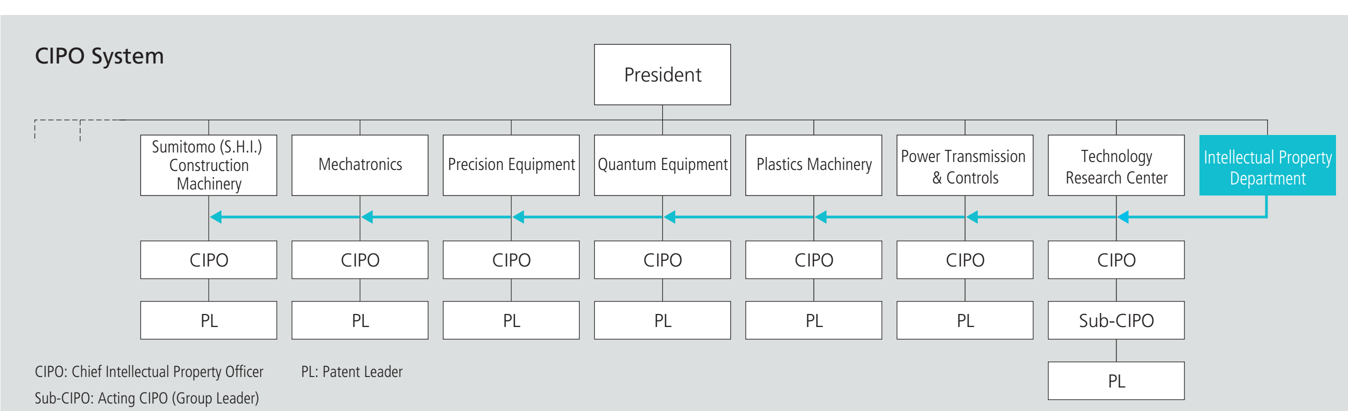
3. Accelerating Overseas Patent Applications

In tandem with the globalization of the business activities of the SHI Group, we have been calling on all operating divisions and other relevant divisions to actively work to file patent applications overseas. As a result, as of April 2011, as many as 1,120, or 30.1%, of the total 3,720 patents held by the Group were held overseas. In recent years, the Group has been increasing patent applications, particularly in China, South Korea and Taiwan.

SHI Group's Overseas Patent Applications



* Overseas patent applications under the Patent Cooperation Treaty (PCT)



Corporate Governance

The SHI Group believes that the essence of corporate governance lies in the establishment of a system that enables efficient and transparent management. Sound corporate governance helps the Group achieve higher enterprise value and win the trust of all its stakeholders, including shareholders, customers, employees and the community as a whole.

Corporate Governance System

SHI has adopted the corporate auditor system and, within this framework, has introduced an executive officer system to separate the business execution and supervision functions of corporate management.

The Company has a Board of Directors, comprising 10 directors, and a Board of Corporate Auditors, comprising 4 corporate auditors. The Board of Corporate Auditors, including two external corporate auditors, and the Board of Directors, including one external director, collaborate with executive officers in charge of internal auditing and internal control in auditing and supervising the execution of duties by the Company's directors. The Board of Directors deliberates not only on matters stipulated under the Japanese Corporate Law, but also on important management issues in a preemptive manner. Also, the Company's Articles of Incorporation stipulate that the Company must have no more than 12 directors.

The Executive & Operating Officers Committee comprises 17 executive officers, who execute the Company's business, including 5 who concurrently serve as directors of the Company, as well as 12 operating officers. The Committee manages consolidated business results and ensures the implementation of management policies.

The Company has also established the Management Strategy Committee, comprising executive officers assigned to the Company's Head Office, as an advisory body to the president. This Committee deliberates on important matters, including those to be submitted to the Board of Directors, and, consequently, reports deliberation results to the Company's president.

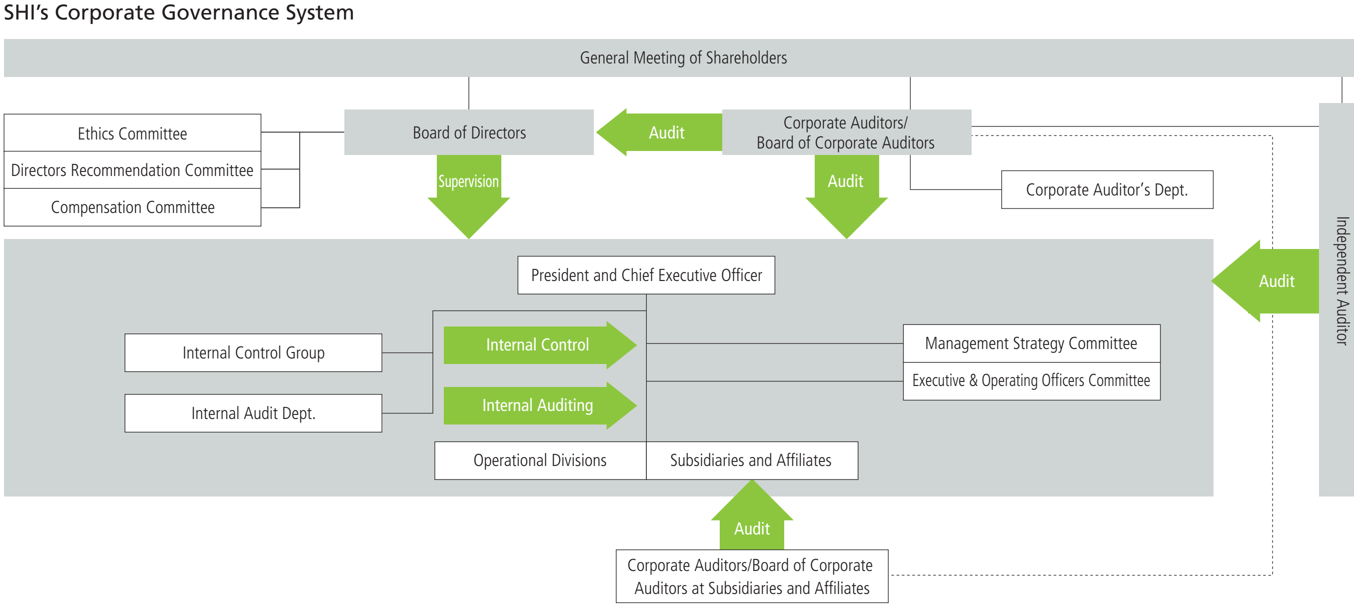
The Company's corporate auditors audit the execution of duties by directors and executive officers from the perspectives of legality and appropriateness. At the same time, corporate auditors of the Company and its subsidiaries and affiliates jointly hold regular meetings to exchange audit-related information and reinforce auditing functions covering the entire SHI Group. The Company has appointed a lawyer and a certified public accountant as its external corporate auditors to reinforce the overall system for checking compliance and corporate accounting. Also, the Company has established the Corporate Auditor's Department as a staff organization to support the Board of Corporate Auditors.

The Directors Recommendation Committee makes recommendations to the Board of Directors with regard to candidates for new members of the Board of Directors and representative directors. Meanwhile, director remuneration is determined by the Compensation Committee. Half of the current Compensation Committee members have been externally appointed. More specifically, as an advisory body to the Board of Directors, the Compensation Committee determines a level of director remuneration that reflects the Company's business performance while ensuring transparency and ethical appropriateness in remuneration decision processes.

Internal Auditing, Auditing by Corporate Auditors, Independent Audits

The Company has established the Internal Audit Department (with a full-time staff of eight) as an internal auditing organization that

SHI's Corporate Governance System



reports directly to the president. The Internal Audit Department periodically conducts audits of business execution at the Company's internal organizations and at subsidiaries and affiliates in Japan and overseas, provides advice on operational improvements and follows up on the implementation of improvements. The Department undertakes the reinforcement of the internal control functions in coordination with self-audits conducted by the operational divisions. The corporate auditors perform their duties in line with the audit plans and policies formulated by the Board of Corporate Auditors. To audit the execution of duties by the Company's directors and executive officers, they attend meetings of the Board of Directors and the Executive & Operating Officers Committee as well as other important meetings. In addition, the corporate auditors are allowed to access principal internal memos and other important documents relating to business execution. The Company has appointed KPMG AZSA LLC as its independent auditor, has entered into an audit contract and undergoes rigorous audits. The corporate auditors, the Board of Corporate Auditors, Internal Audit Department and independent auditor closely collaborate with each other and exchange information about audit results, thereby developing and implementing an efficient audit system.

External Director and External Corporate Auditors

As discussed above, the Company has appointed one external director and two external corporate auditors.

External director Toshiaki Kakimoto attended all 15 Board of Directors meetings during fiscal 2010 and provided opinions and advice based on his extensive knowledge of macroeconomics and corporate management. External corporate auditor Seishiro Tsukada attended all 15 Board of Directors meetings and all 15 Board of Corporate Auditors meetings during the reporting term. As a lawyer, he provided invaluable opinions and advice from a legal specialist perspective. Also, at the Ordinary General Meeting of Shareholders held on June 29, 2011, the appointment of Mr. Hideo Kojima as the Company's external corporate auditor was approved. The Company expects Mr. Kojima to offer invaluable and candid opinions and advice on its management from a third-party perspective, based on his extensive experience as a certified public accountant.

Pursuant to the securities listing regulations of the Japanese exchanges on which its stock is listed, the Company has notified the Tokyo Stock Exchange and the Osaka Securities Exchange of the designation of the external director and external corporate auditors as an independent director and independent corporate auditors, respectively. As they have no conflict of interest with the Company's shareholders, the Company has designated their status as independent.

Internal Control System

The SHI Group considers the internal control system to be an important management foundation for increasing its enterprise value and ensuring its sustainable development. The Board of Directors decides the basic policy for the development of the internal control system, which is the foundation of corporate governance. The Board appropriately verifies the effectiveness of the internal control system and undertakes constant enhancement and improvement. The Company appoints external directors to bring an outside perspective to the decisions of the Board of Directors. The corporate auditors conduct audits to ensure the appropriate execution of duties by the Company's directors with respect to the development and administration of the internal control system. Also, the Company works to strengthen its internal control over financial reporting. With the organization in charge conducting audits of the status of internal control system administration, the Company is striving to secure the reliability of its financial reporting.

Compliance Activities

The Ethics Committee, chaired by the president, formulates the Company's basic compliance policy. The Internal Control Group undertakes the rigorous implementation of the policy through a group-wide internal control system. The Company distributes the Ethics Regulations and Compliance Manual to all employees and undertakes regular ethics and compliance education. When necessary, the Company requires written agreements from directors, executive officers and all managers concerning individual compliance items. The Company maintains a resolute stance against organizations or individuals that pose a threat to public order and safety and engages in no relations whatsoever with such organizations or individuals. The Company has established an ethics hotline (an in-house whistle-blower system) as a point of contact to report matters that violate or may violate laws, ordinances or corporate ethics, promotes the use of the hotline and endeavors to discover problems at an early stage. The Company conducts audits of the execution of duties by the Company's executive officers and by staff under the direct control of the executive officers through the organization in charge and ensures that their execution of duties complies with laws, ordinances and the Articles of Incorporation.

Risk Management

The Company engages in risk management using the group-wide internal control system. The Company takes a specialized approach to minimize risk. Through this approach, the business units in charge prepare regulations governing individual risks—such as environmental, legal, disaster, IT and export control risk—while providing education and guidance and conducting audits. In the event of emergency, in accordance with the Company's Emergency Reporting Procedures, the involved employees immediately report to executive management and take appropriate measures.

Takeover Defense Measures

SHI believes that—from the standpoint of increasing enterprise value and ensuring the common interests of the shareholders—the nature of the persons who control decisions on the Company's financial and business policies should be ultimately decided by the shareholders. Some large-scale purchases of shares, in light of their purpose or post-purchase management policy, pose the risk of clear impairment of enterprise value or the common interests of the shareholders. Some large-scale purchases—such as those conducted without the sufficient provision of information reasonably necessary for the shareholders to judge the purchase details—can be expected to have a major impact on enterprise value or the common interests of the shareholders. The Company considers persons who seek to make such purchases of the Company's shares to be inappropriate as persons who control decisions on the Company's financial and business policies and has a basic policy on large-scale share purchases of devising measures, as far as is necessary and reasonable, to secure and increase the Company's enterprise value and the common interests of the shareholders.

In accordance with this basic policy, as part of measures to prevent inappropriate parties from controlling the Company's decisions on financial and business policies, SHI adopted the Countermeasures to Large-Scale Acquisitions of the Company's Shares (Takeover Defense Measures) following the approval of the 112th Ordinary General Meeting of Shareholders held in June 2008. These Takeover Defense Measures expired upon the closing of the 115th Ordinary General Meeting of Shareholders held in June 2011. The same shareholders meeting, however, approved the continuation of the Takeover Defense Measures after making necessary changes.

Messages from External Director and Corporate Auditors

Toshiaki Kakimoto
External Director

Sumitomo Heavy Industries, Ltd.'s strengths are underpinned by its effective corporate governance system, which has been realized through the clear separation of its executive function from its supervisory function. What is more, supported by the strategic implementation of its internal control system and compliance activities, SHI has established a highly effective, transparent corporate management system.

As an external director, I am committed to providing proposals and advice from the broad, third-party perspective that I have long nurtured through research on macroeconomics and various issues concerning corporate management. In this way, I would like to play a part in SHI's working to accelerate globalization and strengthen its corporate governance, thereby contributing to the Group's additional growth and enterprise value maximization.

Seishiro Tsukada
External Corporate Auditor

Society at large is increasingly demanding corporations to bolster their compliance and corporate governance. At the same time, legal requirements are growing significantly more stringent, with Japan's Corporate Law and Financial Instruments and Exchange Law mandating the establishment and appropriate administration of effective internal control systems. Furthermore, recent amendments to the securities listing regulations of Japanese stock exchanges have reinforced similar requirements regarding corporate governance. Against this backdrop, as a lawyer I am serving an external corporate auditor of Sumitomo Heavy Industries. This is a position of great significant to me. Corporations must pursue profit, and, I believe, their corporate activities should not be excessively constrained by internal control. There should be an optimal balance between these two contradictory activities. I intend to work toward finding that balance by performing my duties to the fullest of my abilities.

Hideo Kojima
External Corporate Auditor

With the recent revisions to the securities listing regulations of Japanese stock exchanges, listed companies are now required to further strengthen their corporate governance. External corporate auditors designated as independent corporate auditors have an important role to play in helping these companies fulfill this requirement.

Sumitomo Heavy Industries was engaged in the ongoing reinforcement of its corporate governance even before these regulatory revisions were made. Being a certified public accountant and an external corporate auditor of SHI, I understand my primary role to be the verification of the comprehensiveness of the Company's financial reporting and compliance with business accounting standards. Simultaneously, I must help the Company improve said comprehensiveness. Also, in line with the Company's business globalization, it will become more important than ever before to secure compliance throughout the Group's overseas operations and to enhance the quality of its financial reporting on a consolidated basis. Therefore, I will do my utmost to enable SHI to bolster corporate governance from a global perspective.

Directors, Corporate Auditors and Executive Officers

(As of June 29, 2011)

Board of Directors

Yoshio Hinoh
Representative Director,
Chairman

Yoshinobu Nakamura
Representative Director,
President and CEO

Shinji Nishimura
Representative Director,
Senior Executive Vice President

Shunsuke Betsukawa
Representative Director,
Executive Vice President and CFO

Yuji Takaishi
Director, Executive Vice President

Hitoshi Kashimoto
Director, Executive Vice President

Kensuke Shimizu
Director

Mikio Ide
Director

Kohei Takase
Director

Toshiaki Kakimoto
External Director

Corporate Auditors

Yukio Kinoshita
Standing Auditor

Shigeru Toyosumi
Standing Auditor

Seishiro Tsukada
External Corporate Auditor

Hideo Kojima
External Corporate Auditor

Executive Officers

Yoshinobu Nakamura
President and CEO

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

Katsuhiko Taniguchi
Executive Vice President
General Manager, Corporate Technology Operations Group
General Manager, Information Systems Development Group

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

Shunsuke Betsukawa
Executive Vice President and CFO
General Manager, Corporate Finance, Accounting & Administration Group
General Manager, Export Administration Dept.

Yuji Takaishi
Executive Vice President
General Manager, Plastics Machinery Div.

Hitoshi Kashimoto
Executive Vice President
General Manager, Ship & Marine Div.
Representative Director and President, Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Osamu Sekiya
Senior Vice President
Regional General Manager, Kansai Office
General Manager, Corporate Marketing Dept.

Chuck Martz
Senior Vice President
Chairman and CEO, Link-Belt Construction Equipment Company, L.P., LLLP

Mamoru Mishima
Senior Vice President
Representative Director and President, Nihon Spindle Mfg. Co., Ltd.

Katsuhide Yokota
Senior Vice President
Representative Director and President, Sumitomo Heavy Industries Engineering and Services Co., Ltd.

Junjiro Nogami
Senior Vice President
General Manager, Logistics & Parking System Div.

Hitoshi Ushiyama
Senior Vice President
Representative Director and President, Sumitomo Heavy Industries Environment Co., Ltd.

Kazumi Fujita
Senior Vice President
General Manager, Internal Control Dept.

Yukio Kumata
Senior Vice President
General Manager, Quantum Equipment Div.

Akihiro Morita
Executive Officer
Deputy General Manager, Quantum Equipment Div.

Yoshiyuki Tomita
Executive Officer
General Manager, Technology Research Center, Corporate Technology Operations Group

Environmental and Social Contribution Initiatives

The SHI Group recognizes that protecting the global and local environment and promoting recycling-oriented economic activities are important to its corporate mission. In line with this recognition, the Company established the SHI Environmental Policy in 1997. This was followed by the 1999 formulation of the SHI Group Environmental Policy. Under this Groupwide policy, all SHI Group companies are working together to promote environmental initiatives and management.

SHI Group Environmental Policy

- Consider the impact on the environment around the facilities
- Prevent environmental pollution
- Reduce waste
- Save energy and resources and promote recycling

Efforts to Prevent Global Warming

The SHI Group is promoting zero-emissions* activities aimed at facilitating resource recycling through manufacturing operations.

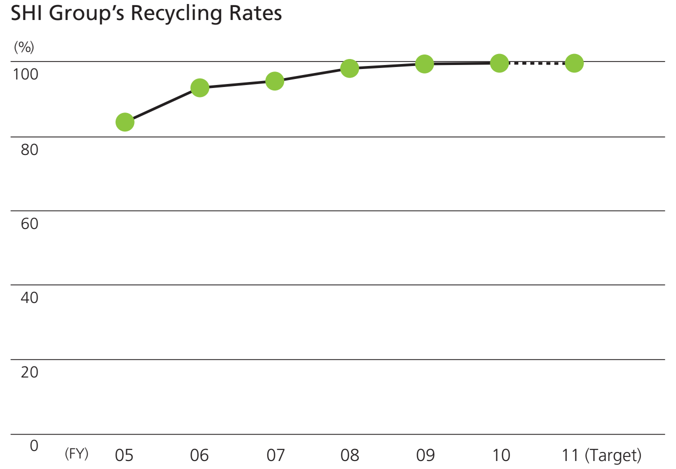
In fiscal 2010, ended March 31, 2011, the SHI Group achieved zero emissions, recording a 0.4% ratio of the volume of waste for landfill to the total volume of waste.

* Zero emissions: The volume of waste for landfill is less than 0.5% of the total volume of waste generated by the SHI Group, in other words, the recycling rate is greater than 99.5%.

Reducing the Environmental Burden

The SHI Group is contributing to environmental preservation by minimizing the environmental burden of its products and manufac-

SHI Group's Recycling Rates



turing operations. Going beyond improving the energy efficiency of its products, the Group is working to reduce waste generation and the power consumption of its plants.

During fiscal 2010, the Group's SAT-Chel®** wastewater treatment system received a Chairman's Prize from the Japan Society of Industrial Machinery Manufacturers. The Company's circulating fluidized-bed (CFB) boiler for private power generation won a Director-General's Prize from the Industrial Science and Technology Policy and Environment Bureau of Japan's Ministry of Economy, Trade and Industry. Moreover, the Group obtained low-emission construction machinery certification from the Ministry of Land, Infrastructure, Transport and Tourism for the SH200HB-5 LM-model*** hybrid hydraulic excavator. The aforementioned awards and certification serve as examples of the high evaluations that many SHI Group products have received for their superior environmental performance.

** SAT-Chel®: This wastewater pre-treatment system processes insoluble matter, making it soluble, and recovers methane gas. SAT-Chel® helps reduce waste and promotes effective energy utilization while cutting CO_2 emissions by lowering power consumption.

*** LM-model: LM stands for lifting magnet. The LM-model hybrid hydraulic excavator is mainly used to deal with rebar (removal) during building demolition. The SH200HB-5 LM-model uses the energy generated by deceleration in swing-and-dump maneuvers to produce electricity. The electricity is then used to drive motors and support engine output, thereby improving fuel efficiency.

Social Contribution Activities

Aiming to maintain sound relationships with not just the communities in which it operates but also the global community, the SHI Group conducts wide-ranging social contribution activities. These activities include supporting social welfare institutions, providing work experience programs for students and implementing local cleanup and disaster prevention activities.

The SHI Group places particular emphasis on biodiversity preservation. For example, the Company maintains a 13,000-m^2 forest on the grounds of its Tanashi Works in Nishitokyo City, Tokyo. Dubbed the "Forest of Inspiration," the forest is home to more than 40 species of trees and plants that attract a significant number of animals. Acorns and other seeds obtained in the forest are distributed to other SHI facilities and used for greening activities at these locations. Through the effective use of space available within facility grounds, we are expanding green zones and working to realize eco-friendly plants.

Wastewater treatment system "SAT-Chel®"

Hybrid hydraulic excavator "SH200HB-5 LM-model"

At the Saijo Factory, Ehime Works, plants are growing from seeds gathered from the forest.

Financial Section

Eleven-Year Summary

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

	FY2000	FY2001	FY2002	FY2003	FY2004
Summary of Income (for the year):					
Net sales	¥513,753	¥517,138	¥481,289	¥482,765	¥521,310
Cost of sales	434,544	430,399	400,460	378,422	407,512
Selling, general and administrative expenses	71,724	72,564	63,616	64,112	65,025
R&D expenses	8,688	6,777	5,800	6,263	6,317
Operating income	7,485	14,175	17,213	40,231	48,773
EBITDA (Note 2)	20,402	26,078	29,322	50,344	58,055
Net income (loss)	(28,612)	1,650	2,688	16,262	22,792
Cash Flows (for the year):					
Cash flows from operating activities	¥ (16,957)	¥ 38,808	¥ 29,499	¥ 75,775	¥ 45,451
Cash flows from investing activities	29,560	(3,343)	(1,074)	(7,929)	(6,087)
Free cash flows (Note 3)	12,603	35,465	28,425	67,846	39,364
Cash flows from financing activities	(21,403)	(32,785)	(22,116)	(56,666)	(46,490)
Cash and cash equivalents at the end of year	36,496	40,846	47,661	57,678	49,108
Financial Position (at year-end):					
Total assets	¥579,772	¥634,904	¥588,010	¥580,291	¥569,771
Total current assets	394,252	371,049	329,231	321,400	316,166
Property, plant and equipment	119,135	199,758	196,104	258,891	253,605
Interest-bearing debt	324,324	294,552	273,544	215,807	169,228
Net interest-bearing debt	287,609	254,402	225,571	157,353	119,592
Stockholders' equity	30,049	87,494	89,331	114,526	137,157
Total net assets (Note 4)	—	—	—	—	—
Amounts per Share of Common Stock:					
Net income (loss) (Note 5)	¥ (48.60)	¥ 2.80	¥ 4.57	¥ 27.01	¥ 37.80
Stockholders' equity	51.04	148.63	151.86	190.25	227.90
Cash dividends	—	—	—	—	3.00
Financial Indexes:					
Operating income margin	1.5	2.7	3.6	8.3	9.4
EBITDA margin	4.0	5.0	6.1	10.4	11.1
R&D expenses ratio to net sales	1.7	1.3	1.2	1.3	1.2
Return on assets (ROA)	(4.6)	0.3	0.4	2.8	4.0
Return on equity (ROE)	(60.3)	2.8	3.0	16.0	18.1
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
D/E ratio (Times)	10.8	3.4	3.1	1.9	1.2
ROIC (Note 6)	1.3	2.3	2.6	6.5	8.5
Investment in Plant and Equipment, and Others:					
Capital expenditures	¥ 14,305	¥ 15,549	¥ 14,406	¥ 10,562	¥ 8,175
Depreciation and amortization	12,916	11,902	12,118	10,112	9,282
Number of employees	12,411	12,457	11,777	11,282	11,149

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥83=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2011.
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 assets are presented following enforcement of the new Japanese Corporate Law in 2006. Net assets comprise stockholders' equity as previously defined, plus minority interests and share subscription rights.
5. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.
6. ROIC (Return on Invested Capital) = $\frac{\text{(Operating income + Interest and dividends received) x 55\% (= 1– Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$

Millions of yen						Thousands of U.S. dollars (Note 1)
FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2010
¥551,339	¥600,256	¥660,769	¥642,918	¥516,165	¥548,015	$6,602,594
434,904	464,071	505,366	503,072	412,751	426,479	5,138,297
68,930	71,961	77,613	82,906	75,160	75,733	912,450
7,434	8,581	9,908	10,047	8,187	8,228	99,133
47,505	64,224	77,790	56,940	28,254	45,803	551,847
56,577	74,873	91,578	75,260	47,979	63,744	768,003
29,742	37,352	42,974	13,649	13,280	27,926	336,461
¥ 50,023	¥ 56,789	¥ 29,096	¥ 34,676	¥ 57,513	¥ 36,521	$ 440,012
(7,024)	(12,461)	(41,250)	(35,924)	(13,954)	(23,513)	(283,287)
42,999	44,328	(12,154)	(1,248)	43,559	13,008	156,725
(48,812)	(41,193)	(5,238)	15,625	(26,686)	(22,020)	(265,304)
43,644	47,523	29,879	42,414	61,452	51,700	622,893
¥579,233	¥600,890	¥678,634	¥657,436	¥610,087	¥626,829	$7,552,160
317,813	332,509	381,946	380,293	339,780	365,342	4,401,713
261,421	268,381	296,688	277,143	270,308	261,487	3,150,447
125,504	88,045	89,567	110,339	87,660	67,833	817,271
81,587	39,890	59,311	65,654	25,149	15,347	184,913
167,740	—	—	—	—	—	—
—	206,010	246,371	238,697	254,153	269,380	3,245,537
Yen						U.S. dollars (Note 1)
¥ 49.45	¥ 61.99	¥ 71.19	¥ 22.62	¥ 22.01	¥ 45.87	$ 0.55
279.02	338.95	392.80	378.78	404.73	435.10	5.24
5.00	7.00	10.00	6.00	4.00	8.00	0.10
%						
8.6	10.7	11.8	8.9	5.5	8.4	
10.3	12.5	13.9	11.7	9.3	11.6	
1.3	1.4	1.5	1.6	1.6	1.5	
5.2	6.3	6.7	2.0	2.1	4.5	
19.5	20.1	19.5	5.9	5.6	10.9	
29.0	34.1	34.9	34.8	40.0	42.6	
21.7	14.7	13.2	16.8	14.4	10.8	
0.7	0.4	0.4	0.4	0.4	0.3	
8.8	12.2	14.0	9.6	4.8	7.8	
Millions of yen						Thousands of U.S. dollars (Note 1)
¥ 10,285	¥ 17,257	¥ 28,180	¥ 31,753	¥ 24,465	¥ 14,292	$ 172,193
9,072	10,649	13,788	18,320	19,725	17,941	216,156
11,319	12,561	14,408	14,984	15,463	17,025	

Management's Discussion and Analysis of Financial Conditions and Operating Results

1. Discussion and Analysis of Operating Results for Fiscal 2010

(1) Orders

Orders received during fiscal 2010, ended March 31, 2011, rose ¥131.5 billion from fiscal 2009 to ¥534.9 billion, with the order volume exceeding the fiscal 2009 level in all segments. Specifically, supported by recovery in market conditions in China and other emerging countries, orders received in the Machinery Components, Precision Machinery and Construction Machinery segments increased ¥14.4 billion, ¥44.5 billion and ¥40.7 billion year on year to ¥75.8 billion, ¥150.5 billion and ¥141.2 billion, respectively. Also, in the Ships segment, the SHI Group secured orders for two new ships, the first in approximately 30 months, resulting in a ¥10.3 billion increase in segment orders to ¥14.6 billion.

(2) Net Sales

Net sales grew ¥31.9 billion to ¥548.0 billion. Sales in the Industrial Machinery, Ships and Environmental Facilities & Plants segments fell year on year, while those in the Machinery Components, Precision Machinery and Construction Machinery segments expanded year on year.

Overseas sales climbed ¥34.0 billion to ¥277.4 billion. The ratio of overseas sales to consolidated net sales jumped 3.4 percentage points to 50.6%.

(3) Cost of Sales

In line with the increase in net sales, cost of sales expanded ¥13.7 billion to ¥426.5 billion. The cost of sales ratio improved 2.2 percentage points to 77.8%, reflecting decreases in all segments except the Environmental Facilities & Plants segment.

(4) Selling, General and Administrative (SG&A) Expenses

SG&A expenses edged up ¥0.6 billion year on year to ¥75.7 billion. The SG&A expense ratio improved 0.8 of a percentage point to 13.8%.

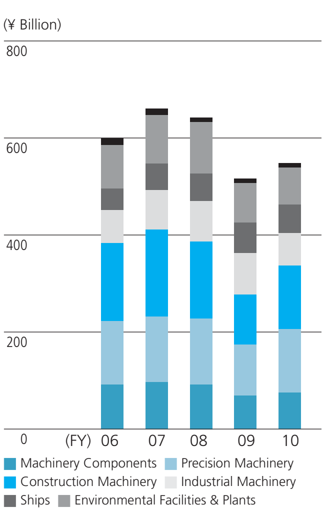
(5) Operating Income

Operating income surged ¥17.5 billion from fiscal 2009 to ¥45.8 billion. Segment operating income increased year on year in the Machinery Components, Precision Machinery and Construction Machinery segments primarily due to increases in segment sales. On the other hand, despite declines in segment sales, the Industrial Machinery, Ships and Environmental Facilities & Plants segments secured profitability owing to their cost reduction efforts. The operating income margin increased 2.9 percentage points to 8.4%.

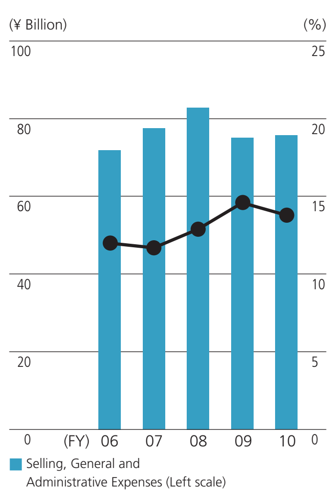
(6) Other Income and Expenses

Other income and expenses amounted to net expenses of ¥1.6 billion, an improvement of ¥0.1 billion from fiscal 2009. Other income declined ¥0.6 billion year on year to ¥3.9 billion, largely due to a decrease in exchange gains. Meanwhile, other expenses dropped ¥0.7 billion to ¥5.5 billion, mainly due to a decrease in interest expense.

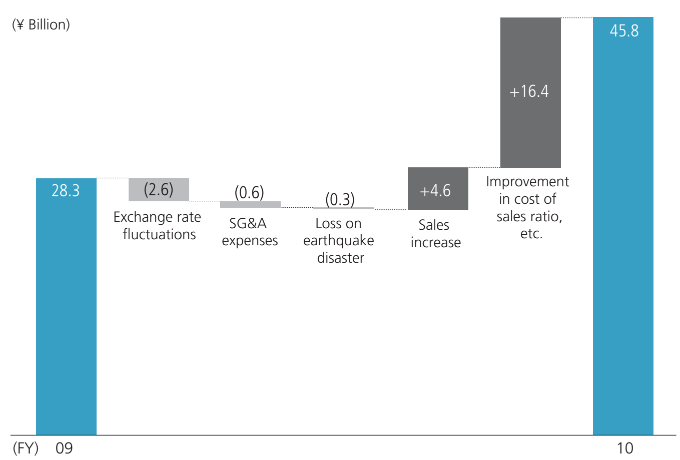
Net Sales



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



Breakdown of Variation in Operating Income (Fiscal 2009–Fiscal 2010)



(7) Extraordinary Gains and Losses

Extraordinary gains and losses amounted to net gains of ¥0.9 billion, a turnaround totaling ¥1.2 billion from fiscal 2009. Extraordinary gains increased ¥1.1 billion to ¥3.5 billion, reflecting such factors as the posting of gain on negative goodwill. Extraordinary losses contracted ¥0.1 billion to ¥2.6 billion. Among other factors, a ¥1.0 billion decrease in loss on valuation of investment securities was more than offset by ¥1.4 billion in impairment losses on fixed assets.

(8) Income Taxes (Total Income Taxes, Local Inhabitant Tax, Business Tax and Deferred Income Taxes)

Income taxes expanded ¥4.2 billion to ¥16.1 billion, mainly due to increases in income before income taxes of SHI and Group companies.

(9) Minority Interests in Net Income

Minority interests in net income remained flat year on year at ¥1.1 billion.

(10) Net Income

Net income soared ¥14.6 billion year on year to ¥27.9 billion.

2. Discussion and Analysis of Financial Condition as of the Fiscal 2010 Year-End

(1) Assets, Liabilities and Net Assets

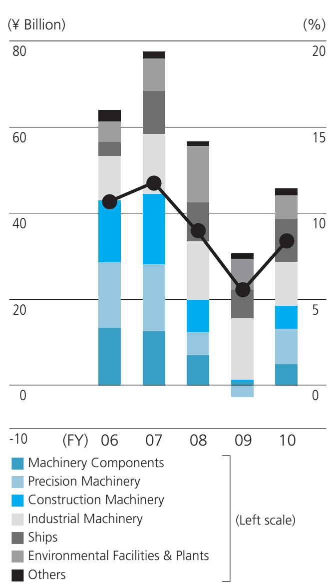
As of March 31, 2011, total assets stood at ¥626.8 billion, up ¥16.7 billion from March 31, 2010. Decreases in cash and time deposits and non-current assets were more than offset by increases due to the inclusion of Hansen Industrial Transmissions NV and other companies in consolidation. Specifically, cash and time deposits decreased ¥10.0 billion to ¥52.5 billion, mainly owing to the posting of the payment for purchase of subsidiary with change in scope of consolidation. Notes and accounts receivable ¥23.4 billion to ¥155.3 billion, reflecting such factors as the aforementioned new inclusion of certain companies in consolidation. Property, plant and equipment declined ¥2.3 billion to ¥214.2 billion, primarily due to an increase in accumulated depreciation attributable to the posting of impairment losses on fixed assets. Investments in unconsolidated subsidiaries and affiliated companies and long-term loans receivable and investment securities decreased ¥4.1 billion to ¥26.3 billion, largely due to deterioration in the fair value of securities.

Total liabilities rose ¥1.5 billion to ¥357.4 billion. Notes and accounts payable expanded ¥23.9 billion to ¥132.0 billion. Reflecting the Group's efforts to accelerate debt repayment in order to reinforce its financial strength, interest-bearing debt decreased ¥19.8 billion to ¥67.8 billion. Net interest-bearing debt—the amount of interest-bearing debt less cash and time deposits—declined ¥9.8 billion to ¥15.3 billion. The ratio of net interest-bearing debt to total assets improved 1.7 percentage points to 2.4%.

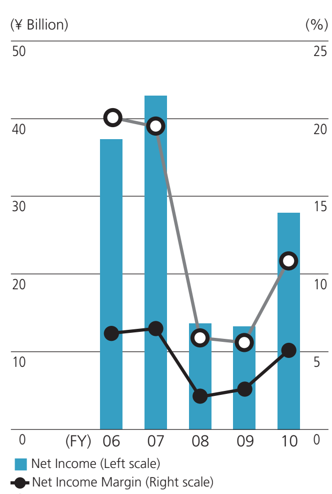
Advance payments received on contracts decreased ¥7.7 billion to ¥33.3 billion, mainly reflecting the transfer of these payments to the sales account, which resulted in increases in sales in the Environmental Facilities & Plants and Ships segments.

Net assets rose ¥15.2 billion to ¥269.4 billion. This increase was due to a rise in total owners' equity caused by such factors as an increase in

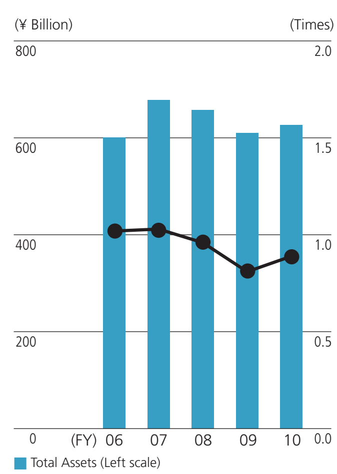
Operating Income,
Operating Income Margin



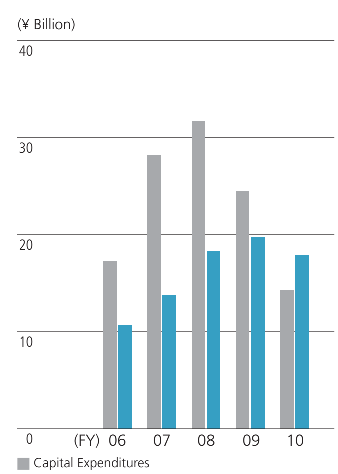
Net Income,
Net Income Margin, ROE



Total Assets,
Total Asset Turnover



Capital Expenditures,
Depreciation and Amortization



capital surplus in connection with the implementation of a stock swap with Nihon Spindle Manufacturing Co., Ltd. and an expansion in retained earnings in line with a year-on-year improvement in the Group's performance. As a result, the stockholders' equity ratio as of March 31, 2011 improved 2.6 percentage points from March 31, 2010 to 42.6%.

(2) Cash Flows

The SHI Group uses internal funds and funds procured through debt financing as working capital and to fund capital spending.

Net cash provided by operating activities totaled ¥36.5 billion, down ¥21.0 billion year on year. Cash inflows, such as income before income taxes and minority interests and the increase in notes and accounts payable, were more than offset by cash outflows, such as the increase in notes and accounts receivable and the increase in inventories.

Net cash used in investing activities amounted to ¥23.5 billion, up ¥9.6 billion year on year. A major factor was the posting of the payment for purchase of subsidiary with change in scope of consolidation.

Net cash used in financing activities totaled ¥22.0 billion, down ¥4.7 billion from fiscal 2009. The major reason for the decline was the absence of the decrease in commercial paper that was posted in the previous fiscal year.

As a result, cash and cash equivalents as of March 31, 2011 stood at ¥51.7 billion, down ¥9.8 billion from March 31, 2010.

(3) Capital Expenditures and Depreciation and Amortization

During fiscal 2010, while suspending non-urgent investment projects on the domestic front, the SHI Group concentrated its investments on the establishment of business bases in China, Brazil and other emerging countries in Southeast Asia. Total capital expenditures, including those for intangible fixed assets, declined ¥10.2 billion year on year to ¥14.3 billion. Depreciation and amortization was also down, declining ¥1.8 billion to ¥17.9 billion.

Capital expenditures by segment are described below.

a. Machinery Components

SHI made investments to bolster the capacity of its production facilities for medium- and large-sized gearboxes in China. In addition, the Company began constructing a new production base in Brazil for medium- and large-sized gearboxes. Segment capital expenditures totaled ¥3.8 billion.

b. Precision Machinery

Investments in this segment centered on the purpose of strengthening the cost-competitiveness of SHI's domestic production bases. Segment capital expenditures totaled ¥3.0 billion.

c. Construction Machinery

The SHI Group focused on boosting the capacity of its hydraulic excavator production facilities, among other projects, in China. Segment capital expenditures amounted to ¥4.4 billion.

d. Industrial Machinery

The SHI Group prioritized the upgrading of its existing facilities and equipment, aiming at enhancing their capacity and productivity. Segment capital expenditures amounted to ¥0.9 billion.

e. Ships

The SHI Group concentrated its energy on the upgrading and relocation of its existing facilities and equipment aimed at enhancing their capacity and productivity. Segment capital expenditures totaled ¥1.1 billion.

f. Environmental Facilities & Plants

In this segment, SHI invested a total of ¥0.7 billion primarily to improve business efficiency and streamline operations.

Groupwide investment projects included IT investments in line with the establishment of a global production structure, environmental investments to ensure compliance with related laws and regulations and other investments aimed at improving workplace environments.

For fiscal 2011, ending March 31, 2012, the SHI Group plans to invest a total of ¥15.0 billion, focusing on the Machinery Components, Precision Machinery and Construction Machinery segments. The Group expects to post depreciation and amortization totaling ¥18.5 billion.

3. Policy on Distribution of Profits

SHI adheres to a basic profit distribution policy of paying dividends commensurate with net income earned during the period while striving to increase dividend amounts. At the same time, the Company works to maintain retained earnings at a level sufficient to ensuring sustainable business growth over the long term.

With due consideration given to such factors as an improvement in the SHI Group's performance, the Company decided to pay out an annual dividend of ¥8 per share, a ¥4 increase from fiscal 2009.

Business Risks

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

All statements below regarding future events represent judgments made by the management of the Group as of March 31, 2011.

1. Macroeconomic Factors

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

2. Exchange-Rate Fluctuations

The Group's business includes the production and marketing of products in countries all around the world. Yen translations are applied in the consolidated financial statements for transactions (involving overseas sales, expenses, assets and liabilities) undertaken in local currencies. Due to exchange rate effects, the Group may be adversely impacted by transaction values after yen translation even if there is no such change in local currency terms. As of March 31, 2011, the Group had an order backlog, chiefly in its shipbuilding business, of US$0.4 billion. To minimize the impact of exchange-rate fluctuations on our business performance, the SHI Group uses forward exchange contracts to hedge against risk. However, it is not possible to eliminate all risk using this method. For this reason, the Group could suffer an adverse impact on its business performance from exchange-rate fluctuations.

3. Overseas Businesses

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

4. Product Quality

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

5. Impact of Impairment Accounting

Based on the Law Concerning Revaluation of Land (Ordinance No. 34, issued March 31, 1998) and the Law to Partially Modify the Law Concerning Revaluation of Land (Ordinance No. 19, March 31, 2001), the Company revalued land used by its businesses on March 31, 2002. The difference between the market and book values of the revalued land as of March 31, 2011 was ¥21.5 billion, a decline of 21%. If land values continue to fall, we may have to recognize impairment losses on fixed assets, which could adversely affect the business performance and financial position of the Group.

6. Environmental Protection Measures

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

7. Natural and Other Disasters

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

8. Electricity Shortage

The Great East Japan Earthquake on March 11, 2011 caused damage to certain power generation facilities in Japan. Because of this situation, there is the possibility that the short supply of electricity could prevent the SHI Group from undertaking its production operations as scheduled in the event of the short supply of electricity, particularly during the peak hours of power consumption in summer. Therefore, this event may have an adverse effect on the Group's business performance.

Consolidated Balance Sheets

March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2011	2010	2011
Current assets:			
Cash and time deposits (Notes 2 and 5)	¥ 52,486	¥ 62,511	$ 632,358
Trade receivables:			
Notes receivable	12,565	9,900	151,384
Accounts receivable	142,702	121,993	1,719,300
Allowance for doubtful accounts	(991)	(1,073)	(11,940)
Inventories (Note 3)	131,035	123,416	1,578,736
Deferred tax assets (Note 6)	9,648	8,632	116,239
Prepaid expenses and other current assets (Notes 2 and 5)	17,897	14,401	215,636
Total current assets	365,342	339,780	4,401,713
Property, plant and equipment:			
Land (Note 5)	117,157	115,971	1,411,526
Buildings and structure (Note 5)	139,776	139,711	1,684,047
Machinery and other tangible fixed assets (Note 5)	158,195	145,800	1,905,972
Construction in progress	1,938	1,450	23,351
	417,066	402,932	5,024,896
Accumulated depreciation	(202,910)	(186,455)	(2,444,705)
Net property, plant and equipment	214,156	216,477	2,580,191
Investments, long-term loans and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	10,949	13,509	131,912
Long-term loans receivable and investment securities (Note 13)	15,400	16,968	185,538
Deferred tax assets (Note 6)	8,319	9,886	100,234
Other assets	14,135	15,041	170,302
Allowance for doubtful accounts	(1,472)	(1,574)	(17,730)
Total investments, long-term loans and other assets	47,331	53,830	570,256
Total assets	¥626,829	¥610,087	$7,552,160

LIABILITIES AND NET ASSETS	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2011
Current liabilities:			
Short-term bank loans (Note 5)	¥ 21,504	¥ 30,524	$ 259,084
Long-term debt due within one year (Note 5)	4,411	10,438	53,145
Trade payable:			
Notes payable	26,772	26,211	322,557
Accounts payable	105,179	81,806	1,267,211
Advance payments received on contracts	33,295	40,971	401,141
Accrued income taxes	11,574	6,759	139,441
Allowance for warranty	5,196	5,218	62,605
Allowance for losses on construction contracts	1,040	754	12,533
Allowance for losses on business restructuring	412	1,530	4,959
Accrued expenses and other current liabilities (Notes 5 and 6)	33,124	30,743	399,092
Total current liabilities	242,507	234,954	2,921,768
Long-term liabilities:			
Long-term debts (Note 5)	41,918	46,698	505,042
Employees' severance and retirement benefits (Note 15)	31,380	32,426	378,077
Allowance for losses on product liabilities	208	235	2,505
Deferred tax liabilities on revaluation difference on land	31,836	32,211	383,564
Other long-term liabilities (Note 6)	9,600	9,410	115,667
Total long-term liabilities	114,942	120,980	1,384,855
Contingent liabilities (Note 8)			
Net assets (Note 7):			
Common stock:	30,872	30,872	371,948
Number of shares authorized 1,800,000 thousand shares			
Number of shares issued 614,527 thousand shares in 2011 605,726 thousand shares in 2010			
Capital surplus	23,789	20,503	286,613
Retained earnings	188,047	161,951	2,265,630
Treasury stock at cost: 122,181 shares in 2011 2,315,778 shares in 2010	(67)	(1,494)	(809)
Total owners' equity	242,641	211,832	2,923,382
Unrealized gains on securities, net of income taxes	982	2,002	11,822
Unrealized gains on hedging derivatives, net of income taxes	960	1,125	11,565
Adjustment regarding pension obligations of consolidated overseas subsidiaries	(1,978)	(1,753)	(23,826)
Revaluation difference on land	39,851	40,386	480,131
Foreign currency translation adjustments	(15,129)	(9,370)	(182,276)
Total accumulated other comprehensive income	24,686	32,390	297,416
Minority interests	2,053	9,931	24,739
Total net assets	269,380	254,153	3,245,537
Total liabilities and net assets	¥626,829	¥610,087	$7,552,160

See accompanying notes.

Consolidated Statements of Income

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net sales (Note 10)	¥548,015	¥516,165	$6,602,594
Costs and expenses (Note 10):			
Cost of sales	426,479	412,751	5,138,297
Selling, general and administrative expenses	75,733	75,160	912,450
	502,212	487,911	6,050,747
Operating income (Note 10)	45,803	28,254	551,847
Other income (expenses):			
Income			
Interest and dividend income	1,515	1,222	18,258
Exchange gains	111	933	1,333
Other—net	2,283	2,395	27,508
Expenses			
Interest expense	(1,489)	(1,940)	(17,946)
Equity in losses of affiliates	(447)	(22)	(5,385)
Other—net	(3,582)	(4,296)	(43,159)
Extraordinary gains (losses):			
Gains			
Gain on negative goodwill	3,437	—	41,406
Gain on sale of securities	80	1,581	962
Subsidy	—	863	—
Losses			
Impairment losses on fixed assets (Note 4)	(1,396)	—	(16,822)
Loss on revision of retirement benefit plan	(503)	—	(6,055)
Effect of adoption of accounting standard for asset retirement obligations	(480)	—	(5,781)
Contract loss	(220)	(1,000)	(2,647)
Loss on valuation of investment securities	(21)	(1,000)	(249)
Environmental expenses	—	(503)	—
Business restructuring costs	—	(213)	—
Income before income taxes and minority interests	45,091	26,274	543,270
Income taxes (Note 6):			
Current	16,555	11,503	199,463
Deferred	(468)	382	(5,643)
Total	16,087	11,885	193,820
Income before minority interests	29,004	14,389	349,450
Minority interests in net income	(1,078)	(1,109)	(12,989)
Net income	¥ 27,926	¥ 13,280	$ 336,461

	Yen		U.S. dollars (Note 1)
	2011	2010	2011
Amounts per share of common stock:			
Net income	¥45.87	¥22.01	$0.55
Diluted net income	—	—	—
Cash dividends applicable to the year (Note 16)	8.00	4.00	0.10

See accompanying notes.

Consolidated Statements of Comprehensive Income

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Income before minority interests	¥29,004	¥14,389	$349,450
Other comprehensive income:			
Unrealized gains (losses) on securities, net of income taxes	(1,046)	2,556	(12,604)
Unrealized losses on hedging derivatives, net of income taxes	(120)	(862)	(1,444)
Adjustment regarding pension obligations of consolidated overseas subsidiaries	(224)	1,255	(2,702)
Foreign currency translation adjustments	(5,970)	(529)	(71,925)
Share of other comprehensive income of affiliates accounted for using equity method	(43)	45	(522)
Other comprehensive income	(7,403)	2,465	(89,197)
Comprehensive income	21,601	16,854	260,253
Comprehensive income attributable to			
Owners of the parent	20,756	15,693	250,072
Minority interests	845	1,161	10,181

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2011 and 2010

		Owners' equity				
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock	Sub-total
Net assets at March 31, 2009	605,726	¥30,872	¥20,503	¥148,725	¥(1,471)	¥198,629
Net income				13,280		13,280
Acquisition of treasury stock					(28)	(28)
Disposal of treasury stock				(1)	5	4
Increase due to transfer of revaluation difference on land				(26)		(26)
Increase of consolidated subsidiaries with change in scope of consolidation				578		578
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation				(605)		(605)
Changes in items other than owners' equity in the period (net)						
Total changes in the period	—	—	—	13,226	(23)	13,203
Net assets at March 31, 2010	605,726	¥30,872	¥20,503	¥161,951	¥(1,494)	¥211,832

		Owners' equity				
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock	Sub-total
Net assets at March 31, 2010	605,726	¥30,872	¥20,503	¥161,951	¥(1,494)	¥211,832
Dividends				(2,414)		(2,414)
Net income				27,926		27,926
Acquisition of treasury stock					(164)	(164)
Disposal of treasury stock			5	(1)	8	12
Increase due to transfer of revaluation difference on land				535		535
Increase by stock exchange			3,281		1,583	4,864
Increase of consolidated subsidiaries with change in scope of consolidation				50		50
Changes in items other than owners' equity in the period (net)						
Total changes in the period	8,801	—	3,286	26,096	1,427	30,809
Net assets at March 31, 2011	614,527	¥30,872	¥23,789	¥188,047	¥ (67)	¥242,641

		Owners' equity				
	Number of shares of common stock (Thousand)	Common stock	Capital surplus	Retained earnings	Treasury stock	Sub-total
Net assets at March 31, 2010	605,726	$371,948	$247,019	$1,951,214	$(18,001)	$2,552,180
Dividends				(29,080)		(29,080)
Net income				336,461		336,461
Acquisition of treasury stock					(1,972)	(1,972)
Disposal of treasury stock			63	(14)	96	145
Increase due to transfer of revaluation difference on land				6,441		6,441
Increase by stock exchange			39,531		19,068	58,599
Increase of consolidated subsidiaries with change in scope of consolidation				608		608
Changes in items other than owners' equity in the period (net)						
Total changes in the period	8,801	—	39,594	314,416	17,192	371,202
Net assets at March 31, 2011	614,527	$371,948	$286,613	$2,265,630	$ (809)	$2,923,382

Millions of yen

Accumulated other comprehensive income							
Unrealized gains (losses) on securities, net of income taxes	Unrealized gains (losses) on hedging derivatives, net of income taxes	Adjustment regarding pension obligations of consolidated overseas subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
¥ (547)	¥1,945	¥(3,008)	¥40,360	¥(8,798)	¥29,952	¥10,116	¥238,697
							13,280
							(28)
							4
							(26)
							578
							(605)
2,549	(820)	1,255	26	(572)	2,438	(185)	2,253
2,549	(820)	1,255	26	(572)	2,438	(185)	15,456
¥2,002	¥1,125	¥(1,753)	¥40,386	¥(9,370)	¥32,390	¥ 9,931	¥254,153

Millions of yen

Accumulated other comprehensive income							
Unrealized gains (losses) on securities, net of income taxes	Unrealized gains (losses) on hedging derivatives, net of income taxes	Adjustment regarding pension obligations of consolidated overseas subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
¥2,002	¥1,125	¥(1,753)	¥40,386	¥ (9,370)	¥32,390	¥9,931	¥254,153
							(2,414)
							27,926
							(164)
							12
							535
							4,864
							50
(1,020)	(165)	(225)	(535)	(5,759)	(7,704)	(7,878)	(15,582)
(1,020)	(165)	(225)	(535)	(5,759)	(7,704)	(7,878)	15,227
¥ 982	¥ 960	¥(1,978)	¥39,851	¥(15,129)	¥24,686	¥2,053	¥269,380

Thousands of U.S. dollars (Note 1)

Accumulated other comprehensive income							
Unrealized gains (losses) on securities, net of income taxes	Unrealized gains (losses) on hedging derivatives, net of income taxes	Adjustment regarding pension obligations of consolidated overseas subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
$24,130	$13,554	$(21,123)	$486,572	$(112,886)	$390,247	$119,656	$3,062,083
							(29,080)
							336,461
							(1,972)
							145
							6,441
							58,599
							608
(12,308)	(1,989)	(2,703)	(6,441)	(69,390)	(92,831)	(94,917)	(187,748)
(12,308)	(1,989)	(2,703)	(6,441)	(69,390)	(92,831)	(94,917)	183,454
$11,822	$11,565	$(23,826)	$480,131	$(182,276)	$297,416	$ 24,739	$3,245,537

Consolidated Statements of Cash Flows

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes and minority interests	¥45,091	¥26,274	$543,270
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	17,941	19,725	216,156
Gain on negative goodwill	(3,437)	—	(41,406)
Impairment losses on fixed assets	1,396	—	16,822
Loss on revision of retirement benefit plan	503	—	6,055
Effect of adoption of accounting standard for asset retirement obligations	480	—	5,781
Loss on disposal of property, plant and equipment	434	584	5,227
Gain or loss on sale of investment securities	(78)	(1,581)	(942)
Loss on valuation of investment securities	52	1,000	628
Contract loss	220	1,000	2,647
Environmental expenses	—	503	—
Business restructuring costs	—	213	—
Decrease in employees' severance and retirement benefits	(702)	(1,327)	(8,453)
Equity in losses of affiliates	447	22	5,385
Decrease in allowance	(818)	(17)	(9,860)
Interest and dividend income	(1,515)	(1,222)	(18,258)
Interest expenses	1,489	1,940	17,946
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(30,224)	15,652	(364,148)
(Increase) decrease in inventories	(6,280)	27,977	(75,664)
Increase (decrease) in notes and accounts payable	26,420	(29,282)	318,315
Other—net	(2,124)	5,551	(25,588)
Sub-total	49,295	67,012	593,913
Interest and dividend received	1,014	1,785	12,214
Interest expenses	(1,508)	(1,869)	(18,168)
Payment for income taxes	(12,280)	(9,415)	(147,947)
Net cash provided by operating activities	¥36,521	¥57,513	$440,012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Cash flows from investing activities:			
Net (increase) decrease in time deposits	¥ (368)	¥ 1,713	$ (4,432)
Decrease in short-term investment securities	—	1,500	—
Payment for purchase of subsidiary with change in scope of consolidation (Note 2)	(10,607)	—	(127,791)
Payments for securities	(47)	(46)	(572)
Payments for purchases of property, plant and equipment	(14,393)	(20,004)	(173,411)
Proceeds from sale of securities	457	1,485	5,501
Payment for purchase of investment in affiliated company	(76)	(22)	(918)
Proceeds from sale of property, plant and equipment	1,511	926	18,208
Decrease (increase) in short-term loans receivable	(270)	778	(3,251)
Payments for long-term loans receivable	(9)	(9)	(110)
Collection of long-term loans receivable	20	24	241
Other—net	269	(299)	3,248
Net cash used in investing activities	(23,513)	(13,954)	(283,287)
Cash flows from financing activities:			
Decrease in short-term loans	(7,260)	(5,754)	(87,464)
Decrease in commercial paper	—	(24,000)	—
Proceeds from long-term debt	—	6,099	—
Payments for long-term debt	(10,697)	(1,137)	(128,874)
Proceeds from issuance of bonds	—	10,000	—
Redemption of bonds	—	(10,000)	—
Cash dividends paid	(2,423)	(22)	(29,194)
Payment of dividends for minority stockholders	(347)	(1,004)	(4,176)
Repayments of finance lease obligations	(1,189)	(843)	(14,328)
Other—net	(104)	(25)	(1,268)
Net cash used in financing activities	(22,020)	(26,686)	(265,304)
Effect of exchange rate changes on cash and cash equivalents	(977)	206	(11,766)
Net increase (decrease) in cash and cash equivalents	(9,989)	17,079	(120,345)
Cash and cash equivalents at beginning of year	61,452	42,414	740,389
Increase due to new consolidated companies	237	1,942	2,849
Increase due to a consolidated subsidiary's merger with a non-consolidated subsidiary	—	17	—
Cash and cash equivalents at the end of year (Note 2)	¥51,700	¥61,452	$622,893

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 Financial Instruments 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.

As discussed in Change in accounting policies (G), the accounts of consolidated overseas subsidiaries for the year ended March 31, 2009 were prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified six items as applicable.

The accompanying consolidated financial statements have been reformatted and translated into English (with certain expanded descriptions) 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 Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2011, which was ¥83 to U.S. $1. The convenience translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be when converted into U.S. dollars at this or any other rate of exchange.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries ("the Companies"). All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in significant affiliated companies are accounted for by the equity method. Significant goodwill and negative goodwill, which is difference between the investment cost and net assets at the date of acquisition are amortized over 5 years. In case of insignificant amounts, such amounts are charged or credited to income as incurred. Negative goodwill which was incurred for the year ended March 31, 2011 was fully amortized at the time of generation.

Consolidated statements of cash flows

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

Marketable and investment securities

Held-to-maturity debt securities are stated at amortized cost. Available-for-sale securities with fair values are stated at fair value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets. Realized gains and losses on sale of such securities are computed using the moving-average method. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at cost based on the moving-average method. Unlisted available-for-sale securities are stated at cost based on the moving-average method.

Inventories

Inventories are stated at the lower of cost or net realizable value as of the year-end date.

Depreciation and amortization

Tangible fixed assets (not including lease assets):

Buildings acquired between April 1, 1998 and March 31, 2007 are depreciated using a straight-line method with residual value of 5%. Buildings acquired after April 1, 2007 are depreciated primarily using a straight-line method with no residual value. Other tangible fixed assets acquired on or before March 31, 2007 are depreciated primarily by declining-balance method with residual value of 5% and those acquired after April 1, 2007 are depreciated by declining-balance method with no residual value.

Lease assets:

The Company and consolidated domestic subsidiaries account for finance leases commencing prior to April 1, 2008 which do not transfer the ownership of the leased property to the lessee as operating leases with disclosures of certain "as if capitalized" information. The Company and consolidated domestic subsidiaries capitalized finance leases that commenced after March 31, 2008, except for certain immaterial or short-term finance leases, which are accounted for as operating leases.

Property and equipment capitalized under finance lease arrangements are depreciated by the straight-line method over the lease term.

Allowance for doubtful accounts

The Company and consolidated subsidiaries provide an allowance for doubtful accounts. Calculation of the allowance is based on historical collection losses for normal receivables, and for accounts receivable considered at risk (bankruptcy, companies under reorganization plan), the amount is recorded based on an estimated uncollectible amount, on an individual basis.

Revaluation difference on land

The Company revaluated land used for business operations on March 31, 2002 in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land effective March 31, 1998.

The current value of the land as of March 31, 2011 fell by ¥21,529 million ($259,389 thousand) in comparison with the book value of the land after the revaluation.

Employees' severance and retirement benefits

In order to provide for retirement benefits to be paid to employees, the amount considered to have been accrued at the end of the fiscal year is recorded based on the estimated amount of retirement benefit obligations and pension plan assets at the end of the fiscal year.

Prior service costs are charged to expenses as incurred by the Company, and amortized by the straight-line method over a period within the average remaining service year of employees (mainly 12 years) by consolidated subsidiaries.

The actuarial gains (losses) are amortized by the straight-line method over a period within the average remaining service year of employees (mainly 12 years) commencing from the next year of the incurrence.

Allowance for warranty

For expenditures in relation to repair work to be performed free of charge after delivery of products, allowance for warranty is provided at an amount estimated to be incurred based on the past experience of such repair work actually performed.

Allowance for losses on construction contracts

With regard to construction contracts with high probability of incurring substantial losses, an estimated amount of losses to be incurred in the future is provided as allowance for the losses on construction contracts.

Allowance for losses on product liabilities

Allowance for losses on product liabilities is provided at an estimated amount of product liabilities to be incurred in relation to crane business of overseas subsidiaries.

Allowance for losses on business restructuring

Allowance for losses on business restructuring is provided at an estimated amount to be incurred in connection with business restructuring of the Company and affiliated companies.

Revenue recognition of construction contracts

The percentage-of-completion method is applied to construction contracts when outcome of individual contracts is reliably estimated. The completed-contract method is applied to the other construction contracts.

Software costs

The Companies amortize costs of software for their own use using the straight-line method over the estimated useful life (5 years).

Research and development costs

Research and development costs are charged to income when incurred. Research and development costs included in manufacturing cost, and selling, general and administrative expenses were ¥8,228 million ($99,138 thousand) and ¥8,930 million for the years ended March 31, 2011 and 2010, respectively.

Income taxes

The Companies recognize deferred taxes for temporary differences between the financial statement basis and the tax basis of assets and liabilities.

The Company and certain domestic consolidated subsidiaries adopt Japanese tax regulations for a consolidated tax return.

Foreign currency translation

Receivables and payables in foreign currencies are translated into Yen at year-end rates.

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Yen at balance sheet date rates of each foreign subsidiary, except for common stock, capital surplus and retained earnings, which are translated at historical rates.

From the fiscal year ended March 31, 2011, income and expense accounts are translated at average rates. In the fiscal year ended March 31, 2010, income and expense accounts were translated at balance sheet date rates. The adjustment resulting from the foreign currency translation is reported in net assets.

Amortization of goodwill

Goodwill and negative goodwill that were generated on or before March 31, 2010, are equally amortized over 5 years. However, if the amount of goodwill or negative goodwill is insignificant, such an amount is fully amortized at the time of generation. Negative goodwill which was incurred for the year ended March 31, 2011 was fully amortized at the time of generation.

Derivatives and hedge accounting

Derivative financial instruments are stated at fair value and changes in the fair value are recognized as gains or losses. When derivatives are used for hedging purposes, the Companies defer recognition of gains or losses resulting from changes in fair value of the derivatives until related losses or gains on the hedged items are recognized.

However, if forward foreign exchange contracts meet certain hedging criteria, they are accounted for as follows;

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

a) The difference, between the 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 Yen amount of the contract using the contracted forward rate and the amount using the spot rate at the inception date of the contract) is recognized over the term of the contract.

When forward foreign exchange contracts are executed to hedge a future transaction in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses will be recognized.

When interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received is added to or deducted from the interest on the assets or liabilities for which the swap contracts were executed.

When currency option contracts are executed to hedge future transactions in foreign currencies, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the currency option contracts are recognized.

Amounts per share

The computation of net income per share of common stock is based on a weighted-average number of shares of common stock outstanding during each fiscal year.

The diluted net income per share is not presented, because the Company does not have any outstanding convertible bonds or bonds with share subscription rights.

Cash dividends per share have been presented on an accrual basis and include year-end cash dividend resolved at shareholders' meeting held after the end of fiscal year, but applicable to the year ended.

Reclassifications

Certain amounts in the consolidated financial statements for the year ended March 31, 2010 have been reclassified to conform to the 2011 presentation.

Change in accounting policies

(A) New accounting standards for Presentation of Comprehensive Income

Effective from the fiscal year ended March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (Accounting Standard Board of Japan ("ASBJ") Statement No. 25 on June 30, 2010) and "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on June 20, 2010).

As a result of the adoption of these standards, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011.

(B) New accounting standards for the Equity Method

Effective from the fiscal year ended March 31, 2011, the "Accounting Standard for the Equity Method" (ASBJ Statement No. 16, issued on March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ PITF No. 24, issued on March 10, 2008) have been adopted. There is no impact of this change on income before income taxes and minority interests for the year ended March 31, 2011.

(C) New accounting standards for Asset Retirement Obligations

Effective from the fiscal year ended March 31, 2011, the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and the "Guidance on the Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008) have been adopted.

As a result, operating income for this consolidated fiscal year each decreased by ¥24 million ($290 thousand), and income before income taxes and minority interests decreased by ¥504 million ($6,071 thousand).

(D) New accounting standards for Business Combinations

Effective from the fiscal year ended March 31, 2011, the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on December 26, 2008), the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on December 26, 2008), the "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, issued on December 26, 2008), the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on December 26, 2008), the "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, issued on December 26, 2008) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on December 26, 2008) have been adopted.

(E) New accounting standards for Retirement Benefits

Effective from the fiscal year ended March 31, 2010, the Company and consolidated domestic subsidiaries adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, issued on July 31, 2008). The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, domestic companies were allowed to use a discount rate determined by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. There is no impact of this change on the operating income and income before income taxes and minority interests for the year ended March 31, 2010.

(F) New accounting standard for Construction Contracts

To account for the revenues and costs of construction contracts, the percentage-of-completion method was applied to long-term, large-scale construction contracts that met certain conditions, whereas the completed-contract method was applied to other construction contracts. Effective from the year ended March 31, 2010, the domestic companies adopted the "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15, issued on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, issued on December 27, 2007). Accordingly, when the outcome of individual contracts is reliably estimated, the domestic companies apply the percentage-of-completion method to construction projects commencing in the year ended March 31, 2010, otherwise the completed-contract method is applied. The percentage of completion at the end of the reporting period is measured by the proportion of the cost incurred to the estimated total cost. As a result of the adoption, net sales for this consolidated fiscal year increased by ¥781 million and operating income and income before taxes and minority interests each increased by ¥116 million compared to the previous accounting method. Effects on the change on the segment information are described in "10. Segment information (C)"

(G) Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Effective from the fiscal year ended March 31 2009, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" ("PITF No. 18"). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following six items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP unless the impact is not material.

a) Goodwill not subject to amortization

b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss

c) Capitalized expenditures for research and development activities

d) Fair value measurement of investment properties, and revaluation of property, plant and equipment and intangible assets

e) Retrospective treatment of a change in accounting policies

f) Accounting for net income attributable to minority interests

The adoption of PITF No. 18 did not have any material impact on the Company's consolidated financial statements.

Business combinations

(A) Stock exchange with Nihon Spindle Manufacturing Co., Ltd.

1. General information

On October 1, 2010, the Company and Nihon Spindle Manufacturing Co,. Ltd. (hereinafter "Nihon Spindle"), executed a stock exchange.

The legal form of the transaction is a stock exchange to convert Nihon Spindle into a wholly-owned subsidiary of the Company. The stock exchange was executed as a simplified stock exchange under Article 796 Paragragh 3 of the Corporate Law, and the Company acquired additional 59.1% of the voting rights of Nihon Spindle, including 0.4% of indirect ownership.

2. Business of the entity

The business of Nihon Spindle is manufacturing and distribution of environmental, air pollution control, industrial equipment and construction materials.

3. Overview of the transaction and the purpose

Since Nihon Spindle became a consolidated subsidiary of the Company in October 2007, both companies have worked together to create business synergies.

However, the business environment has significantly changed and market competition has become more intense as a result of the global economic downturn that began in the second half of 2008. In order to cope with such changes, Nihon Spindle is constantly asked to further expand its global presence and strengthen its product capabilities by its shareholders. With this in mind, Nihon Spindle developed a plan to actively utilize the technical development capabilities and global business network of the Company in order to set it on a growth trajectory.

Through the conversion of Nihon Spindle into a wholly-owned subsidiary, the Company intends to maximize business synergies between the two companies more quickly. This will help Nihon Spindle strengthen its operating foundation, achieve long-term growth, and will ultimately improve the corporate value of the entire Companies.

4. Acquisition costs

	Millions of yen
Acquisition price	¥4,864
Direct costs attributable to the acquisition	41
Acquisition costs	4,905

5. The ratio for the stock exchange

	Stock exchange ratio
The Company	1.0
Nihon Spindle	0.38

Notes: 1. Stock exchange ratio
0.38 share of the common stock of the Company was allocated to shareholders of Nihon Spindle in exchange for 1 share of its common stock of Nihon Spindle. However, no shares of the Company were allocated to the shares of the common stock of Nihon Spindle owned by the Company (19,494,180 shares).
2. The method of calculation and basis of calculation by a third party institution
The Company had Daiwa Securities Capital Markets Co., Ltd. calculate the stock exchange ratio. Daiwa Securities Capital Markets Co., Ltd. performed an analysis with respect to the Company and Nihon Spindle, based on the market share-value method together with the discounted cash flow method, and calculated the stock exchange ratio by considering the results of these analyses. Meanwhile, Nihon Spindle had Nomura securities calculate the ratio and it performed an analysis of the Company and Nihon Spindle based on three methods; the market share-value average method, the comparison with similar companies method and the discounted cash flow method. Nomura Securities Co., Ltd. calculated the stock exchange ratio by considering the results of the analyses. Based on the above results, the Company and Nihon Spindle determined the stock exchange ratio as explained.

6. Number of stocks delivered and the assessed value

Number of stocks delivered to Nihon Spindle	11,311,011 shares
Assessed value	4,864 millions of yen

The Company used its treasury stock as part of the stocks to be delivered for the stock exchange.

7. Negative goodwill

(1) Amount of negative goodwill 3,437 millions of yen

(2) Reason for the negative goodwill

The negative goodwill was recorded since the amount of minority interests decreased by this stock exchange was higher than the costs of the additionally acquired common stock of Nihon Spindle.

(B) Acquisition of stocks of HANSEN INDUSTRIAL TRANSMISSIONS NV

1. General information

On March 4, 2011, the Company acquired stocks of HANSEN INDUSTRIAL TRANSMISSIONS NV, a group company of HANSEN TRANSMISSIONS INTERNATIONAL NV in Belgium.

The legal form of the transaction is purchase of stock. As a result of the transaction, the Company's ownership of the voting rights increased to 100%.

2. Business of the entity

The business of HANSEN INDUSTRIAL TRANSMISSIONS NV is manufacturing and distribution of industrial gearboxes.

3. Overview of the transaction and the purpose

To expand the overseas distribution channels, and increase sales of industrial gearboxes in the Machinery Components business.

4. Acquired company's financial results for 2011

As the acquisition date is regarded to be on March 31, 2011, the results of operations of the acquired company before March 31, 2011 are not included in the Company's consolidated financial statement.

5. Acquisition costs

	Millions of yen
Acquisition price	¥10,097
Direct costs attributable to the acquisition	436
Acquisition costs	10,533

6. Goodwill

(1) Amount of goodwill 1,070 millions of yen

(2) Reason for the goodwill

The goodwill was recorded since the acquisition price agreed with the seller was higher than the net assets measured at fair value as of the date of the acquisition.

(3) Amortization of goodwill

Goodwill is amortized using the straight-line method over a five-year period.

2. Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less. Those are readily convertible to known amounts of cash and have negligible risk of changes in value.

Cash and cash equivalents as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and time deposits	¥52,486	¥62,511	$632,358
Time deposits with maturities over three months	(659)	(322)	(7,931)
Restricted deposits	(128)	(738)	(1,546)
Investment securities (cash equivalents)	1	1	12
Cash and cash equivalents	¥51,700	¥61,452	$622,893

The Company acquired additional voting rights of an affiliate, LBX COMPANY, LLC in the year ended March 31, 2011. As a result, LBX COMPANY, LLC became a consolidated subsidiary.

The following table summarizes the assets and liabilities of LBX COMPANY, LLC at the acquisition date and the stock acquisition price.

LBX COMPANY, LLC (as of April 30, 2010)

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Current assets	¥5,058	$60,943
Non-current assets	473	5,693
Goodwill generated	585	7,051
Current liabilities	(1,259)	(15,168)
Non-current liabilities	(14)	(171)
Book value on an equity basis before acquisition	(2,116)	(25,491)
Acquisition cost of stock	¥2,727	$32,857
Cash and cash equivalents	(119)	(1,430)
Payment for purchase of subsidiary with change in scope of consolidation	¥2,608	$31,427

As explained in the Note of Business combinations (B), the Company acquired the stock of HANSEN INDUSTRIAL TRANSMISSIONS NV, which became a consolidated subsidiary.

The following table summarizes the assets and liabilities of HANSEN INDUSTRIAL TRANSMISSIONS NV and six other Hansen Group companies at the acquisition date and the stock acquisition price.

HANSEN INDUSTRIAL TRANSMISSIONS NV and six other Hansen Group companies (as of March 31, 2011)

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Current assets	¥ 8,806	$106,100
Non-current assets	5,278	63,590
Goodwill generated	1,070	12,889
Current liabilities	(3,833)	(46,180)
Non-current liabilities	(788)	(9,498)
Acquisition cost of stock	¥10,533	$126,901
Cash and cash equivalents	(2,535)	(30,537)
Payment for purchase of subsidiary with change in scope of consolidation	¥ 7,998	$ 96,364

3. Inventories

Inventories as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Finished products	¥ 41,827	¥ 34,408	$ 503,941
Work in process	70,802	70,071	853,033
Raw materials and supplies	18,406	18,937	221,762
Total	¥131,035	¥123,416	$1,578,736

4. Impairment losses on fixed assets

The Company and a certain consolidated subsidiary recognized the following impairment losses in the year ended March 31, 2011.

			Millions of yen	Thousands of U.S. dollars
Use	Type of assets	Location	2011	2011
Idle	Lands and buildings, etc.	Inage-ku Chiba, etc.	¥1,251	$15,076
Common assets	Lands and buildings	Yokosuka, Kanagawa Pref.	91	1,094
Idle	Lands	Niihama, Ehime Pref, etc.	39	473
Other		—	15	179
Total			¥1,396	$16,822

Reason for recognition of impairment losses

Mainly due to a change in the welfare and benefit program, recoverability became questionable.

Grouping of assets

Assets' grouping is made on a division basis. Temporarily idle assets constitute one group of assets.

Calculation of recoverable amount

The recoverable amount is generally based on a net selling price; it is calculated by deducting costs related to sale from the selling price.

5. Bank loans and long-term debt

Bank loans as of March 31, 2011 and 2010 consisted of short-term loans, bearing average interest at 1.56% and 1.69% per annum, respectively.

The amounts of lease obligation under finance leases include the imputed interest expense portion.

Long-term debt as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
0.9 % domestic bonds due in December 2014	¥10,000	¥10,000	$120,482
Loans principally from banks and insurance companies due serially through June 2018 with interest ranging from 1.12% to 2.20% in FY2010			
Secured	595	1,196	7,166
Unsecured	35,735	45,940	430,538
Lease obligations	4,862	4,320	58,584
	¥51,192	¥61,456	$616,770
Amount due within one year	5,441	11,226	65,553
Amount due after one year	45,751	50,230	551,217

Annual maturities of long-term debt as of March 31, 2011 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31	2011	2011
2012	¥ 5,441	$ 65,553
2013	21,640	260,725
2014	1,894	22,823
2015	21,932	264,244
2016	189	2,272
2017 and thereafter	96	1,153
Total	¥51,192	$616,770

As of March 31, 2011 and 2010, assets pledged as collateral for short-term loans, long-term loans from banks and insurance companies and domestic bonds were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and time deposits	¥ 129	¥ 739	$ 1,550
Buildings and structure	1,681	2,295	20,255
Machinery and other tangible fixed assets	40	87	485
Land	34,387	34,529	414,306
Total	¥36,237	¥37,650	$436,596

The Company has agreements with twelve banks for revolving lines of credit and four global commitment lines to efficiently raise working capital.

As of March 31, 2011 and 2010, unused revolving lines of credit and global commitment lines were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Limit of revolving lines of credit and global commitment lines	¥49,304	¥50,888	$594,024
Used	6,046	3,551	72,841
Unused	¥43,258	¥47,337	$521,183

6. Income tax

The Companies are subject to corporate, inhabitants' and enterprise taxes, which, in the aggregate show a statutory tax rate in Japan of approximately 41% for the years ended March 31, 2011 and 2010.

The following table summarizes significant differences between the statutory tax rate and the effective tax rate for consolidated financial statement purposes for the years ended March 31, 2011 and 2010.

	2011	2010
Statutory tax rate	40.69%	40.69%
Expenses not deductible for tax purposes	0.60	2.70
Per capita inhabitant tax	0.47	0.80
Dividend income deductible for tax purpose	(1.49)	(4.42)
Gain on negative goodwill	(3.10)	—
Others	(1.49)	5.46
Effective tax rate	35.68%	45.23%

Main components of deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Accrued bonuses	¥ 3,476	¥ 3,280	$ 41,879
Allowance for doubtful accounts	1,068	869	12,867
Allowance for warranty	1,829	1,832	22,035
Allowance for employees' severance and retirement benefit	15,110	15,070	182,044
Unrealized profit on inventories	1,208	704	14,558
Devaluation of marketable securities and investments into affiliated companies	1,029	1,045	12,403
Depreciation	1,219	1,202	14,686
Net operating loss carryforward	6,103	5,382	73,527
Loss on valuation of inventories	2,202	2,238	26,531
Others	8,779	6,872	105,773
Total deferred tax assets	42,023	38,494	506,303
Less-valuation allowance	(17,334)	(14,109)	(208,840)
Deferred tax assets—net	¥24,689	¥24,385	$ 297,463
Deferred tax liabilities:			
Tax depreciation reserve	(103)	(112)	(1,235)
Difference on revaluation of assets and liabilities of subsidiaries	(3,800)	(3,955)	(45,787)
Accelerated depreciation	(1,669)	(662)	(20,106)
Retained earnings in consolidated overseas subsidiaries	(1,550)	(1,328)	(18,678)
Net unrealized holding gains on securities	(595)	(1,038)	(7,171)
Deferred gain or loss on hedges	(693)	(813)	(8,345)
Others	(360)	(104)	(4,340)
Deferred tax liabilities	¥ (8,770)	¥ (8,012)	$(105,662)
Net deferred tax assets	¥15,919	¥16,373	$ 191,801

7. Net assets

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law ("the Law"), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, generally legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting.

Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese laws and regulations. The maximum amount that the Company can distribute as dividends at March 31, 2011, amounted to ¥38,956 million ($469,352 thousand).

At the general shareholders' meeting held on June 29, 2011, the shareholders resolved cash dividends amounting to ¥4,915 million ($59,220 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2011 and are recognized in the period in which they were resolved.

8. Contingent liabilities

Certain consolidated domestic subsidiaries are contingently liable as endorsers of trade notes receivable discounted with banks in the amounts of ¥2,488 million ($29,978 thousand) and ¥2,502 million as of March 31, 2011 and 2010. In addition, the Company and certain consolidated subsidiaries are contingently liable as guarantors of bank loans or other borrowings by unconsolidated subsidiaries, affiliated companies and employees in the amounts of ¥25,397 million ($305,987 thousand) and ¥15,495 million as of March 31, 2011 and 2010, respectively (net of guarantees by co-guarantors).

9. Statement of income and comprehensive income

As described in Note 1, the consolidated balance sheet and the consolidated statement of changes in net assets as of and for the fiscal year ended March 31, 2010 have been modified to conform with the new presentation rules of 2011. In addition, the Company has presented the consolidated statement of comprehensive income for the fiscal year ended March 31, 2010 as well as that for the fiscal year ended March 31, 2011.

10. Segment information

(A) Segment information

From the fiscal year ended March 31, 2011, the "Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (Accounting Standards Board of Japan ("ASBJ") Statement No. 17, issued on March 27, 2009) and the "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ PITF No. 20, issued on March 21, 2009) have been adopted.

The Companies' primary business activities consist of (1) machinery components, (2) precision machinery, (3) construction machinery, (4) industrial machinery, (5) ships, (6) environmental facilities and plants. The method of the accounting of the reportable business segment is generally the same as explained in the Note "Significant accounting policies". Inter-segment sales is based on current market price.

A summary of net sales, profits or losses, assets and other items by business segment for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen									
	Reportable segment									
2011	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants	Total	Other	Adjustment	Consolidated
Sales										
Outside customers	¥ 74,591	¥131,945	¥130,811	¥66,544	¥59,496	¥76,070	¥539,457	¥ 8,558	¥ —	¥548,015
Inter-segment	1,810	1,158	10	137	74	794	3,983	2,190	(6,173)	—
Total	76,401	133,103	130,821	66,681	59,570	76,864	543,440	10,748	(6,173)	548,015
Segment income	¥ 4,874	¥ 8,340	¥ 5,290	¥10,252	¥ 9,897	¥ 5,566	¥ 44,219	¥ 1,518	¥ 66	¥ 45,803
Segment assets	¥105,947	¥138,404	¥121,339	¥49,921	¥80,230	¥52,246	¥548,087	¥39,466	¥39,276	¥626,829
Other items										
Depreciation	¥ 3,298	¥ 5,305	¥ 3,720	¥ 1,706	¥ 2,422	¥ 1,037	¥ 17,488	¥ 453	¥ —	¥ 17,941
Gain on negative goodwill	—	—	—	—	—	3,437	3,437	—	—	3,437
Impairment losses on fixed assets	15	—	—	—	—	—	15	—	1,381	1,396
Investments for equity method affiliates	—	1,407	3,164	3,704	—	—	8,275	—	—	8,275
Increase in property, plant and equipment, and intangible assets	3,848	2,976	4,442	869	1,106	712	13,953	339	—	14,292

Notes: 1. "Other" includes real estate, software and other businesses. These are not the Reportable segments.

2. "Adjustment" was as follows;

(1) Adjustment of segment income (¥66 million) resulted from elimination of inter-segment transactions.

(2) Adjustment of segment assets (¥39,276 million) consisted of cash and time deposits and marketable securities.

(3) Adjustment of impairment losses on fixed assets (¥1,381 million) was losses on mainly idle assets such as housing lots.

3. Segment income was reconciled with operating income in consolidated statements of income.

Millions of yen

	Reportable segment									
2010	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants	Total	Other	Adjustment	Consolidated
Sales	—									
Outside customers	¥69,040	¥105,192	¥102,650	¥85,637	¥62,927	¥81,884	¥507,330	¥ 8,835	¥ —	¥516,165
Inter-segment	1,842	1,327	6	207	129	742	4,253	2,285	(6,538)	—
Total	70,882	106,519	102,656	85,844	63,056	82,626	511,583	11,120	(6,538)	516,165
Segment income	¥ 861	¥ (2,603)	¥ 571	¥14,167	¥ 6,664	¥ 7,101	¥ 26,761	¥ 1,376	¥ 117	¥ 28,254
Segment assets	¥79,469	¥135,666	¥122,098	¥63,505	¥80,816	¥54,931	¥536,485	¥17,413	¥56,189	¥610,087
Other items										
Depreciation	¥ 3,739	¥ 6,066	¥ 3,839	¥ 1,853	¥ 2,695	¥ 1,128	¥ 19,320	¥ 405	¥ —	¥ 19,725
Investments for equity method affiliates	—	1,360	6,434	3,131	—	—	10,925	—	—	10,925
Increase in property, plant and equipment, and intangible assets	5,762	3,161	8,480	1,792	2,695	2,197	24,087	378	—	24,465

Notes: 1. "Other" includes real estate, software and other businesses. These are not the Reportable segments.
2. "Adjustment" was as follows;
(1) Adjustment of segment income (¥117 million) resulted from elimination of inter-segment transactions.
(2) Adjustment of segment assets (¥56,189 million) consisted of cash and time deposits and marketable securities.
3. Segment income was reconciled with operating income in consolidated statements of income.

Thousands of U.S. dollars

	Reportable segment									
2011	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants	Total	Other	Adjustment	Consolidated
Sales										
Outside customers	$ 898,686	$1,589,691	$1,576,042	$801,736	$716,824	$916,511	$6,499,490	$103,104	$ —	$6,602,594
Inter-segment	21,807	13,958	111	1,654	892	9,562	47,984	26,391	(74,375)	—
Total	920,493	1,603,649	1,576,153	803,390	717,716	926,073	6,547,474	129,495	(74,375)	6,602,594
Segment income	$ 58,724	$ 100,484	$ 63,735	$123,517	$119,238	$ 67,055	$ 532,753	$ 18,293	$ 801	$ 551,847
Segment assets	$1,276,467	$1,667,535	$1,461,913	$601,454	$966,622	$629,468	$6,603,459	$475,494	$473,207	$7,552,160
Other items										
Depreciation	$ 39,737	$ 63,909	$ 44,825	$ 20,558	$ 29,175	$ 12,489	$ 210,693	$ 5,463	$ —	$ 216,156
Gain on negative goodwill	—	—	—	—	—	41,406	41,406	—	—	41,406
Impairment losses on fixed assets	182	—	—	—	—	—	182	—	16,640	16,822
Investments for equity method affiliates	—	16,955	38,121	44,621	—	—	99,697	—	—	99,697
Increase in property, plant and equipment, and intangible assets	46,358	35,853	53,517	10,474	13,326	8,581	168,109	4,080	—	172,189

Notes: 1. "Other" includes real estate, software and other businesses. These are not the Reportable segments.
2. "Adjustment" was as follows;
(1) Adjustment of segment income ($801 thousand) resulted from elimination of inter-segment transactions.
(2) Adjustment of segment assets ($473,207 thousand) consisted of cash and time deposits and marketable securities.
(3) Adjustment of impairment losses on fixed assets ($16,640 thousand) was losses on mainly idle assets such as housing lots.
3. Segment income was reconciled with operating income in consolidated statements of income.

(B) Related information

Information by geographical area

a) Net sales

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Japan	¥270,608	$3,260,335
China	78,028	940,092
Other areas	199,379	2,402,167
Total	¥548,015	$6,602,594

* Net sales are classified into the country or the region based on customers' locations.

b) Property, plant and equipment

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Japan	¥180,322	$2,172,559
Other areas	33,834	407,632
Total	¥214,156	$2,580,191

(C) The effect of the accounting changes on segment information

New accounting standard for construction contracts

As discussed in"1. Change in accounting policies (F)", from the year ended March 31, 2010, the Company and consolidated domestic subsidiaries adopted the new accounting standard for construction contracts.

Due to this accounting change, in the Environmental facilities & plants segment, sales increased by ¥302 million, and operating income increased by ¥28 million. In addition, in the Industrial machinery segment, sales increased by ¥479 million, and operating income increased by ¥88 million.

11. Information for certain leases

(A) Lessees

The summary of pro forma 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, 2011 and 2010 was as follows:

	Millions of yen		
2011	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	¥11,627	¥7,318	¥4,309
Others	282	218	64
Total	¥11,909	¥7,536	¥4,373

	Millions of yen		
2010	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	¥15,152	¥8,409	¥6,743
Others	342	214	128
Total	¥15,494	¥8,623	¥6,871

	Thousands of U.S. dollars		
2011	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	$140,088	$88,174	$51,914
Others	3,395	2,621	774
Total	$143,483	$90,795	$52,688

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥1,809 million ($21,800 thousand) and ¥2,768 million for the years ended March 31, 2011 and 2010, respectively.

Future lease payments as of March 31, 2011 and 2010, including interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥1,807	¥2,410	$21,768
Due after one year	2,566	4,461	30,920
Total	¥4,373	¥6,871	$52,688

Also, future lease payments under operating leases as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Future lease payments	¥2,238	¥2,269	¥26,959
Due within one year included in above	1,105	964	13,317

(B) Lessors

The summary of pro forma 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, 2011 is not disclosed because the amounts are not material.

The summary of pro forma amounts of acquisition cost, accumulated depreciation and net book value as of March 31, 2010 were as follows:

	Millions of yen		
2010	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	¥10	¥8	¥2
Total	¥10	¥8	¥2

Total lease receipts for finance leases which do not transfer ownership to lessees for the years ended March 31, 2011 are not disclosed because the amounts are not material. Total lease receipts for finance leases which do not transfer ownership to lessees amounted to ¥1 million for the years ended March 31, 2010.

Future lease receipts as of March 31, 2011, including interest under such leases are not disclosed because the amounts are not material.

Future lease receipts as of March 31, 2010, including interest under such leases were as follows:

	Millions of yen
	2010
Within one year	¥2
After one year	0
Total	2

Also, future lease receipts under operating leases as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Future lease receipts	¥591	¥770	$7,116
Due within one year included in above	149	151	1,797

12. Financial instruments

Effective from the fiscal year ended March 31, 2010, the Company adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 revised on March 10, 2008). Information on financial instruments for the years ended March 31, 2011 and 2010 required pursuant to the revised accounting standards was as follows;

(A) Qualitative information on financial instruments

Utilization policy of financial instruments:

The Company raises funds necessary for operating and investing activities as bank loans and bond issuances and utilizes financial assets that carry little risk or no risk for temporary funds surplus. The derivatives policy states that the Company utilizes derivatives only to mitigate the risks that are described below, and does not make speculative transactions for trading purposes.

Financial instruments and related risks:

Trade receivables are exposed to the credit risk in relation to customers and trading partners. Trade receivables denominated in foreign currencies are exposed to the foreign exchange rate fluctuation risk. The Company mitigates such risks through forward exchange contracts and options, and maintains the ratios of the exposure at a certain range. The hedge ratios and balances not yet hedged are regularly reported to their Board of Directors.

The Companies are exposed to the market price fluctuation risk in relation to investment securities that are primarily for maintaining business relationship.

Most trade payables are due within one year. Although part of them is exposed to foreign exchange rate fluctuation risk, the exposure is always within the balance of accounts receivable in the same currency.

Loans, commercial paper and corporate bonds are primarily used for fund raising related to operating and investing activities. For long-term loans in foreign currencies, the Companies enter into interest rate swap contracts for hedging purposes.

Risk management for financial instruments:

Credit risk:

The Company reviews credit status of customers before accepting orders to mitigate their credit exposure. In accordance with a credit management policy, each business unit monitors collection and balance of receivables for each customer to minimize uncollectible amounts.

For derivatives and deposits, the Companies enter into contracts only with highly rated financial institutions.

Market risks:

In relation to amounts of net trade receivables and trade payables in foreign currencies, the Companies hedge exchange rate fluctuations in accordance with a market risk management policy. The status of the hedge is reported to the Board of Directors every month. Major consolidated subsidiaries take the same approach.

Loan-related interest payable is also monitored and reported to the Board of Directors regularly. To mitigate the interest-rate fluctuation risk, interest-rate swaps are used.

In relation to securities and investment securities, the current fair market value and the financial position of the issuers are monitored regularly. The Company reviews continuously the investment portfolio in consideration of relationship with counterparties.

Derivative transactions executed by the Company and its major consolidated subsidiaries are used solely for the purpose of hedging risks concerning exchange rate and interest rate fluctuations as explained above. The Company reconciles balances with the contract counterparties every month.

Liquidity risks:

The Company conducts cash management among major consolidated subsidiaries for efficient use of the Companies' funds. The Company timely formulates and updates the fund management plan based on reports from business units and major subsidiaries, and monitors the liquidity risk.

(B) Fair values of financial instruments

Book values and fair values of the financial instruments on the consolidated balance sheets as of March 31, 2011 and 2010 were as follows. Certain financial instruments were excluded from the following table as the fair values were not available.

	Millions of yen		
2011	Book value	Fair value	Difference
Cash and time deposits	¥ 52,486	¥ 52,486	¥ —
Trade receivables	155,267	155,066	(201)
Investment securities	13,036	13,036	—
Assets Total	220,789	220,588	(201)
Short-term bank loans	21,504	21,504	—
Trade payables	131,951	131,951	—
Corporate bonds	10,000	10,022	22
Long-term debt	36,329	36,809	480
Liabilities Total	199,784	200,286	502
Derivatives	1,501	1,095	(406)

	Millions of yen		
2010	Book value	Fair value	Difference
Cash and time deposits	¥ 62,511	¥ 62,511	¥ —
Trade receivables	131,893	131,767	(126)
Investment securities	14,533	14,533	—
Assets Total	208,937	208,811	(126)
Short-term bank loans	30,524	30,524	—
Trade payables	108,018	108,018	—
Corporate bonds	10,000	9,933	(67)
Long-term debt	47,136	47,259	123
Liabilities Total	195,678	195,734	56
Derivatives	1,618	1,121	(497)

	Thousands of U.S. dollars		
2011	Book value	Fair value	Difference
Cash and time deposits	$ 632,358	$ 632,358	$ —
Trade receivables	1,870,684	1,868,263	(2,421)
Investment securities	157,055	157,055	—
Assets Total	2,660,097	2,657,676	(2,421)
Short-term bank loans	259,084	259,084	—
Trade payables	1,589,768	1,589,768	—
Corporate bonds	120,482	120,749	267
Long-term debt	437,705	443,483	5,778
Liabilities Total	2,407,039	2,413,084	6,045
Derivatives	18,085	13,195	(4,890)

Cash and time deposits:

The book values approximate the fair values because of short-term maturities of these instruments.

Trade receivables:

The discounted cash flow method was used to estimate the fair values, based on discount rates calculated as totals of appropriate baseline rates and credit risk spreads.

Investment securities:

The market prices were used to estimate the fair values.

Trade payables and short-term bank loans:

The book values approximate the fair values because of short-term settlement of these instruments.

Corporate bonds:

The discounted cash flow method was used to estimate the fair values, based on discount rates calculated as totals of appropriate baseline rates and credit risk spreads.

Long-term debt:

The discounted cash flow method was used to estimate the fair values, based on marginal borrowing rates as discount rates.

Derivatives:

The fair values of forward exchange contracts are based on quoted forward exchange rates. The fair values of options and interest rate swaps are based on the quotes from financial institutions.

The affiliate stocks, the unlisted stocks and the investment bonds in the following table are not included in "Investment Securities" above because there is no fair value available.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Affiliate stocks	¥10,949	¥13,509	$131,912
Unlisted stocks	2,286	2,345	27,546
Investment bond	11	11	131

The aggregate maturities subsequent to March 31, 2011 and 2010 for financial assets with maturity were as follows:

	Millions of yen		
2011	Within one year	Over one year within five years	Over five years
Cash and time deposits	¥ 52,486	¥ —	¥—
Trade receivables	148,650	6,616	1
Total	¥201,136	¥6,616	¥ 1

	Millions of yen		
2010	Within one year	Over one year within five years	Over five years
Cash and time deposits	¥ 62,511	¥ —	¥ —
Trade receivables	127,397	4,357	139
Total	¥189,908	¥4,357	¥139

	Thousands of U.S. dollars		
2011	Within one year	Over one year within five years	Over five years
Cash and time deposits	$ 632,358	$ —	$—
Trade receivables	1,790,955	79,711	18
Total	$2,423,313	$79,711	$18

The aggregate maturities subsequent to March 31, 2011 for long-term debt and corporate bonds were as follows:

	Millions of yen					
2011	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term debt	¥4,411	¥19,332	¥1,032	¥11,433	¥34	¥87
Corporate bond	—	—	—	10,000	—	—

	Millions of yen					
2010	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term debt	¥10,438	¥4,133	¥19,937	¥1,040	¥11,441	¥147
Corporate bond	—	—	—	—	10,000	—

	Thousands of U.S. dollars					
2011	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term debt	$53,145	$232,911	$12,438	$137,749	$410	$1,052
Corporate bond	—	—	—	120,482	—	—

13. Securities

(A) Book values of securities not stated at fair values as of March 31, 2011 and 2010 were disclosed in "12. Financial instruments".

(B) Acquisition costs and book values of securities with fair values as of March 31, 2011 and 2010 were as follows:

		Millions of yen		Thousands of U.S. dollars
Available-for-sale securities		2011	2010	2011
Equity securities	Acquisition cost	¥11,404	¥11,375	$137,396
	Book value	13,036	14,533	157,055
	Difference	¥ 1,632	¥ 3,158	$ 19,659

(C) Total sales amount of available-for-sale securities in the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Sale of securities	¥99	¥1,705	$1,188
Net gain	79	1,581	956

(D) There were no available-for-sale securities with maturity and held to maturity securities as of March 31, 2011 and 2010.

(E) Impairment of securities

Impairment losses for securities were ¥1 million ($9 thousand) and ¥377 million for the years ended March 31, 2011 and 2010, respectively.

14. Derivatives information

The Companies enter into forward currency exchange contracts, interest rate swap contracts and currency option contracts as derivative financial instruments. The Companies utilize forward currency exchange transactions to hedge exchange rate risk with respect to receivables and payables denominated in foreign currencies. Interest rate swap transactions are utilized to minimize risks of increase in interest rate on borrowings. The Companies enter into such transactions only with international financial institutions with higher credit ratings to avoid credit risk exposure. Details of transactions are reviewed and approved by the Companies' internal policies, which include personnel's responsible based on transaction types and limits of amounts.

(A) Forward foreign exchange contracts not accounted for as hedge

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts not accounted for as hedge in Japanese yen as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Contracted amount to be paid/received:			
To buy foreign currencies	¥ 895	¥ 417	$ 10,783
To sell foreign currencies	8,960	11,160	107,947
To buy foreign exchange options	186	495	2,236
To sell foreign exchange options	—	422	—
Fair value:			
To buy foreign currencies	(10)	(15)	(112)
To sell foreign currencies	8	(187)	92
To buy foreign exchange options	2	7	21
To sell foreign exchange options	—	(9)	—
Net unrealized exchange gain (loss)	¥ 0	¥ (204)	$ 1

(B) Interest rate swap contracts not accounted for as hedge

There were no interest rate swap contracts of the Companies as of March 31, 2011 and 2010.

(C) Forward foreign exchange contracts accounted for as hedge

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts accounted for as hedge in Japanese yen as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred hedge accounting			
Contracted amount to be paid/received:			
To buy foreign currencies	¥ 425	¥ 308	$ 5,120
To sell foreign currencies	23,313	32,482	280,882
Fair value:			
To buy foreign currencies	17	(13)	208
To sell foreign currencies	1,484	1,834	17,877
Alternative method (Note)			
Contracted amount to be paid/received:			
To buy foreign currencies	163	—	1,970
To sell foreign currencies	10,410	148	125,418
Fair value:			
To buy foreign currencies	(8)	—	(99)
To sell foreign currencies	12	(10)	145
Net unrealized exchange gain (loss)	¥ 1,505	¥ 1,811	$ 18,131

Note: When certain conditions are met, translation of foreign currency receivables and payable are based on yen amounts fixed by forward contract.

(D) Interest rate swap contracts accounted for as hedge

The aggregate amounts of interest rate swap contracts accounted for as hedge as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Interest rate swap contracts (special treatment) (Note)			
Contracted amounts to be paid/received:			
Interest swap fixed rate to floating rate	¥22,821	¥26,868	$274,957
Fair value:			
Interest swap fixed rate to floating rate	(410)	(487)	(4,936)

Note: When certain conditions are met, the net amount to be paid or received under an interest rate swap contract is added to or deducted from interest on liabilities for which the interest rate contract is executed.

15. Employees' severance and retirement benefits

The Company has an unfunded retirement benefit plan and a defined contribution plan for employees. Consolidated domestic subsidiaries have primarily a tax qualified retirement pension plan and an unfunded retirement benefit plan for employees. But certain consolidated domestic subsidiaries abolished a tax qualified retirement pension plan and changed to defined contribution plan. And certain consolidated overseas subsidiaries adopt a defined contribution pension plan. Additionally, the Company has a "Retirement Benefit Trust".

(A) Projected benefit obligation on the balance sheet dates consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
(1) Projected benefit obligation	¥(67,537)	¥(69,847)	$(813,702)
(2) Fair value of employees' retirement benefit plan assets	31,041	31,360	373,989
(3) Unfunded projected benefit obligation	(36,496)	(38,487)	(439,713)
(4) Unrecognized actuarial difference	5,041	5,981	60,734
(5) Unrecognized prior service cost	75	80	902
(6) Employees' severance and retirement benefits	(31,380)	(32,426)	(378,077)

(B) The following severance and pension benefit expenses are included in the statements of income for the years ended March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
(1) Service cost	¥3,105	¥3,232	$37,417
(2) Interest cost on projected benefit obligation	1,790	1,829	21,568
(3) Expected return on plan assets	(687)	(562)	(8,281)
(4) Amortization of actuarial difference	1,282	1,477	15,446
(5) Amortization of prior service cost	67	187	802
(6) Effect of change in accounting method of retirement benefits (Note 1)	—	110	—
(7) Severance and pension benefit expense	5,557	6,273	66,952
(8) Loss on revision of retirement benefit plan (Note 2)	503	—	6,055
Total	¥6,060	¥6,273	$73,007

Notes: 1. One domestic subsidiary ceased a simplified method in estimating the employees' severance and retirement benefits for the year ended March 31, 2010 and expensed all the difference at the beginning of the year.
2. Some consolidated subsidiaries terminated tax qualified retirement pension plans, and shifted to defined contribution plans. Due to this change, loss on revision of retirement benefit plan was incurred.

(C) Major actuarial assumptions used to determine pension obligations as of March 31, 2011 and 2010 are as follows:

	2011	2010
(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	Equally to each service year using the estimated number of total service years
(2) Assumed discount rate	Mainly 2.0%	Mainly 2.0%
(3) Expected rate of return on plan assets	Mainly 0.0% (Trust assets for retirement benefits; 0.0%)	Mainly 0.0% (Trust assets for retirement benefits; 0.0%)
(4) Amortization period of actuarial differences	Mainly 12 years	Mainly 12 years
(5) Amortization period of prior service cost	The Company: 1 year Subsidiaries: Mainly 12 years	The Company: 1 year Subsidiaries: Mainly 12 years

16. Subsequent events

Appropriations of retained earnings

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2011, were approved at a general shareholders' meeting of the Company held on June 29, 2011:

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Year-end cash dividends ¥8.00 ($0.10) per share	¥4,915	$59,220

The approved dividend will be paid to the shareholders of record as of March 31, 2011.

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, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in net assets 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 financial position of Sumitomo Heavy Industries, Ltd. and subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

Tokyo, Japan

June 29, 2011

Major Subsidiaries and Affiliates

Segment	Business	Company Name	Telephone Number
Machinery Components	Power Transmission and Control Equipment	Sumitomo Heavy Industries, PTC Sales Co., Ltd.	03-6737-2580
		Sumiju Tomida Machinery Co., Ltd.	0562-48-4167
		Sumiju Technos, Ltd.	0562-48-5115
		SEISA Gear, Ltd.	0724-31-3021
		Sumitomo Heavy Industries (Tangshan), Ltd.	86-0315-339-0080
		Sumitomo (SHI) Cyclo Drive China., Ltd.	86-22-2499-3501
		Sumitomo (SHI) Cyclo Drive Logistics, Ltd.	86-21-5774-8866
		Sumitomo Heavy Industries (Vietnam) Co., Ltd.	84-4-955-0010
		Sumitomo (SHI) Cyclo Drive Germany GmbH	49-8136-66-0
		Sumitomo (SHI) Cyclo Drive Asia Pacific Pte. Ltd.	65-6-591-7800
		Sumitomo (SHI) Cyclo Drive Korea, Ltd.	82-2-730-0151
		Sumitomo Machinery Corporation of America	1-757-485-3355
		Sumitomo Industrias Pesadas Do Brasil Ltda.	55-11-5585-3600
		SM Cyclo of Canada, Ltd.	1-905-469-1050
		Hansen Industrial Transmissions NV	32-3-450-12-11

Segment	Business	Company Name	Telephone Number
Precision Machinery	Plastic Injection Molding Machines	Sumitomo Heavy Industries Modern, Ltd.	045-547-7711
		Sumiju Platec Co., Ltd.	043-420-1558
		Sumiju Logitech Co., Ltd.	043-420-1680
		Izumi Seiki Co., Ltd.	0897-32-6232
		Ningbo Sumiju Machinery, Ltd.	86-574-86805901
		Sumitomo (SHI) Demag Plastics Machinery GmbH	49-911-5061-717
		SHI Plastics Machinery, Inc. of America	1-770-447-5430
		SHI Plastics Machinery (Hong Kong) Ltd.	852-2750-6630
		S.H.I. Plastics Machinery (S) Pte. Ltd.	65-6-779-7544
	Quantum Equipment and Ion Accelerators	Sumiju Examination & Inspection, Ltd.	0898-65-4868
		SHI Accelerator Service Ltd.	03-5434-8468
		Japan Electron Beam Irradiation Service Co., Ltd.	03-5434-8467
		Sumiju Magnet (Kunshan) Co., Ltd.	86-512-5768-9200
	Cryogenic Equipment	Sumitomo (SHI) Cryogenics of America, Inc.	1-610-791-6700
		Sumitomo (SHI) Cryogenics of Europe GmbH	49-6151-860610
		Sumitomo (SHI) Cryogenics of Europe, Ltd.	44-1256-853333
		SHI Manufacturing & Services (Philippines), Inc.	63-43-405-6263
	Precision Equipment and Components	Sumitomo Heavy Industries Himatex Co., Ltd.	0897-32-6485
		Sumiju Precision Forging Co., Ltd.	046-869-1659
	LCD and Semiconductor Equipment	Sumitomo Heavy Industries Mechatronics, Ltd.	03-6737-2531
		SEN Corporation	03-6737-2690
	Machine Tools	Sumitomo Heavy Industries Finetech, Ltd.	086-525-6280
	Defense Equipment	Sumiju Business, Ltd.	042-468-4311
		Sumiju Tokki Service Co., Ltd.	042-468-4451
	Forklift Trucks	Sumitomo NACCO Materials Handling Co., Ltd.	0562-48-5251

Segment	Business	Company Name	Telephone Number
Construction Machinery	Hydraulic Excavators	Sumitomo (S.H.I.) Construction Machinery Co., Ltd.	03-6737-2600
		Sumitomo (S.H.I.) Construction Machinery Sales Co., Ltd.	03-6737-2610
		Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.	61-3391000
		LBX Company, LLC	1-859-245-3900
	Mobile Cranes	Link-Belt Construction Equipment Company, L.P., LLLP	1-859-263-5200
Industrial Machinery	Material Handling Systems	Sumitomo Heavy Industries Engineering and Services Co., Ltd.	03-6737-2640
	Forging Presses	Sumitomo Heavy Industries Techno-Fort Co., Ltd.	0897-32-6397
		Sumijiu Technocraft Co., Ltd.	0897-32-6306
	Turbines and Pumps	Shin Nippon Machinery Co., Ltd.	03-6737-2630
	Sales and Services, Area Management Company	Sumitomo Heavy Industries (Shanghai) Management, Ltd.	86-21-3462-7660
Ships	Ships	Sumitomo Heavy Industries Marine & Engineering Co., Ltd.	03-6737-2620
Environmental Facilities & Plants	Energy-Related and Environmental Protection Systems	Sumiju Plant Engineering Co., Ltd.	042-468-4007
		Sumiju Environmental Technologies, Ltd.	03-6737-2820
	Water Treatment Systems	Sumitomo Heavy Industries Environment Co., Ltd.	03-6737-2700
		Sumiju Environmental Engineering, Inc.	03-5719-5020
	Pressure Vessels, Chemical Processing Equipment and Plants	Sumitomo Heavy Industries Process Equipment Co., Ltd.	0898-64-6936
		Nihon Spindle Mfg. Co., Ltd.	06-6499-5551
	Food Processing Machinery	Izumi Food Machinery Co., Ltd.	06-6718-6150
	Sales and Services, Area Management Company	PT. Sumitomo Heavy Industries Indonesia	62-0-21-57951095
Others	Others	Sumitomo Heavy Industries Business associates, Ltd.	03-6737-2342
		Lightwell Co., Ltd.	03-5828-9230
		Izumi Support Corporation	03-6737-2666
		Sumitomo Heavy Industries (China), Ltd.	86-21-6219-8232
		Sumitomo Heavy Industries (USA), Inc.	1-610-791-6782

Glossary

Machinery Components

Power transmission and control equipment

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

CYCLO® speed reducer

Hyponic Drive®

Precision Machinery

Plastic injection molding machines

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

Full-electric injection molding machine “SE75DUZ”

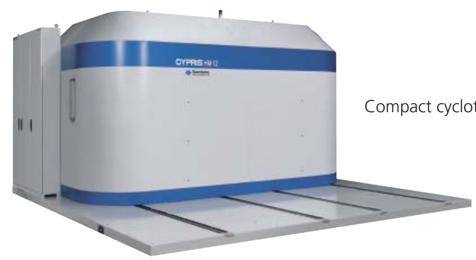
Proton therapy system

Proton therapy is a type of radiation therapy that destroys cancer cells by bombarding affected areas with a proton beam. Allowing the minimally invasive treatment of cancer cells, proton therapy systems minimize damage to surrounding normal cells, thus reducing burden on the patient’s body. Due to such features, these systems eliminate the need for hospitalization and enable the outpatient treatment of cancer.

Rotating gantry irradiation system

Cyclotrons

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



Compact cyclotron for PET “HM-12S”

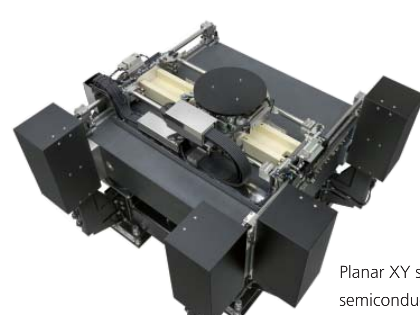
Ion-implantation devices

To create the transistors and other components that comprise semiconductors, the necessary type/volume of elements required for such components must be added to a flat silicon single-crystal substrate known as a wafer. Ion-implantation devices electrically ionize the elements and accelerate the resulting ions at high voltage for high-precision injection into the wafer.

Single-wafer, high-current ion-implantation device “SHX-III/S”

Precision positioning stages

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



Planar XY stage “SA&SL Series” for semiconductor and printed circuit board exposure and inspection processes

Construction Machinery

Crawler cranes

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

Lattice crawler crane "LS-218HSL"

Asphalt pavers

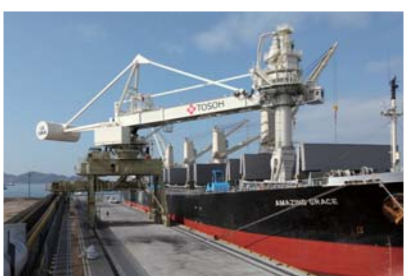
Self-propelled machines used to spread asphalt when paving roads; SHI is the market leader in asphalt pavers in Japan.

Asphalt paver "HA60W"

Industrial Machinery

Continuous ship unloaders

Continuous ship unloaders are large harbor-installed hoists used for the continuous unloading of iron ore and other bulk raw materials from cargo vessels at dock. SHI has the top share of this market in Japan.



Continuous ship unloader

Ships

Aframax tankers, Suezmax tankers

Aframax tankers are midsized oil tankers with deadweight freight capacity in the 80,000 to 120,000MTDW class; 150,000MTDW class tankers are called Suezmax tankers.

Aframax tanker

Environmental Facilities & Plants

Circulating fluidized-bed (CFB) boiler

Employing jets of air blown from below to evenly mix fuel particles at a high temperature, this CFB boiler is an efficient combustor suitable for use with a wide variety of fuels. The CFB boiler can even burn such renewable energy fuels as low-grade coal and biomass-based fuels.

CFB boiler

Rotary kiln

This rotary melting kiln is used for the combustion or melting of industrial waste materials. Through combustion or melting, these materials are detoxified or recycled for metal recovery and slag-making. The cylindrical kiln is mounted, at a slight incline, horizontally over a furnace and rotated slowly when combusting or melting materials. Due to such architecture, industrial waste materials can be processed efficiently.

Sumitomo - W+E rotary kiln

Vertical aerator systems

Used in water treatment processes, these systems direct air to polluted water, helping bacteria to break down substances more efficiently. The operation of SHI vertical aerator systems can be optimized for the volume of water being treated, and SHI boasts the top share of these products in Japan.

SUMIRATOR® UD

Coke drums

This equipment is used in oil refining to extract high-value-added light oil from heavy oil that is subjected to heat cracking after refining. SHI has the world's leading share in coke drums.

Coke drums

Corporate Data

Head Office: Sumitomo Heavy Industries, Ltd.
1-1, Osaki 2-chome, Shinagawa-ku,
Tokyo 141-6025, Japan
Tel. +81-3-6737-2331
URL http://www.shi.co.jp

Founded: 1888

Incorporated: November 1, 1934

Paid-in Capital: ¥30,871,651,300

Number of Employees*: 17,025 (Consolidated)
2,526 (Non-consolidated)

Domestic Offices:

Chubu Office
10-24, Higashi-sakura 1-chome, Higashi-ku, Nagoya-shi, Aichi 461-0005, Japan
Tel: 81-52-971-3063

Kansai Office
3-33, Nakanoshima 2-chome, Kita-ku, Osaka-shi, Osaka 530-0005, Japan
Tel: 81-6-7635-3610

Kyushu Office
6-20, Nakasu 5-chome, Hakata-ku, Fukuoka-shi, Fukuoka 810-0801, Japan
Tel: 81-92-283-1670

Tanashi Works
1-1, Yato-cho 2-chome, Nishitokyo-shi, Tokyo 188-8585, Japan
Tel: 81-42-468-4104

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

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

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

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

Ehime Works—Niihama Factory
5-2, Sobiraki-cho, Niihama-shi, Ehime 792-8588, Japan
Tel: 81-897-32-6211

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

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

Transfer Agent: The Sumitomo Trust and Banking Co., Ltd.

Stock Exchange Listings: Tokyo, Osaka

Shares Outstanding*: 614,527,405

Number of Shareholders*: 60,453

Major Shareholders*:

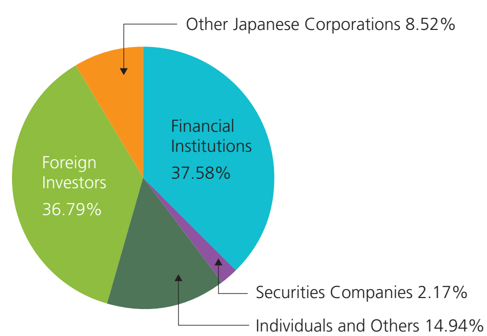
Name of shareholder	Percentage of voting rights
Japan Trustee Services Bank, Ltd.	15.5%
The Master Trust Bank of Japan, Ltd.	7.1%
State Street Bank and Trust Company	6.0%
Sumitomo Life Insurance Company	3.7%
Trust & Custody Services Bank, Ltd.	3.1%
Sumitomo Mitsui Banking Corporation	2.5%
JP Morgan Chase Bank	2.3%
The Chase Manhattan Bank	1.9%
Sumitomo Heavy Industries, Ltd. Kyoeikai	1.8%
Mellon Bank	1.7%

*As of March 31, 2011

Breakdown of Shareholders as of March 31, 2011:

Breakdown of shareholders	Number of shares held (unit 1,000)
Financial Institutions	230,915
Securities Companies	13,344
Individuals and Others	91,819
Foreign Investors	226,077
Other Japanese Corporations	52,373

The "Other Japanese Corporations" category also includes treasury stock, government institutions and local governments.
Number of shares held are rounded down to the nearest 1,000.



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Sumitomo Heavy Industries, Ltd.
1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan Tel: +81-3-6737-2331

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