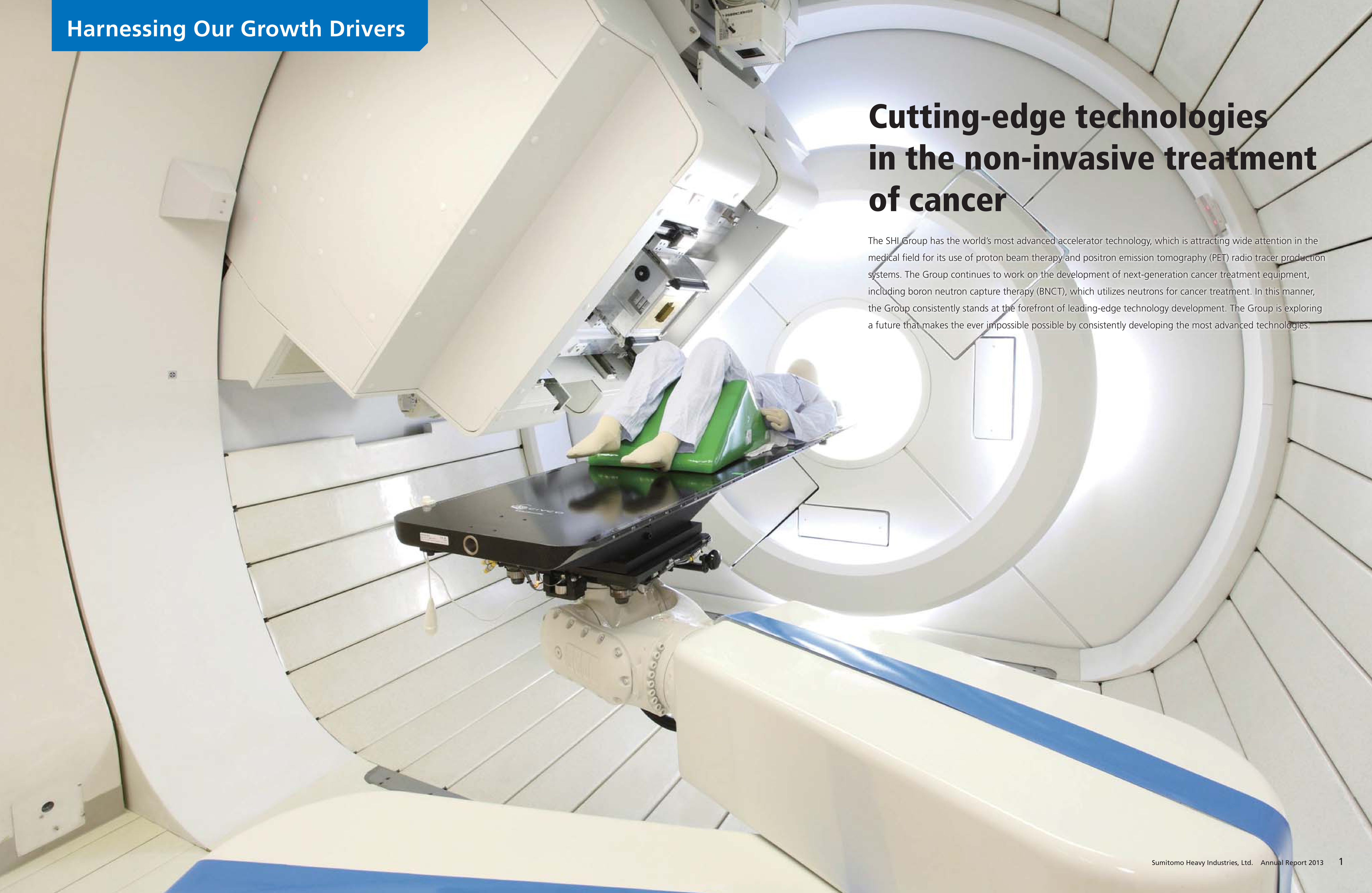
Harnessing Our Growth Drivers

Annual Report 2013 For the year ended March 31, 2013

Sumitomo Heavy Industries, Ltd.



Cutting-edge technologies in the non-invasive treatment of cancer

The SHI Group has the world's most advanced accelerator technology, which is attracting wide attention in the medical field for its use of proton beam therapy and positron emission tomography (PET) radio tracer production systems. The Group continues to work on the development of next-generation cancer treatment equipment, including boron neutron capture therapy (BNCT), which utilizes neutrons for cancer treatment. In this manner, the Group consistently stands at the forefront of leading-edge technology development. The Group is exploring a future that makes the ever impossible possible by consistently developing the most advanced technologies.

Biomass technologies that help solve global energy issues

The SHI Group has a proven track record in circulating fluidized-bed (CFB) boilers, which are also efficient in combusting flame retardant fuels. These boilers are distinguished by their ability to effectively use fuels, including waste tires and low-grade coal, which had proven difficult to apply in the past. Particularly potent in the field of biomass power generation, the Group's CFB boilers contribute to the reduction of carbon dioxide (CO_2) emissions. In the previous year, the Group was successful in developing and installing the first compact power generation system, thereby demonstrating its ability to reduce the amount of investment and cut back on delivery periods. Looking ahead, the Group will continue to propose systems that take into consideration human and environmental concerns.

Striking the perfect balance between world-class engine performance and economic viability

The LEGEST® hydraulic excavator, manufactured and marketed by Sumitomo (S.H.I.) Construction Machinery Co., Ltd., a subsidiary company in the SHI Group, was awarded the "Grand Award for Energy Conservation," sponsored by Japan's Ministry of Economy, Trade and Industry in 2008. This was the first time that the award was bestowed on construction machinery. In the ensuing period, ongoing steps have been taken to modify the excavator drawing on feedback from customers. In this manner, every effort is being made to strike the perfect balance between world-class engine performance and economic viability. Equipped with a monitor that provides a 270° wide field of view from the cab seat, LEGEST® offers superior safety.

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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.

Overview of Operating Highlights

2012

Apr.

May

June

Received an order for the world's largest waste-tire fuel CFB boiler from South Korea

Announced the commencement of sales of a new hydraulic excavator model

July

First in Japan to obtain authorization from Japan's Ministry of Health, Labour and Welfare for the electron beam sterilization of disinfectants

Established a steam turbine local subsidiary in Thailand

Aug.

First in the world to commence clinical trials of BNCT using the Company's cyclotron accelerator

Sept.

Delivery of a new next-generation servo press

First in Japan to acquire biomass power generation facility feed-in tariffs (FIT) scheme certification

Oct.

peed
reducer use to its lineup of motors

Nov.

Dec.

Jan.

Announced details of the merger by absorption of a subsidiary company engaged in the press machinery business and the decision to divest the Company's Logistics and Parking System Division

Feb.

Received the Minister's Prize from Japan's Ministry of Economy, Trade and Industry at the "Excellence in Energy-Conserving Equipment Annual Awards" in recognition of the Company's injection molding machines

Announced details of changes to representative directors

Refunded overbilled amounts to Japan's Ministry of Defense

Mar.

First in the world to receive an order for the Company's BNCT system from a private-sector medical facility

Received an order for a coal fired power plant in Indonesia, the first order of this type of facility in Indonesia

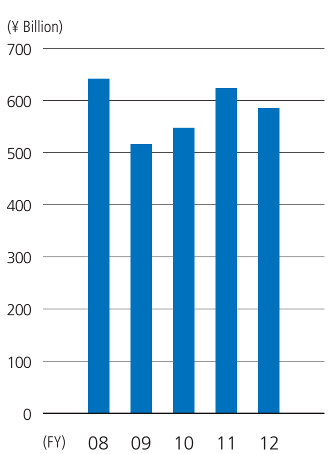
Financial Highlights

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

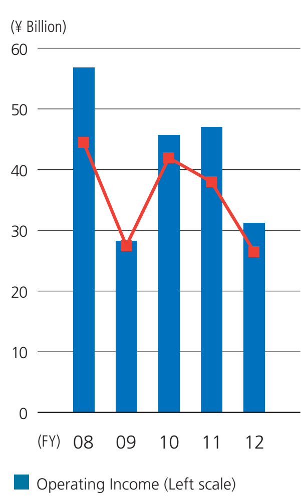
	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2012
Summary of Income (for the year):						
Net sales	¥642,918	¥516,165	¥548,015	¥624,100	¥585,871	$6,232,655
Machinery Components	91,876	69,040	74,591	93,205	91,174	969,932
Precision Machinery	135,351	105,191	131,944	144,145	139,218	1,481,043
Construction Machinery	159,154	102,650	130,811	158,942	152,773	1,625,247
Industrial Machinery	84,310	85,637	66,544	80,683	69,649	740,949
Ships	56,028	62,927	59,496	58,111	46,013	489,496
Environmental Facilities & Plants	106,479	81,884	76,070	80,116	78,584	835,996
Others	9,720	8,835	8,558	8,898	8,460	90,002
Operating income	56,940	28,254	45,803	47,135	31,288	332,849
Machinery Components	7,033	861	4,874	4,238	2,767	29,435
Precision Machinery	5,307	(2,603)	8,340	12,507	7,664	81,538
Construction Machinery	7,543	571	5,290	8,293	6,132	65,229
Industrial Machinery	13,585	14,167	10,252	9,499	5,358	56,996
Ships	9,098	6,664	9,897	10,935	2,366	25,172
Environmental Facilities & Plants	13,040	7,101	5,566	6	5,575	59,312
Others	1,131	1,376	1,518	1,632	1,361	14,483
EBITDA (Note 3)	75,260	47,979	63,744	64,955	49,570	527,339
Net income	13,649	13,280	27,926	19,492	5,865	62,392
Capital expenditures (Note 4)	31,753	24,465	14,292	19,682	29,888	317,961
R&D expenses	10,047	8,187	7,445	9,343	9,835	104,626
Depreciation and amortization	18,320	19,725	17,941	17,820	18,282	194,490
Cash flows from operating activities	34,676	57,513	36,521	23,309	2,660	28,298
Cash flows from investing activities	(35,924)	(13,954)	(23,513)	(22,672)	(19,660)	(209,154)
Free cash flows (Note 5)	(1,248)	43,559	13,008	638	(17,000)	(180,856)
Cash flows from financing activities	15,625	(26,686)	(22,020)	19,879	(11,428)	(121,579)

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥94=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2013.
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. Capital expenditures are capitalized and recorded as assets.
5. Free cash flows = Cash flows from operating activities + Cash flows from investing activities

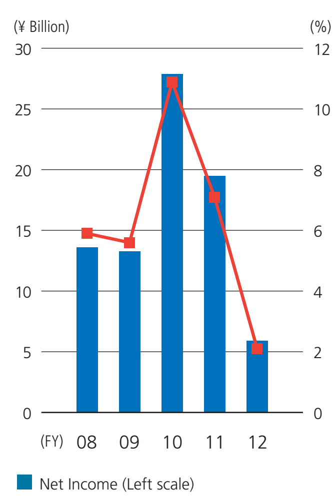
Net Sales



Operating Income and Operating Income Margin



Net Income and ROE

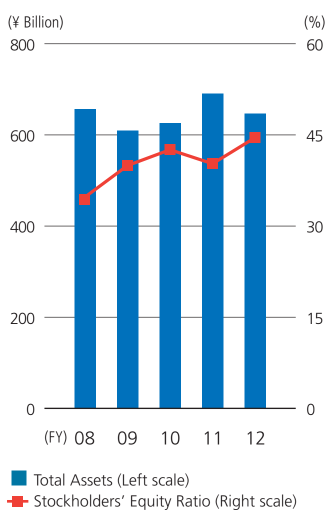


	FY2008	FY2009	FY2010	FY2011	FY2012	FY2012
	Millions of yen					Thousands of U.S. dollars (Note 1)
Financial Position (at year-end):						
Total assets	¥657,436	¥610,087	¥626,829	¥691,841	**¥647,724**	**$6,890,679**
Interest-bearing debt	110,339	87,660	67,833	96,522	**98,547**	**1,048,368**
Total net assets	238,697	254,153	269,380	282,145	**292,826**	**3,115,172**
	Yen					U.S. dollars (Note 1)
Amounts per Share of Common Stock:						
Net income (Note 6)	¥22.62	¥22.01	¥45.87	¥31.75	**¥9.56**	**$0.10**
Stockholders' equity	378.78	404.73	435.10	454.43	**470.69**	**5.01**
Cash dividends	6.00	4.00	8.00	10.00	**8.00**	**0.09**
Share Data:	Yen					U.S. dollars (Note 1)
Stock price at year-end	¥325	¥563	¥543	¥460	**¥381**	**$4.05**
	Millions of yen					Thousands of U.S. dollars (Note 1)
Market value	¥196,127	¥339,720	¥333,622	¥282,309	**¥233,808**	**$2,487,320**
Financial Indexes:	%					
ROIC (Note 7)	9.6	4.8	7.8	7.4	**4.9**	
Operating income margin	8.9	5.5	8.4	7.6	**5.3**	
EBITDA margin	11.7	9.3	11.6	10.4	**8.5**	
Stockholders' equity ratio	34.8	40.0	42.6	40.3	**44.6**	
ROA (Return on assets)	2.0	2.1	4.5	3.0	**0.9**	
ROE (Return on equity)	5.9	5.6	10.9	7.1	**2.1**	
Interest-bearing debt ratio	16.8	14.4	10.8	14.0	**15.2**	
	Yen					
US$/Yen exchange rate (at year-end)	¥98	¥93	¥83	¥82	**¥94**	

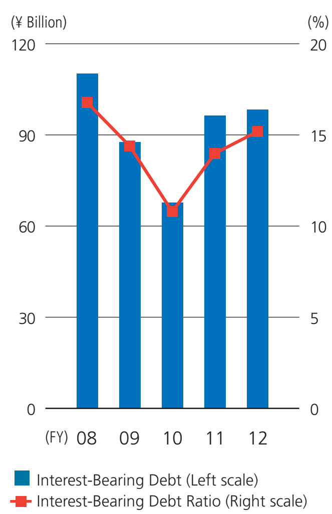
Notes: 6. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.

7. ROIC (Return on Invested Capital) = $\frac{\text{(Operating income + Interest and dividends received) x 55\% (= 1- Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$

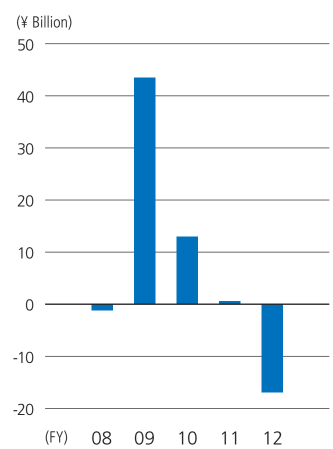
Total Assets and Stockholders' Equity Ratio



Interest-Bearing Debt and Interest-Bearing Debt Ratio



Free Cash Flows

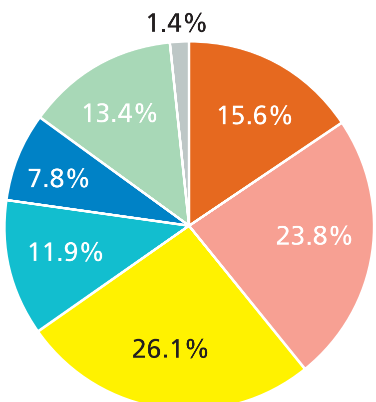


Diversified Businesses Underpin Strong Earnings Base

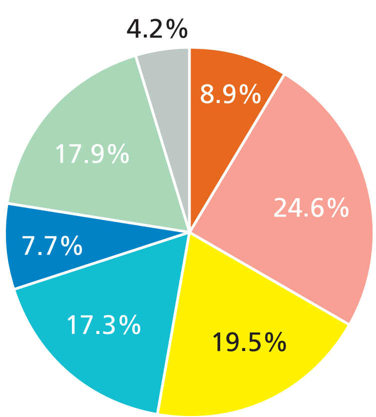
The SHI Group is pursuing business development across a wide spectrum of fields, ranging from leading-edge precision machinery and components through a broad variety of industrial machinery to ships and large-scale plants. The Group consistently offers first-class products and services that maximize 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 in an effort to promote the development of innovative products.

Note: Consolidated net sales and consolidated operating income are actual figures for fiscal 2012.

Consolidated Net Sales
585.9 Billion yen



Consolidated Operating Income
31.3 Billion yen



- Machinery Components
- Precision Machinery
- Construction Machinery
- Industrial Machinery
- Ships
- Environmental Facilities & Plants
- Others

Machinery Components

Consolidated Net Sales
91.2 Billion yen
Consolidated Operating Income
2.8 Billion yen

Precision Machinery

Consolidated Net Sales
139.2 Billion yen
Consolidated Operating Income
7.7 Billion yen

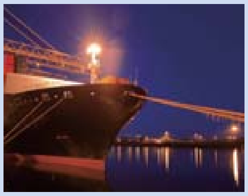
Construction Machinery

Consolidated Net Sales
152.8 Billion yen
Consolidated Operating Income
6.1 Billion yen

Industrial Machinery

Consolidated Net Sales
69.6 Billion yen
Consolidated Operating Income
5.4 Billion yen

Ships



Consolidated Net Sales
46.0 Billion yen
Consolidated Operating Income
2.4 Billion yen

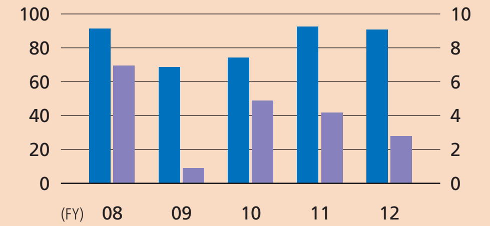
Environmental Facilities & Plants

Consolidated Net Sales
78.6 Billion yen
Consolidated Operating Income
5.6 Billion yen

	Main Products	Net Sales and Operating Income (¥ Billion)
		Net Sales (Left scale) / Operating Income (Right scale)

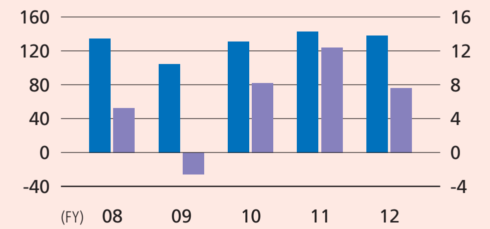
The SHI Group's power transmission and control equipment continues to attract wide acclaim for its high durability and performance thanks to its unique mechanism. In addition to a dominant market position in Japan, the Group boasts one of the top sales records in the global market.

Power transmission and control equipment
Inverters



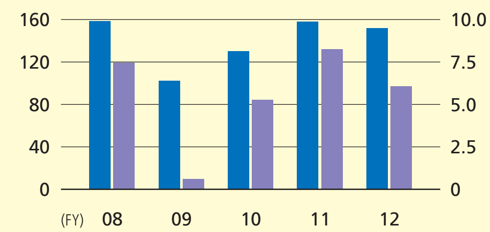
Particularly strong in high-precision and high-cycle molding, the SHI Group is a leading Japanese manufacturer of plastic injection molding machines. The Group also boasts cutting-edge technologies in cyclotrons for medical use as well as semiconductor and LCD manufacturing equipment.

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



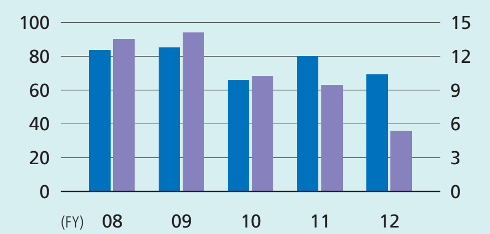
The SHI Group's hydraulic excavators enjoy a solid reputation for their outstanding fuel efficiency and maneuverability. Building on this acclaim, the Group is expanding its market share in Japan and overseas. Turning to the North American market, the Group is steadily establishing its Link-Belt brand of mobile construction cranes.

Hydraulic excavators
Mobile cranes
Road machinery



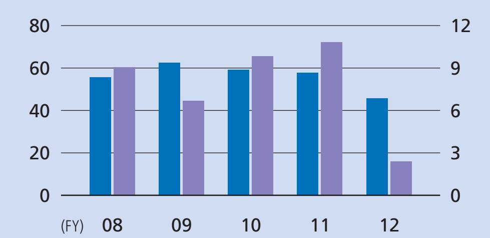
In its steam turbine operations, the SHI Group commands an overwhelmingly dominant share of the global biomass power generation market. The Group is also the market leader in Japan for continuous ship unloaders.

Forging machines
Material handling systems
Logistics & handling systems
Turbines
Pumps



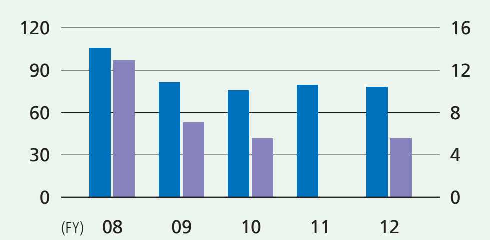
The SHI Group specializes in midsized oil tankers. Considerable progress continues to be made in enhancing design and production efficiency, and delivering unique products.

Ships



The SHI Group's proven track record in circulating fluidized-bed (CFB) boilers underpins its leading share of the market in Japan. The Group also maintains the world's leading share of the market for coke drums, which are used in oil refining.

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



To Our Shareholders, Customers and Employees

Yoshinobu Nakamura
Chairman
(Left)

Shunsuke Betsukawa
President and CEO
(Right)

Fiscal 2013 is the year we will stage a turnaround, breaking free from stagnant growth and embarking on a new beginning.

As of April 1, 2013, Yoshinobu Nakamura, the former President and CEO, was appointed Chairman, and Shunsuke Betsukawa, formerly a Senior Executive Vice President, was handed the reins as the new President of Sumitomo Heavy Industries, Ltd. In June, we also made some changes to our team of directors. As a new management team, we are united in our commitment to overcoming the severe business environment and setting the course for returning the SHI Group to a growth trajectory.

Toward the conclusion of fiscal 2012, ended March 31, 2013, the outlook for the Japanese economy began to brighten somewhat with a long-awaited correction to the strong yen and a rebound in share prices. That said, the Japanese economy as a whole remained on an uncertain path. Overseas, there were some signs that the U.S. economy was strengthening, but growth in the Chinese economy, which had been the driver of global economic expansion, had stalled with no recovery in sight. In Europe, economies were destabilized by disarray in public finance and financial markets. Under these severe economic conditions, we regret to report that not only were we unable to achieve our initial consolidated earnings forecasts for the fiscal year, we also posted year-on-year declines in both net sales and income.

Management is still in crisis mode in view of current conditions facing the SHI Group. We expect lackluster demand to persist, as our customers' appetite for capital investment remains weak due to the uncertain economic outlook in Japan. Overseas conditions are both uncertain and unstable. On the earnings front, our investments in overseas expansion in recent years, mainly to develop segments falling into the category of mass-produced machinery, have not contributed much to profits, and this has dented the profitability of the Group. Although we have steered the right course in the globalization of our operations, guided by current the medium-term management plan "Innovation 21," we must now work urgently to improve earnings at overseas business bases by quickly turning a profit on these investments.

Fiscal 2013 will be an important year for us, as we finish the current medium-term management plan and formulate the next medium-term management plan. Our highest priority is to establish a corporate structure that is able to generate steady profits and put the SHI Group back on a growth trajectory from the next fiscal year. Accordingly, we have designated fiscal 2013 as the year in which we will stage a turnaround, breaking free from stagnant growth and embarking on a new beginning. We will focus on solidifying our footing through sound management and by taking a hard look at reality. The Group aims to create a foundation that leads to the next stage of growth while addressing issues to restore profitability, such as earnings improvement at overseas business bases, the restructuring of heavy machinery businesses, and the launching of new products in segments that fall under the category of mass-produced machinery.

The SHI Group's corporate mission is to contribute to the advancement of society by providing first-class products and services to its customers. 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. In recent years, society has also taken up a growing interest in the corporate governance and compliance endeavors of the corporate sector. The Group has been stepping up its efforts to augment and strengthen its activities in the corporate governance and compliance fields. To this end, the Group has appointed an external director as well as corporate auditors and administers internal control systems to establish an efficient and highly transparent management structure. Moving forward, the Group is committed to further reinforcing corporate governance and compliance as a part of its overall efforts to enhance corporate value.

As we work toward achieving our established goals, we kindly request the continued support and understanding of shareholders, customers, and employees.

Yoshinobu Nakamura
Chairman

Y. Nakamura

Shunsuke Betsukawa
President and CEO

S. Betsukawa

Providing products and services that contribute to the advancement of society

The SHI Group's corporate mission is to contribute to the advancement of society by providing first-class products and services to its customers. 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, employees, and local communities.

Shunsuke Betsukawa
President and CEO

Appointment as President

Q On being appointed President, what are your aspirations?

A Business earnings have been sluggish for several years. I want fiscal 2013 to be the year we turn things around.

On April 1, 2013, I assumed the roles of President and CEO, taking over the reins from the former president, Yoshinobu Nakamura.

Mr. Nakamura's main propositions during his tenure as President and CEO were "Globalization" and "Innovation," and he exhibited immense leadership as he guided the SHI Group toward a growth track. I have a tremendous amount of respect for his accomplishments during his time in charge. As I take over, I am bracing myself as there are many things that need to be done.

Under the current three-year "Innovation 21" medium-term management plan that commenced in fiscal 2011, we have taken the necessary steps to implement a growth strategy for the global market, such as constructing new plants and expanding existing plants overseas for segments that fall in the category of mass-produced machinery as well as carrying out mergers and acquisitions for our European operations. Although our strategies are moving in the right direction, these overseas investments have yet to contribute to profits, and this is one factor that has undermined the profitability of the Group. In addition, earnings have deteriorated in heavy machinery businesses as a result of weak demand. We have marked fiscal 2013, my first year as President, as the year we turn this situation around and stimulate earnings growth. To this end, the Group will concentrate on solidifying its footing through sound management as the next step to achieving new growth. We will address issues to restore profitability, such as earnings improvement at overseas business bases, the restructuring of heavy machinery businesses, and the launching of new products. Finally, we will formulate the next medium-term management plan to plot the path toward growth for the Group from the next fiscal year onward.

Performance in Fiscal 2012

Q What is your evaluation of results for fiscal 2012?

A We regret to report that both sales and income decreased.

Macroeconomic conditions in fiscal 2012 were unstable and uncertain both inside and outside Japan. In Japan, demand was weak on account of subdued capital investment by corporations adversely affected by the appreciation of the yen against foreign currencies. Overseas, growth in China remained flat, and conditions in Europe were unstable as a consequence of disarray in public finance and financial markets. Under these economic conditions, the SHI Group realized it was falling short of its initial projections for consolidated earnings and announced downward revisions to its forecasts for fiscal 2012. In the end, we regrettably recorded year-on-year declines in sales and profits. We attribute this poor performance to a weakened business structure that is vulnerable to external factors, including foreign

A Personal History of Shunsuke Betsukawa

President and CEO

Shunsuke Betsukawa joined SHI in 1978. After gaining experience in the Planning & Control Department of several businesses and in the Corporate Planning Department at the Head Office, he became the General Manager of the Corporate Administration Department in the Corporate Finance, Accounting and Administration Group in July 2001. He has worked tirelessly to overhaul poor-performing businesses, while collaborating with each operating division to come up with plans to rebuild their businesses. Thereafter, while implementing reforms and restructuring, he instilled a mind-set of emphasizing business profitability among employees throughout the SHI Group. His hobby is reading books. The creed that he lives by is modesty (For more details about his personal history, see page 46).

currency markets and economic conditions. We are moving quickly to put this situation behind us. In addition, in fiscal 2012, SHI posted a loss related to the defense equipment business as an extraordinary loss for the repayment of overbilled contracts to Japan's Ministry of Defense. The Group takes this matter very seriously and is making every effort to ensure that this kind of incident does not recur by further strengthening compliance.

The "Innovation 21" Medium-Term Management Plan

Q Can you give us a progress report on current conditions?

A The SHI Group has been executing measures based on "Globalization" and "Innovation" strategies.

Expanding the Global Network

Based on our policy of "Globalization," the SHI Group has been investing aggressively in overseas business base expansion over the past few years. The necessary investments have been made for the most part, and we are now focusing on expanding production volumes, improving productivity, and enhancing quality at the newly constructed or expanded manufacturing plants overseas. Based on the concept of local production and local consumption, we aim to locally sell products that are made locally, and conclude with robust after-sales services. At the same time, we will augment our global network by strengthening ties among overseas business bases. In the large-sized speed reducer business, for example, we aim to expand our share of the world market through stronger affiliations between our plants in Japan, the Tangshan Plant in China, a new plant in Brazil, and Hansen Industrial Transmissions NV, which was recently acquired in Belgium. In the injection molding machines business, we aim to expand market share in growing fields and regions by generating synergies through stronger ties between our plant in Japan and the Demag Plastics Group of Germany in terms of global marketing and product development. In the hydraulic excavator business, we are optimizing our global supply structure in a bid to gain a larger share of potential growth markets through closer ties between our plant in Japan, the Tangshan Plant in China, and our plant in Indonesia.

Innovation

Innovation is essential for creating competitive advantages. The SHI Group seeks to improve earnings power and achieve sustainable growth on a global basis by launching innovative products that are competitive in priority markets. We refer to "product innovation" as the process of developing innovative products and bringing them to market. Take, for example, the order we received in fiscal 2012 for a boron neutron capture therapy (BNCT) system, a technology that has been garnering attention as a next-generation therapeutic treatment for cancer in the medical field (For more details, see page 29.). This marked the first time in the world that a cyclotron accelerator was used in a BNCT system, made possible by SHI's accelerator technologies accumulated over many years. In other areas, the Group has concentrated on the development of "Green Products" that contribute to

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
Key words for growth	"Globalization" and "Innovation"
Investment policy	¥150.0 billion over three years
Long-term target	Achieve net sales totaling ¥1 trillion

Harnessing Our Growth Drivers

Establishment of Gear Speed Reducer Plant in Brazil

In July 2010, SHI established a new speed reducer plant in Brazil that began operations in November 2011. The plant manufactures medium- and large-sized speed reducers for customers in the South American area. We expect demand to grow for these products, which are used in large cranes, cement mills, power generators, and elevators, as infrastructure investment is likely to expand in the region. Over the past few years, we have invested in extending the global reach of the speed reducer business, expanding our plants in China and Vietnam in addition to acquiring Hansen Industrial Transmissions NV. We aim to expand sales by leveraging this expanded global network of bases.

Equipment Order Received for World's Largest Boilers That Burn Tire Scrap

In June 2012, SHI received an equipment order from a South Korean company for a boiler that uses waste tires as fuel. The facility's use of inexpensive tire scrap and low-grade coal not only keeps power generation costs down, but also contributes to the preservation of the global environment. The Company won the order in recognition of its technologies and extensive track record in supplying equipment for burning waste such as biomass. The facility will have the largest capacities in the world to incinerate tire scrap. We anticipate growing interest in this product amid heightening concerns for environmental preservation around the world.

New Hydraulic Excavators Offer Overwhelming Economic Performance

In September 2012, SHI introduced a new model of hydraulic excavators that complies with Tier 4 emissions regulations in Japan. The older base model has been awarded the Grand Prize for Energy Conservation from the Ministry of Economy, Trade and Industry of Japan—a first for construction machinery—and the market has highly praised its fuel efficiency and economic performance. The newer model offers 10% better fuel efficiency with a next-generation clean engine and a new hydraulic system. It is a globally strategic model with strong functionality also in terms of operability and safety.

the preservation of the global environment, and continues to develop products for energy conservation and the renewable energy field. We refer to "process innovation" as innovation activities at each stage of design, manufacturing, sales, and services, which are undertaken Groupwide in an aim to reduce costs and improve the capacity of our organizations.

Q Has there been any change in plans?

A We have not changed our basic strategy. We aim for sustainable growth on a global basis.

Fiscal 2013 is the final year of current medium-term management plan "Innovation 21." Although the SHI Group did not progress as far as it had originally anticipated toward its numerical targets, we believe the fundamental concepts of "Globalization" and "Innovation" are still relevant. The Group is staying true to its plans for expanding overseas, mainly in segments under the category of mass-produced machinery. We will aggressively expand business for our customers and international markets. Our new medium-term management plan, which begins in the next fiscal year, will reflect the achievements we made under "Innovation 21" and changes in the economic environment. We aim to establish global competitive advantages for the Group and enable sustainable growth.

Shipbuilding Business

Q What management policies are in place to reverse the slide in earnings at the shipbuilding business?

A We plan to endure the challenging conditions with a bare-minimum production structure.

The operating environment has not improved at all for the shipbuilding business, with deterioration in market conditions, China expanding its supply capacity, and South Korea becoming more competitive. SHI has decided on a policy of enduring these conditions until the market improves, slowing down the pace of shipbuilding, and refusing any loss-making orders in the meantime. Based on this policy, SHI only accepted an order for one Aframax tanker in fiscal 2012, and reduced personnel to the level where only three ships are constructed annually, the bare minimum to keep the business going. In the marine transportation market, the overcapacity in tankers, SHI's core business, has been on a downtrend, and tanker prices have been on a gentle uptrend thanks to yen depreciation. However, we think more time is needed for a full-scale recovery in prices to materialize, and look for severe business conditions to persist. For the shipbuilding business, we forecast an operating loss in fiscal 2013, owing to the shrinking backlog of orders for ships and declining capacity utilization. We will continue to follow our policy in running the business, but will not resign ourselves to more losses. We will examine our options and decide on a definite plan for the future direction of the business during fiscal 2013.

Harnessing Our Growth Drivers

Plastic Injection Molding Machines Honored with Award for Energy Conservation

In February 2013, the SE-EV series of full-electric injection molding machines won the 33rd Annual Most Energy-Efficient Machine Award from the Minister of Economy, Trade and Industry. The machines cut energy consumption by 25% and reduced waste grease volume by 50% over older models, with the use of a newly developed mechanism for the movable mold part and upgrades to the control system. The machines are also easier to maintain and offer improved operability, thereby contributing to better work efficiency.

Organizational Reforms: Two Business Integrations

In April 2013, the SHI Group underwent two major organizational reforms to reinforce operations. The first reform was the absorption of a subsidiary that handles forging presses into the parent company and integrating it with operations that focus on medical equipment. Its know-how gained in large-scale machinery will be applied to the design and installation of large-scale precision equipment, such as cancer treatment systems. The second reform involved spinning off the material handing business, which includes automated warehouses, and integrating it with a subsidiary that handles large cranes. We expect to see synergies from the combination of software technologies, such as automation programs, and hardware technologies for large-scale equipment.

Quantum Equipment Division
Engineering, manufacture, and sales of medical equipment, accelerators, etc.

Sumitomo Heavy Industries Techno-Fort Co., Ltd.
Engineering, manufacture, and sales of press machinery, and industrial machinery, etc.

→ Industrial Equipment Division
Integrated as a new business division

Logistics & Parking System (LPS) Division
Engineering, manufacture, and sales of automated warehouses, automated parking systems, etc.

Sumitomo Heavy Industries Engineering and Services Co., Ltd.
Engineering, manufacture, and sales of large cranes, material handling systems, etc.

→ Sumitomo Heavy Industries Material Handling Systems Co., Ltd.
Integrated as a new company

Division
Subsidiary

Outlook for Fiscal 2013

Q Please discuss your outlook for fiscal 2013.

A We project a moderate recovery in economic conditions. We expect an increase in business at segments falling under the category of mass-produced machinery.

We expect the Japanese economy to recover on the back of monetary easing and government measures to stimulate the economy, based on the assumption that yen depreciation will lead to an increase in exports and capital investment. Overseas, we think uncertainties about the European economy will prevail, but the U.S. economy has shown signs of a strong recovery and the Chinese economy looks likely to enter a mild recovery after a period of stagnant growth. Based on this outlook, the SHI Group estimates order receipts will reach ¥610.0 billion, net sales will reach ¥600.0 billion, and operating income will reach ¥30.0 billion. On a year-on-year comparison, we expect order receipts and net sales to increase owing to a recovery in market conditions for mainly segments falling under the category of mass-produced machinery. However, we expect operating income to decrease slightly compared with the previous fiscal year, as losses look likely in the Ships segment due to a sharp drop in net sales. Although economic conditions inside and outside Japan are still uncertain, we regard the aforementioned earnings estimates as the bare minimum that should be achieved.

Returning Profits to Shareholders

Q Please explain SHI's policy on returning profits to shareholders.

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 profits for each period and continually strives to increase shareholder returns. The determination of dividends takes into consideration a full range of factors, including the need to accumulate and maintain internal reserves at the level required to ensure long-term and stable business development. For fiscal 2012, in line with the aforementioned policy and reflecting the Group's earnings performance, the Company declared an annual per-share cash dividend of ¥8, down ¥2 compared with fiscal 2011. For fiscal 2013, SHI plans to pay an annual per-share cash dividend of ¥6, down ¥2 compared with the previous fiscal year, but deems this level is commensurate with its present circumstances.

For fiscal 2013, our management policy is to solidify our footing through sound management. We will make every effort to improve earnings capacity and cash flow through business restructuring, and work hard to restore the level of dividends as quickly as possible.

Special Feature: Harnessing Our Growth Drivers

Our Workmanship in Manufacturing Supports Manufacturing

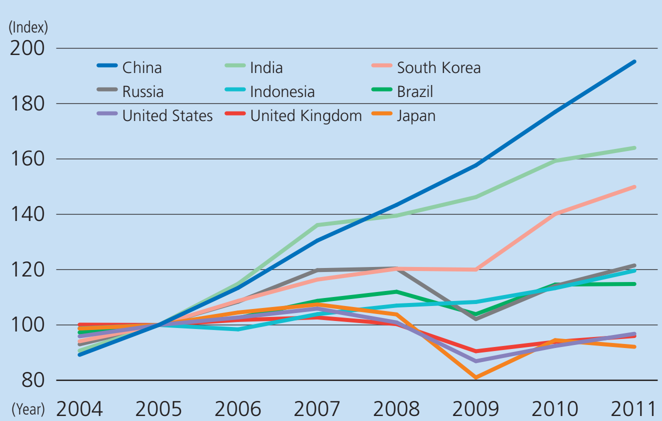
~Manufacturing Excellence Supporting Global Industries~

Conditions in the Global Manufacturing Industry and Increasingly Sophisticated Needs

The manufacturing industries in the United Kingdom, which pioneered the industrial revolution and industrialized the world, and in the United States, which eclipsed the United Kingdom in terms of resources and market size, now account for only about 10% of their GDP. In turn, Asia has become the epicenter of the manufacturing industry, with China rising to become the world's largest producer of goods, and the manufacturing industries of South Korea, Indonesia, and other Asian countries achieving a noteworthy presence. The emergence of these countries has expanded consumer markets and globalized competition, making it more difficult for companies to survive by only pursuing volume as in the past. The manufacturing industry as a whole is now expected to deliver higher-quality products more efficiently and with lower impact on the environment.

Time and time again, the SHI Group has come through with the products required by its customers and played a key role in supporting the global manufacturers that have prospered through fierce competition. The Group will continue to support manufacturing in a broad range of industry around the world, responding to the latest, constantly advancing needs of its customers with insight and innovation.

Industrial Production Index



Note: Index data presents the balance of industrial production in 2005 for each country as 100.

Source: Excerpt from materials issued by the United Nations. Data prepared by the NATIONAL BUREAU OF STATISTICS, CHINA in the case of China

A History of Reliability: CYCLO® Drive Speed Reducer

Speed reducers are equipment that reduces the rotational speed of motors to optimal speeds while boosting torque. They are used in a wide variety of machinery, including robots, factory conveyor lines, pumps, and agitators. Most typical speed reducers use gears, and each tooth of the gear is subject to strong forces that can cause abrasion and fractures of the teeth. Using proprietary wave-shaped configuration, SHI's CYCLO® Drive is engineered so that impact loads are dispersed and absorbed by many teeth of a gear at once, making them more compact, one of their best features. Since its release more than 70 years ago, CYCLO® Drive has driven growth in the market from an undisputed position of excellence.

Efficient Unloaders for Ship Unloading Operations in Ports

Large cranes are used to unload cargo from ships docked in port. Cranes used to move coal, iron ore, and similar bulk cargo are called unloaders. SHI has been a pioneer in unloaders, always standing on the front line of workmanship in their manufacturing. Our continuous unloaders boast a maximum capacity of 3,500 tons per hour using an efficient system of continuously rotating buckets to unload cargo. The Company continues to advance its unloaders by proactively integrating new technologies, such as inverter control systems that help conserve energy and overload protection systems that reduce friction and prolong the useful life of the unloader.

Injection Molding Machines with Zero Defects, Zero Loss, and Zero Faults

Injection molding machines are irreplaceable in the production of plastic products. Our Zero-molding® concept looks at taking the efficiency of producing molded products to the extreme by solving problems on the production floor. It improves filling balance while enabling low-pressure filling, eliminates molding defects, prolongs the useful life of molds by eliminating unnecessary mold clamping force, and lightens workloads with a simple control interface. In recognition of these achievements, our plastic injection molding machines have been honored with the Most Energy-Efficient Machine Award from the Minister of Economy, Trade and Industry. Our cutting-edge precision molding technologies have contributed to technological innovation in various fields.

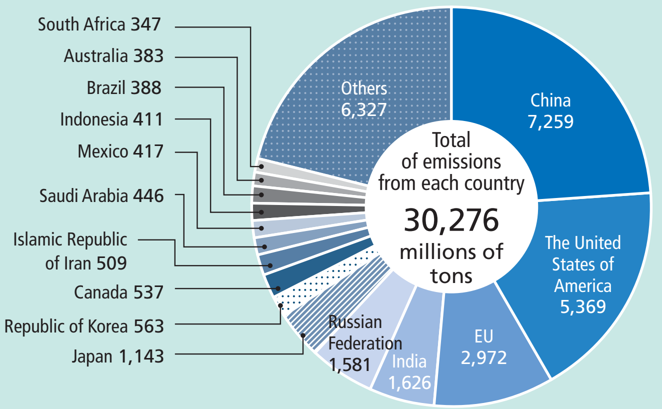
Technologies of the Future

~Opening the Way to Future Technologies~

Helping to Solve World Problems

There are an almost endless number of world problems waiting to be solved. We believe it is our mission to take on some of these world problems, such as addressing the ageing of society in advanced countries, such as Japan, and environmental problems, such as global warming, that are linked to manufacturing. Scientific advancement, such as in medicine and manufacturing, will play a crucial role in being able to achieve abundant lifestyles and a sustainable society at the same time. At the SHI Group, we are working to help solve the challenge of building a sustainable society by supporting society with a broad array of cutting-edge technologies in the fields of medicine, the environment, and aerospace, among others.

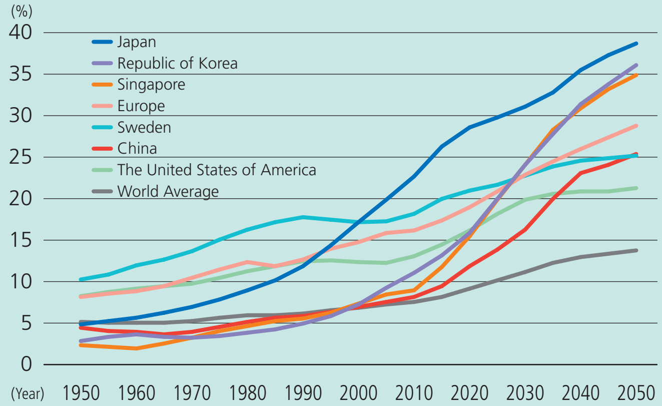
Worldwide CO_2 Emissions*



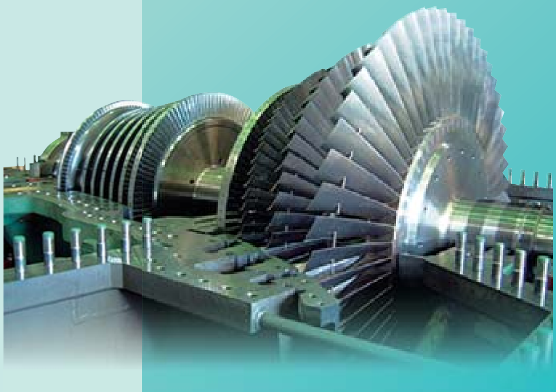
Sources: Based on data from Ministry of the Environment and International Energy Agency (IEA)'s 2012 edition of *CO_2 Emissions from Fuel Combustion*

* Emission units are in millions of tons of CO_2 attributed to energy usage and are rounded down, so their totals may not add up to 100%.

Elderly Population Percentages and Projections (people 65 and older)



Source: Prepared from United Nations materials



Steam Turbines Contributing to Society and the Global Environment

Steam turbines convert high-temperature and high-pressure steam generated by boilers into rotational energy as the steam pushes the turbine blades. The slightest misalignment or damage can spell a disastrous end to the life of a turbine spinning at high speeds under harsh conditions. An unparalleled level of attention to detail is essential in the manufacture of steam turbines. Over the past few years, SHI's steam turbines have been recognized for their reliability throughout Southeast Asia, leading to several deliveries to biomass power generation facilities. In addition, we expect demand to increase for more-efficient power generation systems that incorporate gas turbines.

Proton Cancer Therapy Systems Advance the Field of Medicine

Contrary to x-rays, proton beams can release a large amount of energy at a specific position inside a human body, and then dissipate. Our proton cancer therapy systems take advantage of this characteristic of proton beams to only treat cancerous areas without harming healthy cells. The system consists of a cyclotron accelerator that accelerates the protons, a beam transmitter that sends the accelerated protons to the operating room, and gantry irradiation equipment that irradiates protons from a discretionary angle. This kind of system requires technologies and know-how for precisely manipulating large-scale structures. SHI has continued to diligently advance its proton cancer therapy systems since the first delivery was approved as medical equipment in Japan in 1998.

Unraveling the Mysteries of Outer Space with Cryocoolers

Cryocoolers are able to reach temperatures close to absolute zero (-273 degrees C). SHI is the world's leading maker of cryocoolers. Cryocoolers are used in some unusual applications, such as large-scale radio telescopes like the ALMA (Atacama Large Millimeter/submillimeter Array) telescope installation. To increase the reception capabilities of radio telescopes, sensors must be cooled to extremely low temperatures, and thermal noise generated by variations in temperature must be reduced as much as possible. Even one internal wire can be a heat source in the world of ultra-low temperatures. For the ALMA telescope installation, the Company has taken steps to improve the structure of cooling equipment and systems to optimize cooling performance and through a trial-and-error process to reduce noise. These efforts have helped clear the stringent specification requirements of the ALMA telescope installation. This accomplishment truly showcases the unique technologies developed by the Company.

Review of Operations

Machinery Components

Main Products	Major Applications/Markets
Power transmission and control equipment, Inverters	Factory automation machinery, Industrial robots, Machine tools, Conveying and logistics machinery, Steel and iron making machinery, Chemical processing machinery, Material handling machinery, Mining machinery, Food processing machinery, Water treatment plants, Elevators and escalators

Power Transmission & Controls, Inverters

Market Environment

General instability continued to mark the business environment throughout fiscal 2012. This was largely attributable to appreciation in the value of the yen, the issue of fiscal reconstruction in Europe and a slowdown in the rates of economic growth in emerging countries including China. Looking at fiscal 2013, such factors as economic stimulus measures in Japan and continued weakness in the value of the yen are expected to have a positive effect. At the same time, demand particularly in the area of infrastructure investment is projected to be firm. This will include resource infrastructure-related investment by developed countries in such fields as shale gas, energy resource development by newly emerging nations and activities in connection with environmental measures. Taking into consideration these circumstances together with the forecast positive turnaround through the Euro region from the second half of 2013, expectations toward the future are high.

Fiscal 2012 Review and Topics

Based on the anticipatory investment including factory construction undertaken in newly emerging economies, the SHI Group focused on expanding sales in such countries as Vietnam, China and Brazil. At the same time, energies were channeled toward boosting global sales as well as marketing activities in resource-rich countries with a particular emphasis on Australia and South Africa. This was especially the case given the effects of acquisition of Hansen Industrial Transmissions NV. In addition, steps were taken to further reinforce the Group's business development activities in an effort to maximize the benefits to accrue from a global network of bases that boast factory capabilities. In specific terms, the Group relocated to a new factory in Mexico in March 2012, which entailed increased production capacity. Moreover, a new sales base was established in Guatemala. From a new product perspective, we launched the SCC series of crane hoist gearbox units.

Fiscal 2013 Strategies and Initiatives

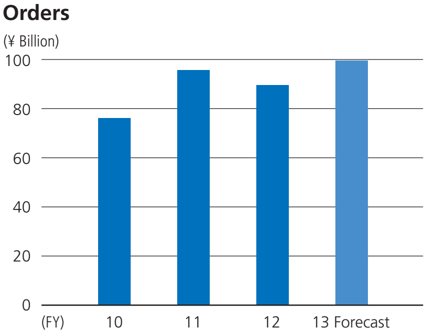
The SHI Group plans to optimize its supply chain that links manufacturing bases and the Group's global marketing network in an effort to ensure the stable supply of products and actively bolster its sales and after-sales service systems. Furthermore, we will work to ensure the timely supply of our abundant existing and new products that have been boosted by the addition of Hansen Industrial Transmissions NV in order to accurately address the increasingly diverse needs of the global market. Harnessing our comprehensive capabilities, we will endeavor to secure a leading market share. Turning to conditions in Japan, we will take the necessary steps to comply with high efficiency motor standards and regulations while making every effort to further bolster our cost competitiveness.

Fiscal 2012 Segment Results

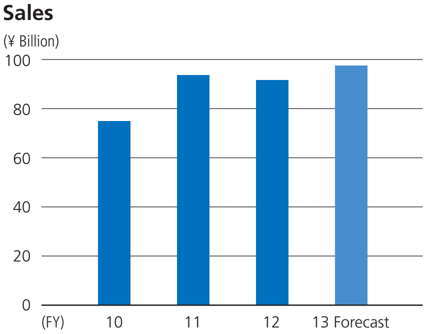
The downturn in European markets and poor sales of gearboxes to the resources and energy sectors resulted in a decline in both sales and orders.

As a result, total segment orders were ¥89.2 billion, a 6% decrease compared with the previous fiscal year. Sales were ¥91.2 billion, down 2% year on year, and operating income was ¥2.8 billion, a drop of 35%.

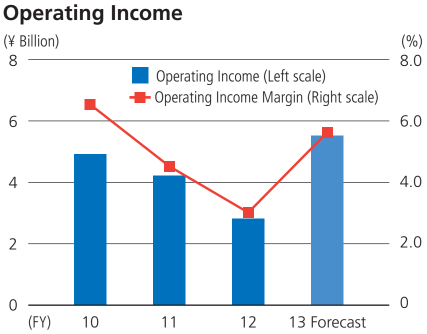
Orders

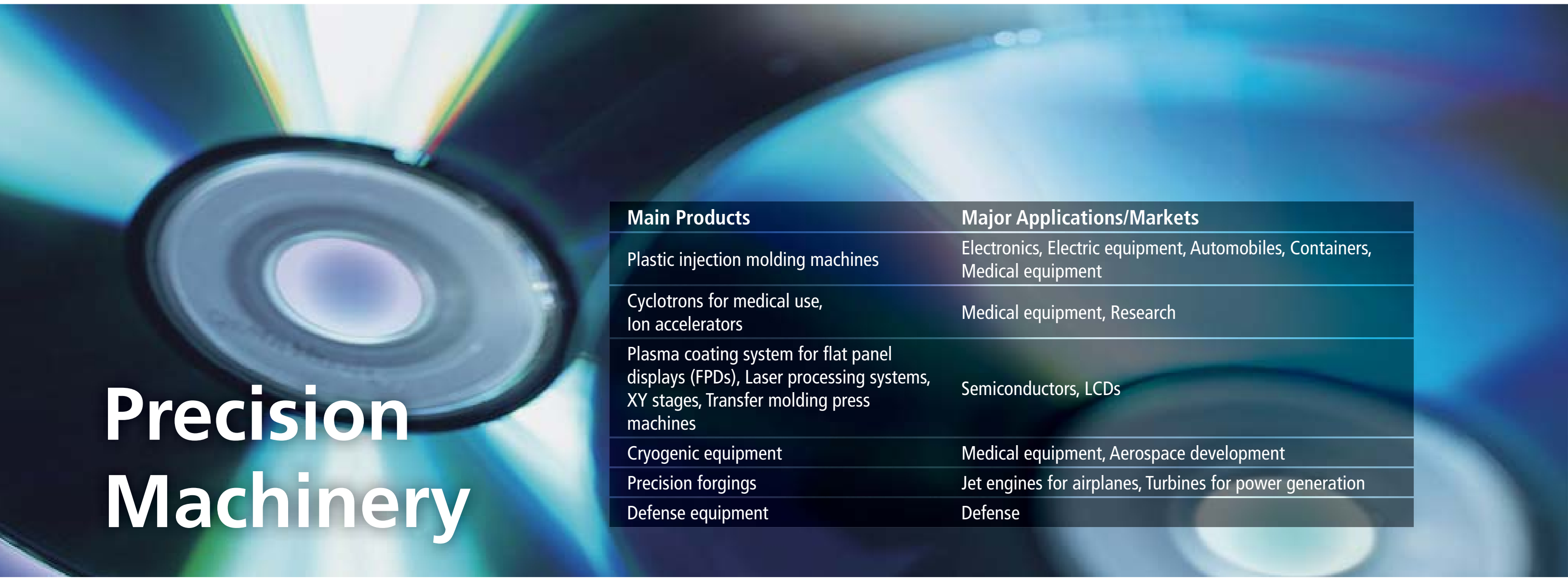


Sales



Operating Income





Precision Machinery

Main Products	Major Applications/Markets
Plastic injection molding machines	Electronics, Electric equipment, Automobiles, Containers, Medical equipment
Cyclotrons for medical use, Ion accelerators	Medical equipment, Research
Plasma coating system for flat panel displays (FPDs), Laser processing systems, XY stages, Transfer molding press machines	Semiconductors, LCDs
Cryogenic equipment	Medical equipment, Aerospace development
Precision forgings	Jet engines for airplanes, Turbines for power generation
Defense equipment	Defense

Plastic Machinery

Market Environment

Both the economic environment in Europe and the status of growth investment in emerging countries remain shrouded in uncertainty. On a brighter note, automobile-related capital expenditure continues unabated predominantly in North America and Southeast Asia. IT-related capital investments particularly in the areas of smartphones and tablet PCs in East Asia are projected to fuel ongoing demand. Taking each of the aforementioned factors into consideration, market trends are expected to remain in line with those experienced during the previous fiscal year.

Fiscal 2012 Review and Topics

Orders received were robust during the first half of fiscal 2012 due mainly to the upswing in reconstruction demand following the floods in Thailand. In contrast, orders received fell substantially below expectations for the second half. This was largely attributable to the dramatic drop in demand in Europe and China reflecting sluggish economic conditions throughout Europe and the overall negative impact of anti-Japanese demonstrations in China. During the fiscal year under review, the Group's new model SE-EV series of full-electric injection molding machines which were released in 2012 won Japan's Minister of Economy, Trade and Industry Award in the category of Most Energy-Efficient Machine. The SE-EV series is the result of a natural progression in the evolution undergone by the SE-DUZ series of products, which attracted wide acclaim. This new lineup achieves precise and stable moldings at an even higher level while significantly contributing to improvements in the productivity of molded products.

Fiscal 2013 Strategies and Initiatives

The SHI Group will build on its base of full-electric injection molding machines to provide a full lineup of products that best fit the needs of customers in each field. At the same time, we will work to enhance functionality. Working in partnership with the Demag Plastics Group in Germany, acquired in 2008, we will utilize our global sales service network to accelerate the pace of global market development including Europe, the United States and Asia. We will strengthen both product competitiveness and marketing capabilities with an eye firmly placed on securing the top position within the injection molding machine industry.

Product Topics

Zero-molding® Innovation

In the field of precision molding, micro-unit precision is required and even slight distortions may be unacceptable. The SE-EV series of products enable molding with a smaller amount of clamping force by controlling the injection screw and eliminating burrs and short shots, while detecting the optimal mold clamping force. Moreover, postural change at the time of clamping has been reduced by more than 75% compared with existing models through continuous modifications to the clamping mechanism, dispersion of the reaction force from molded components, and improving movable systems.

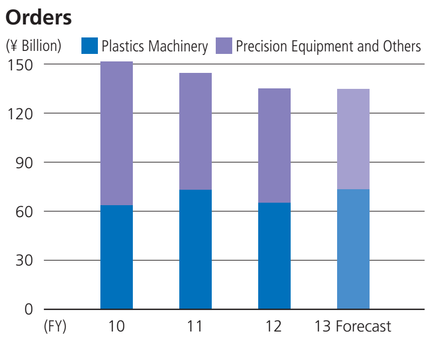
Full-electric injection molding machines

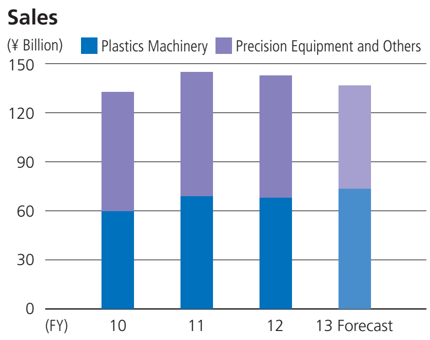
Fiscal 2012 Segment Results

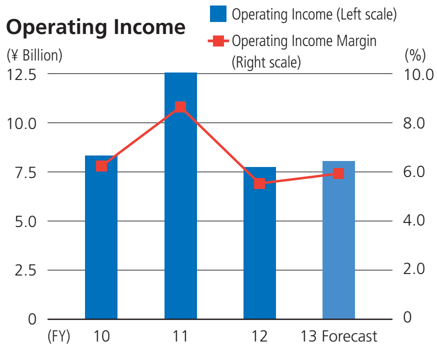
With respect to the plastics machinery business, weak sales to the electronic and electrical sectors in Japan and other parts of Asia resulted in a decline in both orders and sales.

Orders and sales in other businesses in this segment also declined as compared to the previous fiscal year. This was largely attributable to sluggish trends in electronics-related product fields.

As a result, total segment orders were ¥134.4 billion, down 7% year on year. Sales came to ¥139.2 billion, a decrease of 3% compared with the previous fiscal year, and operating income fell 39%, to ¥7.7 billion.







* Forecasts for fiscal 2013 have been adjusted in line with the reclassification of business segments.

Precision Equipment and Others

Market Environment

The semiconductor and IT-related electronics equipment markets in Japan continue to confront sluggish conditions. In contrast, the market for cryocoolers generally sold to medical institutions and laboratories is stable with expectations that demand will continue going forward. Cancer diagnostic and treatment equipment are exhibiting robust trends overseas including in Asia, Europe, and the United States. Following a reorganization of SHI's business, this equipment will be incorporated into the Industrial Machinery segment from fiscal 2013.

Fiscal 2012 Review and Topics

The SHI Group received an order for its BNCT next-generation cancer treatment system from a private hospital. The Group's BNCT system is the first in the world to employ a cyclotron accelerator and showcases the Group's outstanding technological capabilities. At the same time, we have also received a substantial number of inquiries regarding our proton therapy systems. In addition to firm trends in orders received for cryocoolers used in magnetic resonance imaging (MRI) equipment, the Group marked another milestone with the release of a new model 4KGM cryocooler. During the fiscal year under review, we upgraded and expanded our lineup of laser system drills in our semiconductor- and electronics-related equipment activities as a part of efforts to cultivate new markets.

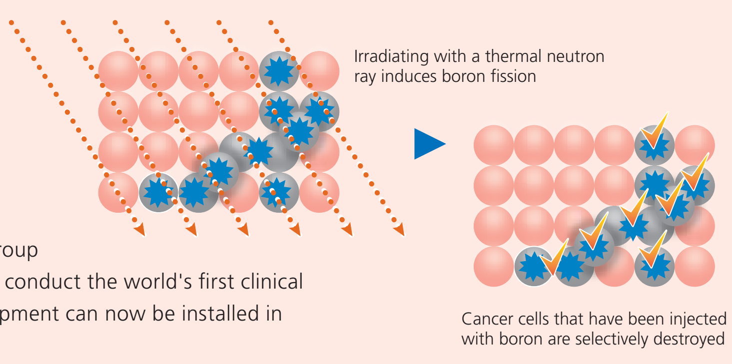
Fiscal 2013 Strategies and Initiatives

The cryocoolers market is forecast to remain stable. Moving forward, we will strengthen our marketing structure and take steps to cultivate new demand. In the field of semiconductor- and electronics-related manufacturing equipment, the IT device market, which includes smartphones, is expected to periodically experience dramatic fluctuation. We will maintain a keen eye of demand trends and work to expand sales of related equipment focusing mainly on Asia. Turning to products that fall into the category of such core semiconductor components as ion-implantation systems, we will strive to enhance quality stability while bolstering marketing activities overseas. The Group will also pay careful attention to new energy fields including photovoltaic and secondary cells, which are expected to experience growth, and work to cultivate new markets.

Product Topics

World's First Accelerator Based Boron Neutron Capture Therapy (BNCT) System Ordered for a Hospital

BNCT is a therapy that selectively destroys only those cancer cells that have been injected with boron by applying a minute amount of neutrons in the boron-injected cancer cells. Conventional BNCT therapies use neutrons taken from experimental reactors, but the Group has successfully developed a BNCT accelerator that has allowed it to conduct the world's first clinical experiments using an accelerator. With the accelerator, therapy equipment can now be installed in general hospitals.



Construction Machinery

Main Products	Major Applications/Markets
Hydraulic excavators	Construction, Civil engineering, Scrap, Forestry
Mobile cranes	Construction, Civil engineering
Road machinery	Roadway construction

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

Market Environment

Trends in the markets for hydraulic excavators in Japan and North America were firm throughout fiscal 2012. In China, the world's largest market for such equipment, however, growth was sluggish with an economic slowdown. Also, the Indonesia market slowed down in the second half. Taking into consideration moves to expand facilities at the Tangshan Plant in China, and production adjustments at the Indonesia plant, efforts to develop SHI's global business through its three core plant structure were hindered by the severe operating environment.

Fiscal 2012 Review and Topics

In the hydraulic excavator business, results benefited from such positive factors as reconstruction demand in Japan following the earthquake disaster and an increase in shipments to North America. In contrast, the volume of units sold in China, the world's largest market, was cut in half compared with the previous fiscal year. Shipments from the Group's network of three plants also declined around 15% year on year. In an effort to offset the drop in production at the China plant, measures were put in place to manufacture components for shipment to Japan. In similar fashion, energies were channeled toward expanding sales in Thailand and Malaysia in the ASEAN region to ensure the ongoing operation of the Indonesia Plant amid a downturn in domestic demand from the second half.

Turning to new products, SCM announced details of nine new models of hydraulic excavators that comply with Japan's interim Tier 4 emissions requirements. In addition to realizing a 10% improvement in fuel efficiency compared with existing models, the new lineup maintains the established reputation for safety with the Field View Monitor (FVM®), which provides a 270° wide field of view, a standard feature. Through these means, we are bolstering the competitiveness of our products.

Fiscal 2013 Strategies and Initiatives

In Japan where reconstruction demand is forecast to remain firm, we will expand sales by releasing hybrid excavators that harness the leading-edge technologies and bolstering our lineup of products that comply with interim Tier 4 emissions requirements. Outside Japan, we will focus on further developing our business in the North American and ASEAN markets, which remain firm, on the strengths of our product

Product Topics

Hybrid Excavator

Sumitomo (S.H.I.) Construction Machinery Co., Ltd. will begin sales of hybrid hydraulic excavators in the autumn of 2013. Power generated by deceleration in swinging maneuvers is converted to electricity and used to support engine output. This system offers a further 10% reduction in fuel consumption compared with the already stellar fuel performance of our base model. Moreover, we have attached a bucket that is one-size larger than other models in the same class and have also dramatically raised its work efficiency.

Hybrid excavator

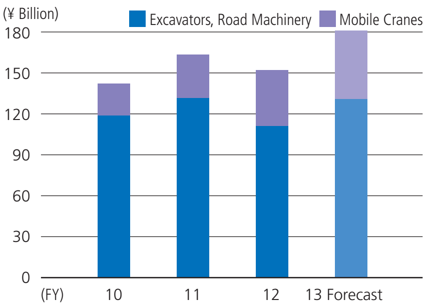
Fiscal 2012 Segment Results

Although market conditions in Japan were firm, the worsening conditions in the Chinese market resulted in both a decline in sales and orders in the hydraulic excavator business.

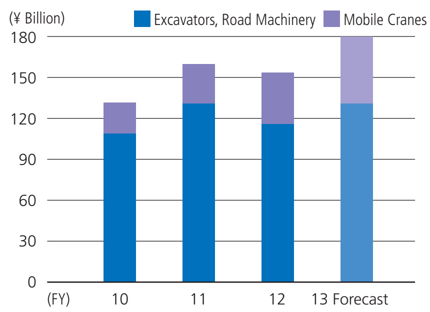
On the other hand, the mobile crane business posted improved figures for both orders and sales on the back of sound market conditions in North America.

As a result, total segment orders were ¥151.2 billion, a 7% year-on-year decrease, sales were ¥152.8 billion, down 4%, and operating income was ¥6.1 billion, a decline of 26%.

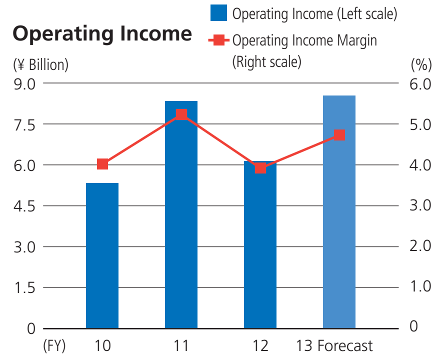
Orders



Sales



Operating Income



development capabilities while keeping a keen eye on the status of market recovery in China. In addition, we will look to enter overseas asphalt paver markets in our construction machinery business activities.

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

Market Environment

The North American crane market continued to recover in fiscal 2012. Link-Belt was positively impacted by the continued strong activity in oil and gas exploration and dealers increasing their rental fleets. The Latin American and Far East markets provided additional sales and the Oceania market remained strong.

Fiscal 2012 Review and Topics

Link-Belt recorded a 30% increase in sales in fiscal 2012 as a result of the continued improvement in the North American crane market and increased sales into the Latin America and Far East markets. The North American mobile telescopic and crawler crane markets increased approximately 41% following a 73% increase in fiscal 2011, with all market segments increasing. The Latin American market continued to grow and Link-Belt increased sales into this region in fiscal 2012. Link-Belt increased international sales in line with long-term strategic goals. Link-Belt introduced two new models at CraneFest held onsite in September 2012, a new 80 ton rough terrain crane and a new 200 ton lattice crawler crane. Link-Belt continued the Lean Sigma® initiatives and the development of new products to support future sales.

Fiscal 2013 Strategies and Initiatives

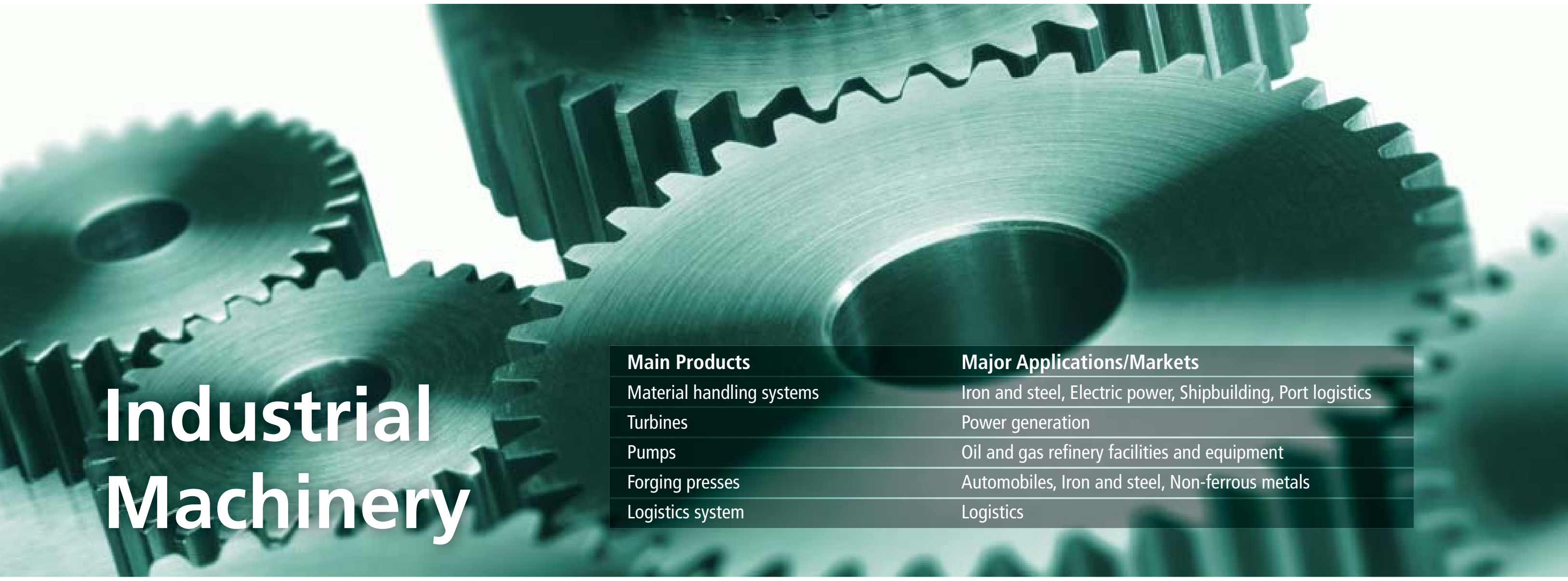
The sales orders and backlog have continued to increase as demand in certain market segments has continued to grow. Link-Belt strategies for fiscal 2013 will be focused on increasing production to meet customer demand, the continued implementation of Tier 4 engines to meet EPA requirements, further expansion in the international markets, maintaining new product development timelines and continued support of the Lean Sigma® activities. The continuing strength of Link-Belt is the introduction of new models that meet and exceed the requirements and expectations of the customers.

Product Topics

50th Anniversary of Technical Alliance with Link-Belt

SHI and Link-Belt Construction Equipment Company formed a technical alliance in 1963, and this year marks its 50th anniversary. Link-Belt became an affiliate of SHI in 1986, and we have shared a long history together. Chuck Martz, the chairman of Link-Belt, is not just involved in one business, but helps produce synergistic effects throughout our business. He was appointed as the first non-Japanese executive officer of the Company in 2009. The Company will work hard to build excellent relationships of a similar nature with other companies with which we have recently partnered.

Rough terrain crane



Industrial Machinery

Main Products	Major Applications/Markets
Material handling systems	Iron and steel, Electric power, Shipbuilding, Port logistics
Turbines	Power generation
Pumps	Oil and gas refinery facilities and equipment
Forging presses	Automobiles, Iron and steel, Non-ferrous metals
Logistics system	Logistics

Forging Presses and Industrial Machinery

Market Environment

The volume of automobile sales is increasing particularly in Southeast Asia. At the same time, there are clear indications of a recovery in North America. In each of these regions, a succession of automobile manufacturers is making plans to increase local production. On this basis, expectations of new capital investment in forging presses are high.

Fiscal 2012 Review and Topics

The FPR series, which is distinguished by its compact size, and sold to the overseas bases of Japanese companies, continues to be well received. Buoyed by this solid reputation, orders grew. Acknowledging the high level of technology, orders were also received for the FPW series from local overseas companies. Moreover, the servo-driven press FPS series and large forging press FPA series continued to attract robust demand.

Fiscal 2013 Strategies and Initiatives

The SHI Group reorganized its press marketing activities into domestic and overseas operations. In addition to integrating the former Quantum Equipment Division, which mainly handles medical equipment, these operations are now undertaken by the Industrial Equipment Division. In our domestic marketing operations, we provide optimal products for use as equipment at the overseas business bases of Japanese companies. In this manner, we take steps to expand sales mainly in Southeast Asia and North America. In our overseas marketing operations, we will work to promote sales in North America and China by responding to the needs of local companies in a timely manner while utilizing the overseas business bases of new business divisions. Turning to medical equipment, we will focus on advancing sales of leading-edge cancer therapy equipment mainly overseas.

Material Handling Systems
Sumitomo Heavy Industries Material Handling Systems Co., Ltd.

Market Environment

Against the backdrop of a downturn in the value of the yen and a steady increase in stock prices, there are indications that a portion of the materials handling systems market is entering a period of recovery. Taking these factors into consideration, an upswing in capital investment is expected to emerge. The logistics facility market in Japan is forecast to remain firm while demand in Asia is projected to expand. Despite persistently harsh conditions in the automated parking systems market, positive signs of a turnaround are beginning to appear.

Fiscal 2012 Review and Topics

The SHI Group incurred the cancellation and postponement of certain projects in its materials handling systems business. On a more positive note, the Group secured orders for such products as continuous unloaders for the coal used to generate electric power and ladle cranes for the electric furnace industry. Orders were also received for factory automation (FA) equipment used in film as well as battery plants and large-scale distribution centers for mail-order businesses. Trends in automated parking systems were robust with orders received exceeding plans.

Fiscal 2013 Strategies and Initiatives

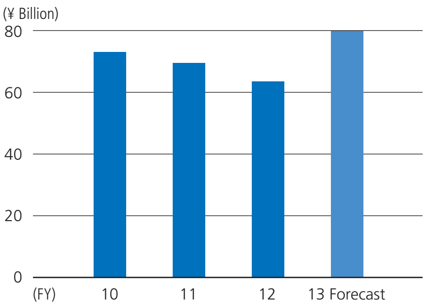
In its materials handling systems business, the SHI Group will engage in marketing activities that help strengthen ties with existing customers and cultivate new customers. In this manner, the Group will look to expand the volume of orders received. At the same time, every effort will be made to bolster proposals in the services business in order to increase the Group’s market share. In our logistics facilities business in Japan, we will take steps to further expand activities in the lithium-ion battery and other robust growth industries. In both our logistics facility

Fiscal 2012 Segment Results

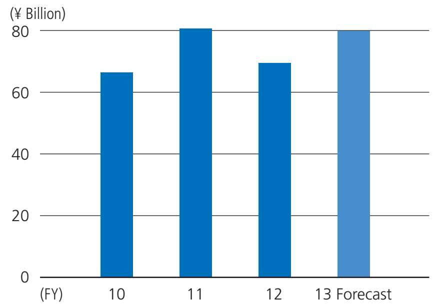
In the turbine and pump business, orders fell compared with the previous fiscal year mainly because of worsening market conditions in Southeast Asia. However, sales increased year on year, mainly because orders outstanding from previous periods were carried forward.

The material handling systems posted a decline in both orders and sales as demand from the domestic steel and shipbuilding sectors remained weak. As a result, total segment orders were ¥63.6 billion, a 9% year-on-year decrease. Sales declined 14%, to ¥69.6 billion, and operating income dropped 44%, to ¥5.4 billion.

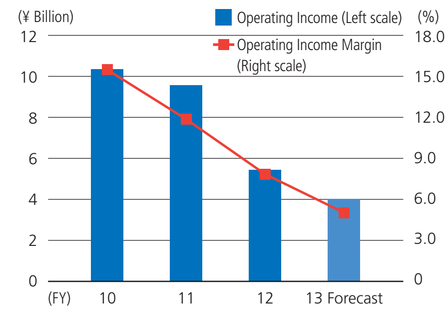
Orders



Sales



Operating Income



* Forecasts for fiscal 2013 have been adjusted in line with the reclassification of business segments.

and automated parking system endeavors, we will work to upgrade the functions of existing equipment while reinforcing the services business. Outside Japan, we will move to expand sales in the priority regions of East and Southeast Asia.

Turbines and Pumps
Shin Nippon Machinery Co., Ltd.

Market Environment

Newly emerging regions such as Southeast Asia are showing signs of slowdown in their rates of economic expansion due mainly to cutbacks in investment activity on the back of the financial crisis in Europe. On a positive note, there are indications of an increase in new investment in Japan owing to the implementation of a fixed-price renewable energy feed-in tariffs (FIT) purchase scheme.

Fiscal 2012 Review and Topics

In its turbine operations, the SHI Group established a local subsidiary in Thailand in July 2012. Thanks largely to the support of this subsidiary, the Group won an order for a local sugar refinery project. Taking full advantage of the market launch of high-efficiency long blade turbines in 2011, we also secured our first order from a plywood company in Chile.

In pumps, the Group's track record and quality services provided by engineers in the United States attracted wide acclaim. This led to an oil refinery project order in New Zealand from a U.S.-based EPC company.

Fiscal 2013 Strategies and Initiatives

Activities in newly emerging country markets are expected to feel the weight of prolonged economic stagnation in Europe. In turbine operations, on the other hand, we will focus on securing orders in Southeast Asian markets by expanding the range of long-blade models that leverage our key technology development capabilities and realize increased efficiency.

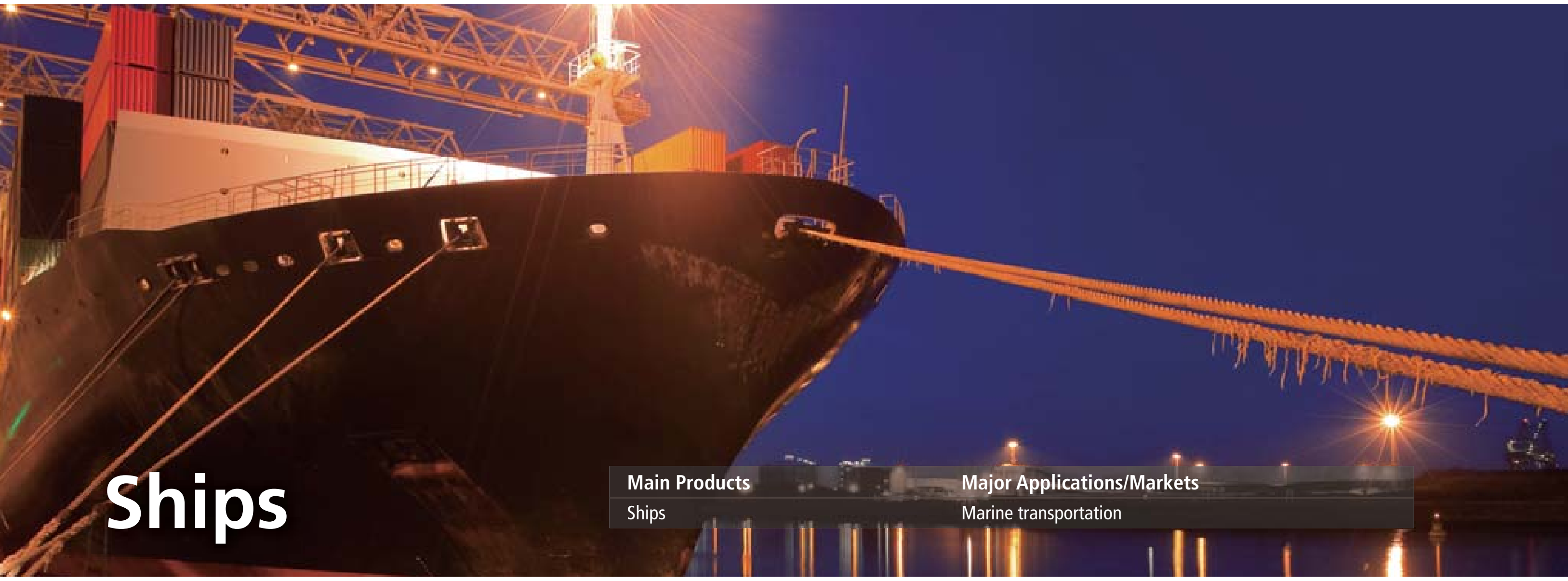
We will strengthen our marketing research in pumps to cultivate markets and customers. At the same time, we will further enhance our marketing prowess.

Product Topics

Servo-Driven Presses

Servomotor-driven forging presses are controlled by a servomotor with the motor movement directly driving the dies. As the pressing rate and slide motion are controllable, moldability is dramatically improved. Moreover, the press combines a main slide along with a hydraulic servo double-acting unit that operates the upper and lower dies respectively, thus enabling higher precision stamping. SHI has delivered a cold forging servo press with a pressing capacity of 1,200 tons, the world's largest class.

Servo-driven presses



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

Market Environment

While the tonnage of new ships completed decreased after the peak in 2011, the demolition of aged ships which are of poor fuel efficiency and no longer conform to regulations and market requirements, is being accelerated. Despite these trends, however, it seems to take more time to solve the current over-tonnage conditions. In the meantime, benefiting from depreciation of the yen from the second half of the previous fiscal year, which has enhanced price competitiveness, the Japanese shipyards, with outstanding technologies, are making efforts to overcome this difficult situation by developing new energy-saving products complying with new environmental requirements.

Fiscal 2012 Review and Topics

The SHI Group secured an order for one new ship—the newly developed Aframax tanker with improved fuel efficiency. Impacted by a slowdown in construction, the number of ships delivered was five, down by two vessels compared with the previous fiscal year. On the other hand, improvements in productivity through various activities such as the Toyota Production System (TPS) have contributed to the positive results of the fiscal year under review. In addition, we positioned fiscal 2012 as an important year in which we built robust personnel and manufacturing systems that are capable of overcoming any difficult period starting from fiscal 2013.

Fiscal 2013 Strategies and Initiatives

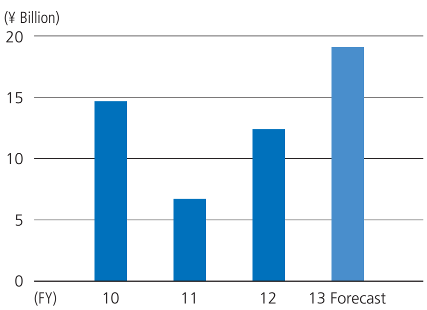
In fiscal 2013, the market for the Japanese shipyards is expected to be more positive. This is largely attributable to the further depreciation of the yen and customers' expectations for high-quality, energy-saving vessels, etc. Moreover, it is anticipated that the transportation of crude oil and petroleum products may change due to such factors as the shale gas revolution in the United States. Looking ahead, the SHI Group will overcome severe market conditions by focusing on the development of new products which accommodate the changes in market conditions and by strengthening sales activities to secure orders.

Fiscal 2012 Segment Results

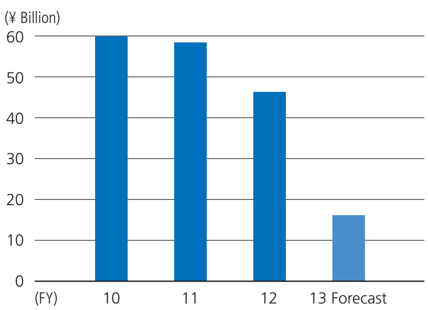
Although market conditions remained weak in the Ships segment as they were a year ago, during the fiscal year under review, the number of new ship orders received increased to one, compared with no orders in the previous fiscal year. Furthermore, in terms of sales, five vessels were delivered, two fewer than the previous fiscal year's total.

As a result, total segment orders were ¥12.3 billion, an 82% increase year on year. Sales were ¥46.0 billion, down 21%, and operating income decreased 78%, to ¥2.4 billion.

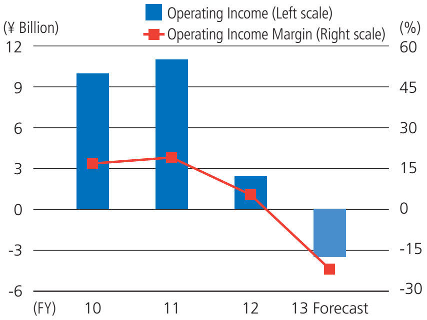
Orders



Sales



Operating Income



Environmental Facilities & Plants

Main Products	Major Applications/Markets
Power generation systems	Power generation, Paper manufacturing, Steelmaking
Industrial wastewater treatment systems	Food processing plants, Steelmaking, Paper and pulp, Chemicals, Electricity and electronics, Machinery
Water and sewage treatment systems, Landfill leachate treatment systems	Government agencies
Air pollution control plants	Electric utilities, Iron and steel industry
Chemical processing equipment & plants	Petrochemical plants
Pressure vessels, Mixing vessels	Oil refining, Petrochemical industries
Steel structures	Iron and steel industry
Food processing machinery	Food processing industry

Energy Plants

Market Environment

Activity is relatively brisk in connection with plans to promote biomass power generation in Japan. This reflects the implementation of a fixed-price renewable energy feed-in tariffs (FIT) purchase scheme and is expected to boost the use of wood-based biomass fuels that utilize forest waste and other residual materials. There are also signs that independent power producers (IPPs), who continue to pursue power generating projects, the paper and pulp industry, steel industries and other business entities are expected to carry out investment plans. Overseas, power generation demand throughout the ASEAN region and other newly emerging nations is vigorous. An upswing in capital investment is forecast in such areas as infrastructure development where IPPs and other business entities are working to resolve the shortfall in power supply, industrial power generation facilities including in-house power generation, and expenditure reflecting the growing spread of renewable energy power generation as a result of the FIT scheme and efforts to reduce CO_2 emissions.

Fiscal 2012 Review and Topics

In power generation systems that employ the SHI Group's mainstay circulating fluidized-bed (CFB) boilers, the Group received a total of five orders from Japan and overseas. The orders received in Japan convert the newly developed core product of a compact 5MW as well as small- and medium-sized 25-50MW CFB boiler power generation systems. The compact CFB boiler power generation system utilizes forestry waste and other residual materials and is therefore contributing to the application of wood-based biomass resources. This first unit was the inaugural biomass power generation system to receive certification under the FIT scheme in Japan. In addition, we received an order for two units with a power generation capacity of 30MW each from PT ANTAM (Persero) Tbk in Indonesia. This order is a reflection of the high esteem in which our products and technologies are held.

Fiscal 2013 Strategies and Initiatives

Buoyed by the impact of the FIT scheme on renewable energy activities in Japan, we will continue to move aggressively into the biomass power generation field and primarily in the area of CFB boilers. Outside Japan, we will focus on expanding sales of CFB boilers that utilize low-grade coal and biomass-based fuels throughout the ASEAN region with a particular emphasis on Indonesia and Malaysia.

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

Market Environment

Market conditions in Japan remain harsh due to prolonged market stagnation in the private sector. By industry, SHI's principal food

Product Topics

Compact CFB Boiler

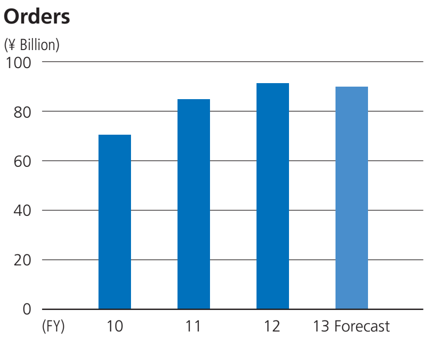
Existing boiler models have a power generation capacity of 15MW and above and are targeted for private industrial power generation use in medium-sized to large plants that require reasonable amounts of power. This model, with a power generation capacity of approximately 5MW, offers power generation wherever such power generation is required. The basic design has been standardized creating a modular structure, which has in turn eliminated local welding and assembly work as much as possible. As a result, the entire process and construction expenses have been reduced.

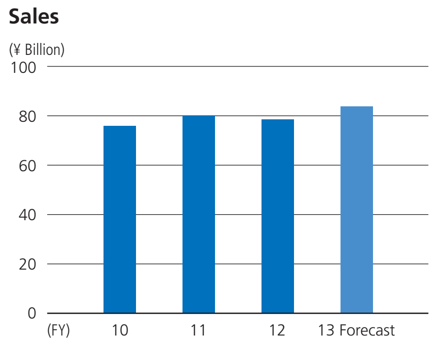
CFB boiler

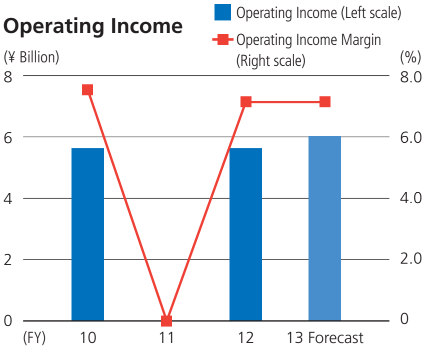
Fiscal 2012 Segment Results

Orders increased in the energy plant business, mainly because of the high level of activity in the domestic biomass-fueled power generation boiler market as well as the large-scale project for a private power generating facility for a mine in Indonesia. On the other hand, sales fell mainly because of the low number of orders carried over from previous periods.

The water treatment plant business saw a decline in both orders and sales as overall market conditions remained weak. As a result, total segment orders were ¥91.4 billion, a 7% increase year on year, sales were ¥78.6 billion, down 2%, and operating income was ¥5.6 billion.







market is relatively stable. Expectations are limited, however, in steel-related activities. The materials industry is forecast to boost investments aimed at reducing costs. The electronic industrial machinery sector is projected to enjoy a modest performance recovery on the back of the weak yen. Turning to the public sector, the scale of the market is showing signs of a slight contraction and the prevailing conditions of an increase in the rate of sewage system penetration and a decline in the population. Investments aimed at renewing aging facilities are playing a prominent role. At the same time, expenditure designed to improve energy efficiency and reduce operating costs is on the rise. Looking at overseas markets and especially Southeast Asia, expectations are high toward investments by Japanese companies aimed at increasing the performance of wastewater treatment facilities and rationalization.

Fiscal 2012 Review and Topics

In the private sector, market conditions in the steel, paper and pulp, and electrical industries, mainstay areas in which the SHI Group operates, were harsh particularly in the area of manufacturing. Against this backdrop, the Group took steps to bolster its networks with internal and external partners. These efforts bore fruit with a large-scale order received from a steel company. In the public sector, orders declined in Japan on the back of a market correction following the surge in reconstruction demand following the earthquake disaster in 2011. Under these circumstances, we focused on expanding sales of unit-type equipment and worked to enhance proposal capabilities with respect to general evaluation systems, which are experiencing an upswing, as well as company evaluation points.

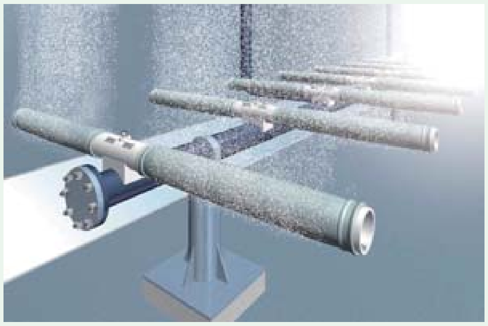
Fiscal 2013 Strategies and Initiatives

Moving forward, the SHI Group will place particular weight on reducing costs. Positioning the Toyota Production System (TPS) at the heart of its activities, the Group will work to build in quality and costs through such endeavors as upgrading construction methods, shortening onsite construction periods, and establishing new pipework modules. In addition, we will emphasize innovation in our production technologies and design operations while focusing on such activities as the promotion of overseas procurement. We will then move to strengthen product development capabilities. We will integrate the development divisions that had previously been classified separately into private- and public-sector activities in a bid to further accelerate the pace of development. In promoting overseas sales, we will work quickly to establish a base in China and cultivate new markets in line with the growing transfer of manufacturing facilities to Southeast Asia by Japanese companies.

Product Topics

Superfine-Bubble Membrane Tube Diffuser “MICRAS®”

Superfine-bubble membrane tube diffusers are used as aeration systems at sewage treatment facilities that supply oxygen to microbes and purify water. MICRAS® efficiently supplies oxygen with superfine bubbles and can reduce power consumption. Another key feature is its ease of maintenance and compact structure. Last year, we delivered a unit for use in a sewage treatment plant in Tokyo with a capacity of 80,000 kiloliters per day. Please look forward to our development of products for use in even larger treatment facilities.



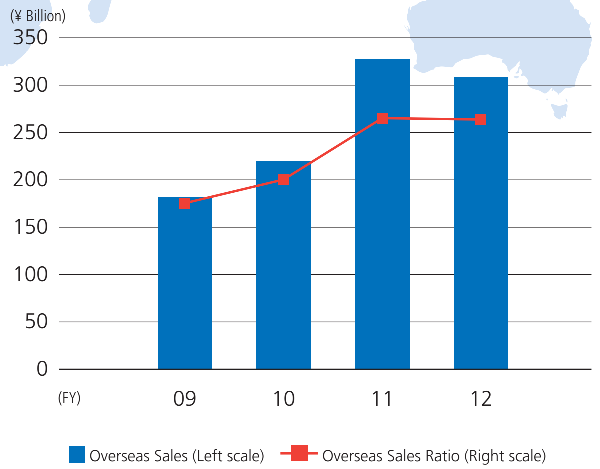
Superfine-bubble membrane tube diffuser “MICRAS®”

Overview by Geographical Area

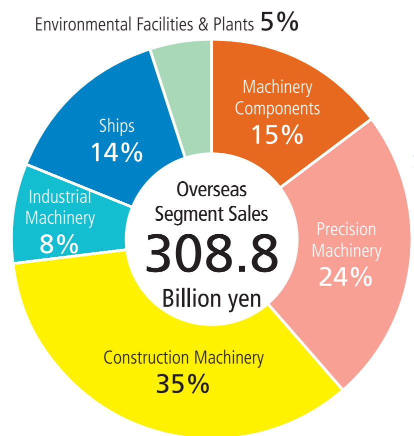
Fiscal 2012 Results

While there remains little room for complacency with respect to the SHI Group's operating environment due to such factors as the ongoing effects of the financial crisis in Europe, signs of an improvement are beginning to emerge on the back of a firm recovery trend in the U.S. economy together with a modest pickup in economic growth in China. Despite these favorable factors, market conditions as a whole remain weak. Turning to results in fiscal 2012, the Group posted overseas sales of ¥308.8 billion, a year-on-year decrease of ¥19.0 billion. The ratio of overseas sales to total sales was 52.7%, up 0.2 percentage points compared with the previous fiscal year.

Overseas Sales



Overseas Segment Sales Ratio



Sales by Geographical Area

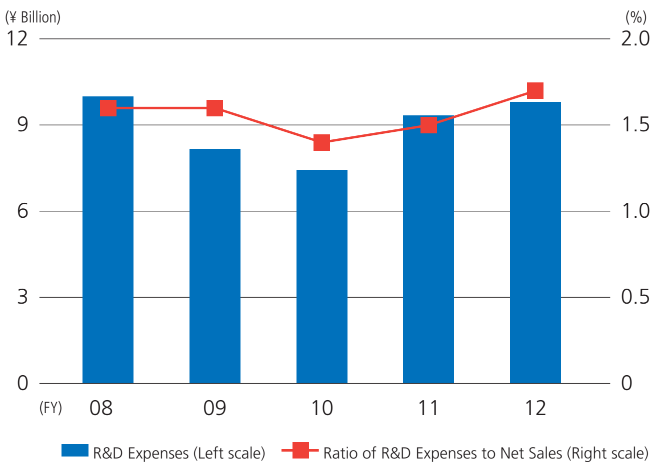
Note: Sales by geographical area do not include Ships segment sales.

Research and Development

R&D Strategy

The main thrust of our research and development strategy is to create first-class products through innovation. Based on a vertically integrated synergistic value chain model, we develop fundamental technologies and groundbreaking components to enhance the value of our equipment and systems.

R&D Expenses



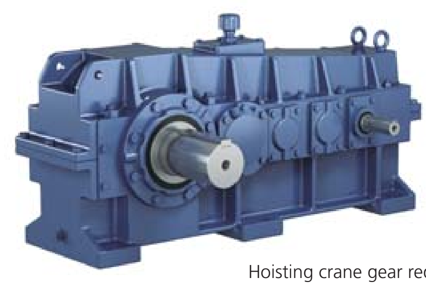
Major R&D Results by Business Segment

(1) Machinery Components

In power transmission equipment, the SHI Group introduced the SCC series of crane drives that are lighter and able to lift heavier loads. We also developed a new series of speed reducers for wind power generation featuring a compact construction with CYCLO® speed reducers that are ideal for yaw drive systems.

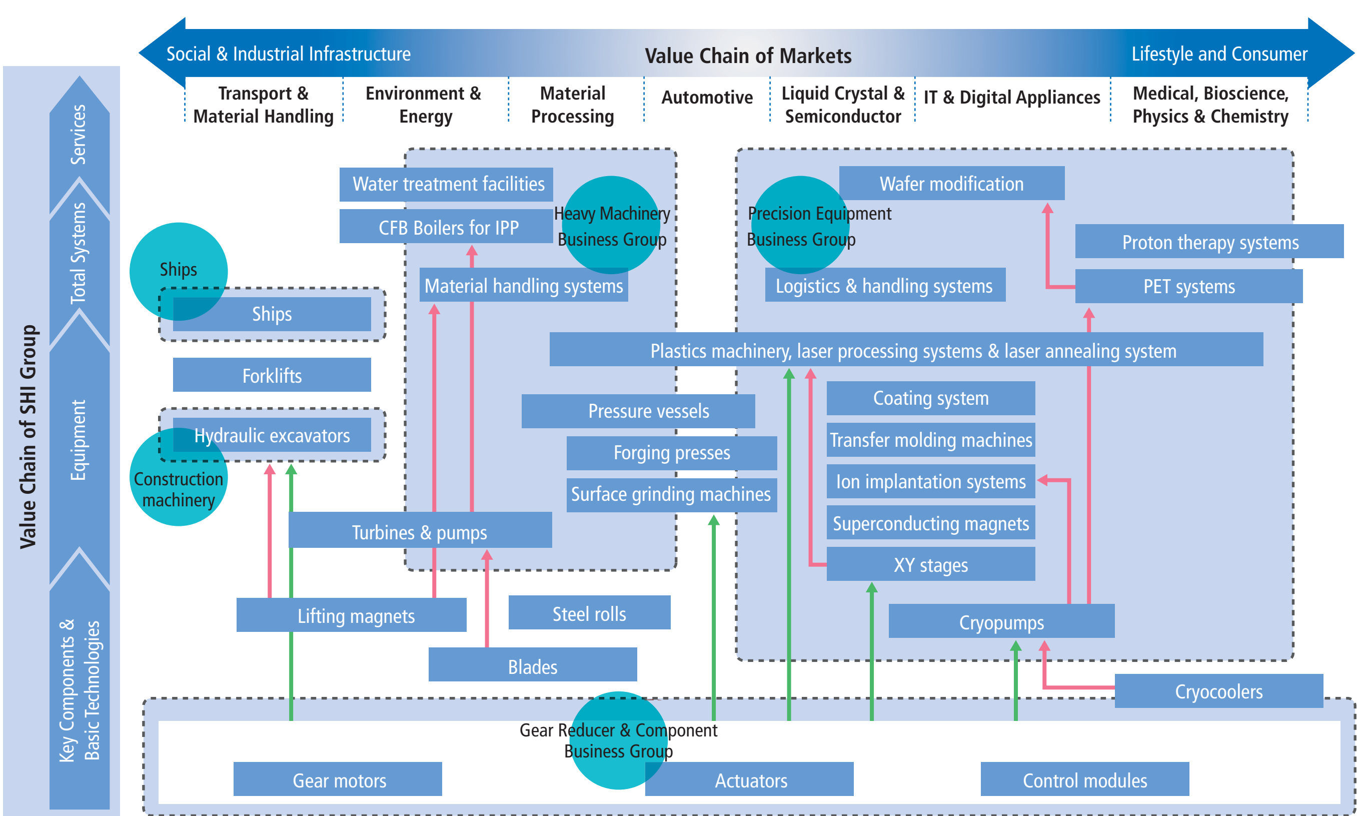
(2) Precision Machinery

In plastics machinery, we have added a specialized machine for highly precise optical lens molding with additional functions, such as a high-precision clamp mechanism, to the "SE-EV" series of all-electric plastics injection molding machines. We have also expanded the lineup of the "SR-Z" series of all-electric vertical-rotary table type injection molding machines, well-suited for insert-molding of metallic parts. In quantum equipment, the SHI Group continued to work on the development of elemental technologies for superconducting cyclotrons used in proton therapy systems for cancer treatment. In PET diagnostic systems, we developed the MPS-200 cassette-type multi-purpose medication



Hoisting crane gear reducer

Business Portfolio and Value Chain of SHI Group



synthesizing system designed to aid in the development of new drugs. In precision equipment, we implemented a full model change for 4KGM cyrocoolers to upgrade their reliability and life span, and released them onto the market. In electronics equipment, we expanded the lineup of the SLR series of carbon dioxide laser drilling systems for processing holes in PCBs with a new product designed for high-precision substrates and flexible circuit boards. In components for control systems, the Group turned its large-capacity motor drivers into a series, thereby expanding the range of applications for its products. In semiconductor manufacturing equipment, the Group is ready to launch the S-UHE ultra-high-energy ion implantation systems. The S-UHE is an enhanced version of the UHE system redesigned for single-wafer processing and allows users to produce high-performance image sensors at a high yield rate.

(3) Construction Machinery

In hydraulic excavators, the SHI Group focused on adding models that meet provisional requirements under Tier 4 emissions regulations to the LEGEST® series, and released mainstay models in the Japanese market. We are commercializing machinery with a Field View Monitor (FVM®) system as standard safety equipment that enhances safety in the proximity of operating machinery. Moreover, low fuel consumption and a powerful excavator with hybrid technology has been developed and is ready for the field performance test before commercialization.

(4) Industrial Machinery

In forging presses, order receipts were boosted by the development of the FPR series of new presses that are more compact than older general-purpose presses.

In turbines, development continued on component technologies such as first-stage full-circumference nozzles with the aim of further increasing the efficiency of long-blade, high-efficiency models and expanding the range of applicable market segments.

In logistics and automated parking systems, the Group strengthened its lineup of roll storage and transport systems, and released to market a matrix sorting-based system able to sort in multiple directions. We also commercialized new versions of the Sumi Park automated parking system that accommodate plug-in hybrid electric vehicles, electric vehicles and motorcycles.

(5) Ships

In ships, the Group has newly developed a mid-sized tanker with high added value for the customer, such as remarkable energy-saving performance and flexibility, also taking into consolidation forthcoming environmental regulations.

(6) Environmental Facilities & Plants

In the industrial water and wastewater treatment business, the Group worked to increase the application of the anaerobic treatment of wastewater through the development of its advanced technologies. In the public business for water and sewage treatment, joint research was undertaken with major municipal governments into low-power grit jet pumps and low-pressure-loss type superfine bubble aeration diffuser systems, taking one step closer to their promotion and demonstration for major municipalities. In addition, we completed the on-site development of new vertical aerators for oxidation ditch systems and began to focus on expanding sales in earnest.

In environmental facilities, we introduced dry booths for the production and research of rechargeable lithium-ion batteries. We also released the KG series of large-scale, open cooling towers with improved cooling performance.

Roll transport system

FVM® system monitor

Cryogenic equipment

Aframax tanker

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 the Group's invaluable "property."

Promotion Structure

To link the senior management of the 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.

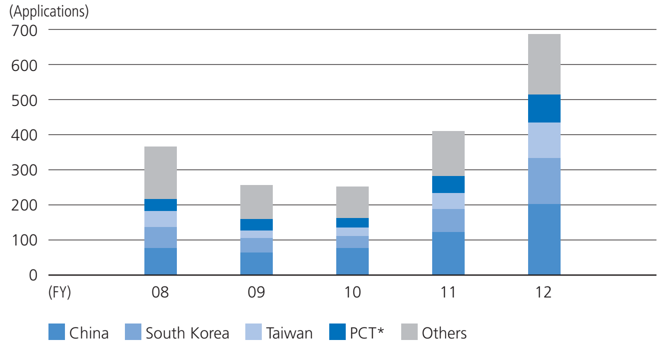
2. Intellectual Property Evaluation Activities

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

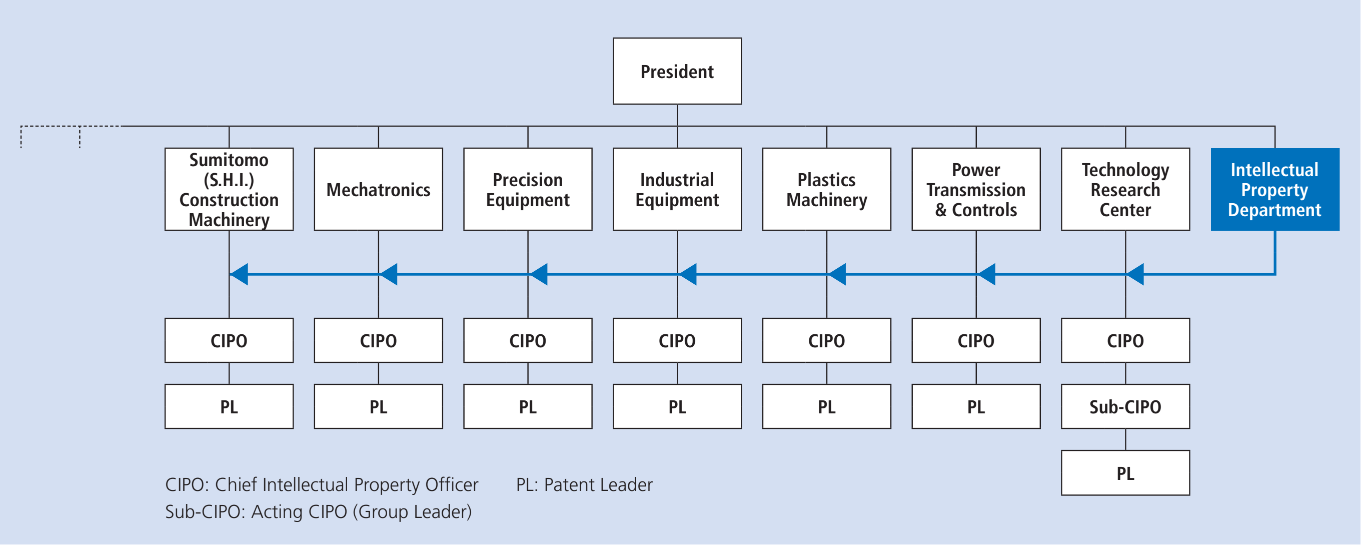
In tandem with the globalization of the business activities of the SHI Group, we have been calling on all operating divisions and other relevant divisions to actively work to file patent applications overseas. As a result, 1,515, or 33.7%, of the Group's total of 4,493 patents were held overseas as of April 2013. 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)

CIPO System



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.

Reinforcement of Corporate Governance

SHI has been working continually over a long period to strengthen its corporate governance function. Specifically, the Company adopted an executive officer system in 1999, appointed an external director in 2002 and shortened the terms of office of directors from two years to one in 2007. These and other measures reflect SHI's ongoing efforts to reinvigorate the Board of Directors, ensure that business is executed in a timely manner and secure the objectivity and transparency of the Company's management.

Moreover, corporate auditors, who take on the role of overseeing the management, regularly hold meetings attended by the corporate auditors of Group companies to reinforce the audit function covering the entire SHI Group. To address globalization, the Company also conducts annual onsite audits at its overseas subsidiaries.

SHI ensures that neither its external director nor external corporate auditors have a risk of conflict of interest with the Company's general shareholders and has reported them as independent officers to the Financial Instruments Exchanges on which the Company is listed.

Corporate Governance System

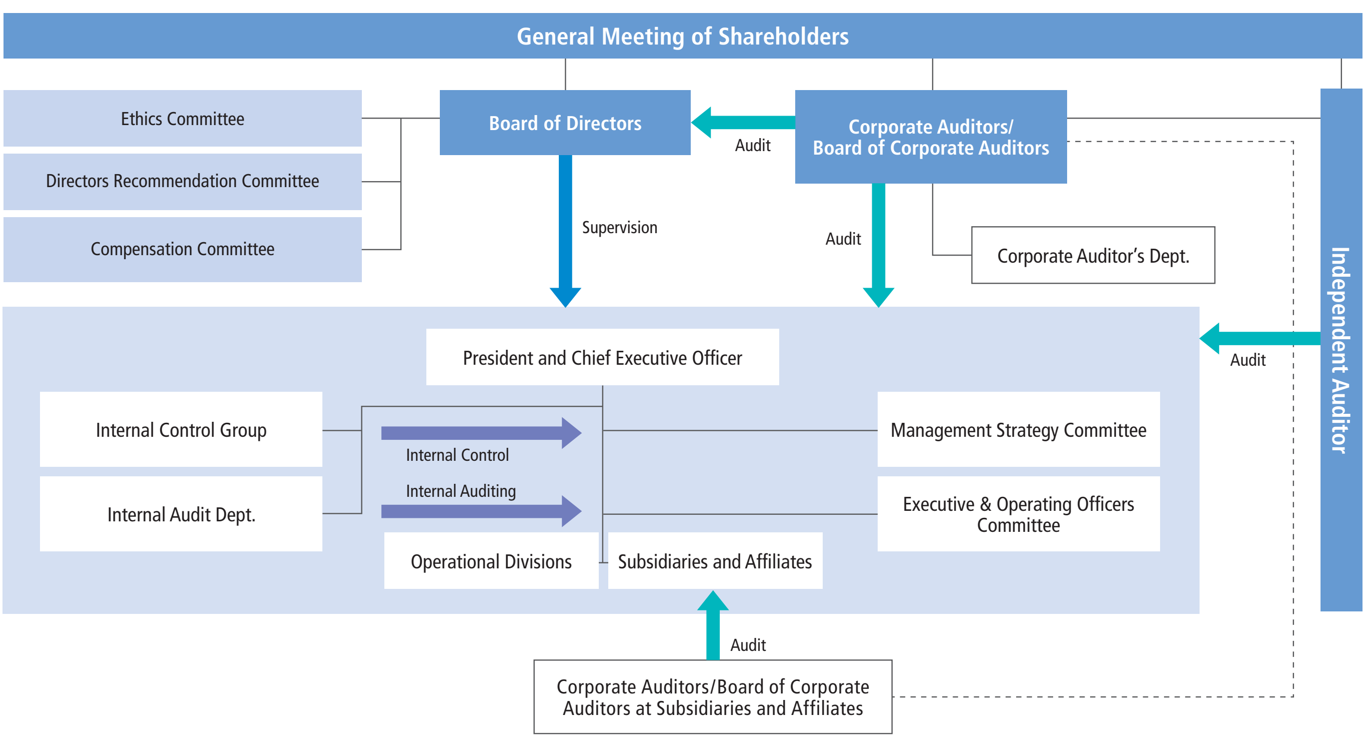
SHI has adopted the corporate auditor system and, within this framework, has introduced an executive officer system to separate the business execution and supervision functions of corporate management.

The Company has a Board of Directors, comprising 10 directors, and a Board of Corporate Auditors, comprising four 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 this manner, a system has been established to audit and supervise the execution of duties by the Company's management. The Company believes that this system will ensure that the corporate governance function is exercised to its fullest extent. Moving forward, the Company will take steps to further reinforce the corporate governance function.

• Board of 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.

SHI's Corporate Governance System



• Executive & Operating Officers Committee

The Executive & Operating Officers Committee comprises 18 executive officers, who execute the Company's business, including six who concurrently serve as directors of the Company, as well as operating officers. The Committee meets once a month to manage consolidated business results and to ensure the implementation of management policies.

• Management Strategy Committee

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.

• Corporate Auditors and the Board of Corporate Auditors

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.

• Directors Recommendation Committee and the Compensation Committee

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. Three of the current seven members of the Compensation Committee 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 nine) as an internal auditing organization that 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. 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

External Director and External Corporate Auditors

The Company has appointed one external director and two external corporate auditors. SHI ensures that all of its outside officers have no risk of conflicts of interest with the Company's general shareholders and has reported them as independent officers to the Financial Instruments Exchanges on which the Company is listed.

Title	Name	Reason for appointment	Attendance at meetings of the Board of Directors
External Director	Toshiaki Kakimoto	Based on his long-standing knowledge and wealth of experience as an economist, Mr. Kakimoto provided comments of a beneficial nature to the Company while pointing out various issues in a frank and objective manner. Mr. Kakimoto has acquired shares of the Company through the officers' shareholding association. SHI has deemed that this shareholding does not impact Mr. Kakimoto's independence as an external director.	Mr. Kakimoto attended all 16 Board of Directors meetings during fiscal 2012.
External Corporate Auditor	Hideo Kojima	Based on his long-standing knowledge and wealth of experience as a certified public accountant, Mr. Kojima provided comments of a beneficial nature to the Company while pointing out various issues in a frank and objective manner. Serving as chairperson of the Company's internal investigation committee, Mr. Kojima oversaw efforts to ascertain the background and causes behind the overbilling of expenses to Japan's Ministry of Defense while putting forward recommendations to prevent any recurrence. Mr. Kojima is originally from Ernst & Young ShinNihon LLC, with whom SHI maintains transactional relationships. Taking into consideration the amounts and nature of these transactions, SHI has deemed that this relationship does not impact Mr. Kojima's independence as an external corporate auditor.	Mr. Kojima attended 15 of the 16 Board of Directors meetings and all 18 Board of Corporate Auditors meetings during fiscal 2012.
External Corporate Auditor	Takeo Wakae	Based on his long-standing knowledge and wealth of experience as a lawyer, Mr. Wakae provided comments of a beneficial nature to the Company while pointing out various issues in a frank and objective manner.	Mr. Wakae attended all 12 Board of Directors meetings and all 11 Board of Corporate Auditors meetings following his appointment as a corporate auditor on June 28, 2012.

There are no vested interests of note between the aforementioned external director and external corporate auditors and the Company. While SHI does not maintain specific criteria or policies with respect to the independence of external directors and external corporate auditors appointed by the Company, reference is made to the determination standards concerning the independence of officers issued by various securities exchanges.

executive officers, they attend meetings of the Board of Directors and the Executive & Operating Officers Committee as well as other important meetings. In addition, 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. 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.

Compensation of Directors and Corporate Auditors

The maximum amount of compensation paid to directors shall not exceed ¥40 million per month pursuant to the resolution of SHI's Ordinary General Meeting of Shareholders ratified in June 2006. The Company has adopted a director compensation scheme that is linked to SHI's operating results. Individual director remuneration is determined by the Board of Directors on advice from the Compensation Committee regarding applicable standards that reflect SHI's performance. The maximum amount of compensation paid to corporate auditors shall not exceed ¥7.5 million per month pursuant to the June 2005 resolution of SHI's Ordinary General Meeting of Shareholders. Remuneration paid to individual corporate auditors is determined through a process of deliberation among corporate auditors. As of the close of the Company's Ordinary General Meeting of Shareholders held in June 2005, SHI terminated its directors' retirement allowance system. In addition, the Company has not adopted a stock option system.

Classification	Amount of Compensation (Millions of Yen)	Amount by Type of Compensation (Millions of Yen)	Number of Eligible Officers (Persons)
		Basic Compensation	
Directors (excluding external director)	454	454	10
Corporate auditors (excluding external corporate auditors)	69	69	2
External officers	19	19	4

Notes: 1. There were nine directors, two corporate auditors and three external officers as of March 31, 2012. Included in the figures presented in the table above are the officer number and compensation amounts paid for the period between April 2012 and June 2012 to one director and one external corporate auditor, who retired as of the close of the Company's 116th Ordinary General Meeting of Shareholders held on June 28, 2012. (Accordingly, the aggregate number of eligible officers for the business term under review was 10 directors (excluding the external director), two corporate auditors (excluding external corporate auditors) and four external officers.)

2. No officer received compensation of ¥100 million or more for the period. Accordingly, details of compensation paid to individual officers have been omitted.

3. In addition to the above, the amount of ¥17 million was paid as general employee salaries to two general employees who hold the concurrent position of director.

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. 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 Groupwide internal control system. In addition, the Company distributes the *Ethics Regulations and Compliance Manual* to all employees and undertakes regular ethics and compliance education. When necessary, the Company collects written agreements from directors, executive officers and all managers concerning individual compliance items. Moreover, each year on an anonymous basis, SHI conducts surveys encompassing all employees in an effort to assess and confirm levels of compliance awareness and understanding. 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 whistleblower 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 Groupwide 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.

Information Disclosure and IR Activities

SHI strives diligently to ensure the timely disclosure of relevant information. At the same time, the Company actively promotes dialogue with shareholders and investors. In this regard, SHI recognizes dialogue as an appropriate means to ensure a deeper understanding of the Company and to further enhance its enterprise value.

The president provides briefings on the Company's interim and full fiscal year results for the benefit of institutional investors and analysts. Telephone conferences are also conducted on a quarterly basis by the officer responsible for investor relations. Moreover, top management calls on institutional investors and analysts in Japan and overseas. Furthermore, over 300 interviews and meetings with investors and analysts were held during fiscal 2012.

Fiscal 2012 IR Activity Results

Activities for Analysts/ Institutional Investors	• Financial results briefings (interim/full fiscal year) • Quarterly financial results telephone conferences • Individual visits to overseas institutional investors (North America: 1; Europe: 1) • Participation in conferences for institutional investors sponsored by securities companies (nine times) • Individual IR interviews • Plant tour for analysts/institutional investors (1)
IR Materials Posted on the Company's Website	• Convocation notice (Japanese/English) • Securities report/quarterly securities report • Corporate governance report • Summary of consolidated financial report/timely disclosure materials • Handout for financial results briefings • Webcast of financial results briefing (Audio only, Japanese/English (translated version)) • Interim report (To our shareholders) • Annual report (Japanese/English)

Financial results briefing held in May 2013

Takeover Defense Measures

SHI believes that—from the standpoint of increasing enterprise value and ensuring the common interests of the shareholders—the nature of 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 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 approval of the Ordinary General Meeting of Shareholders held in June 2008. At the Ordinary General Meeting of Shareholders held in June 2011 the continuation of the Takeover Defense Measures was approved after making necessary changes.

Messages from the External Director and Corporate Auditors

Toshiaki Kakimoto
External Director

The SHI Group'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, the Group 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 the Group's working to accelerate globalization and strengthen its corporate governance, thereby contributing to the Group's additional growth and enterprise value maximization.

Hideo Kojima
External Corporate Auditor

Listed companies have, in recent years, been 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.

The SHI Group has continued to engage in the ongoing reinforcement of its corporate governance. With the aim of further enhancing corporate governance, the primary role required of me, a certified public accountant and an external corporate auditor of the Group, is, as I understand it, to verify the comprehensiveness of the Group's financial reporting and compliance with business accounting standards.

Simultaneously, I must help the Group improve said comprehensiveness. Also, in line with the Group's business globalization, it will become more important than ever before to secure compliance throughout the Group's domestic and overseas operations, set up an internal control system, and to enhance the quality of its financial reporting on a consolidated basis. Therefore, I will do my utmost to enable the Group to bolster corporate governance from a global perspective.

Takeo Wakae
External Corporate Auditor

The activities of joint-stock companies are primarily for the purpose of continually increasing earnings and raising enterprise value. By doing this, it can contribute to the Company's stakeholders, including shareholders and to society.

However, internal directors, when pursuing their work, are not always expected to take the view of raising enterprise value and then act. Sometimes, they can take a stance that is contrary to the view of shareholders and social responsibility. As external directors with the view of raising enterprise value, it is necessary to see this issue from multiple sides and then point them out. In the future, I would like to see external directors adopt this approach.

Directors, Corporate Auditors and Executive Officers (As of June 27, 2013)

Board of Directors

Yoshinobu Nakamura
Representative Director, Chairman of the Board

Apr. 1975 Joined the Company
Feb. 2001 General Manager of Laser Business Center
June 2002 Senior Vice President
June 2003 General Manager of Precision Equipment Group
June 2004 Executive Vice President
Oct. 2004 General Manager of Mechatronics Div.
June 2005 Director
Apr. 2006 General Manager of Electro-Mechanical Systems Div.
Apr. 2007 Representative Director, President and CEO
Apr. 2013 Representative Director, Chairman of the Board (current)

Shunsuke Betsukawa
Representative Director, President and CEO

Apr. 1978 Joined the Company
July 2001 General Manager of Corporate Administration Dept. of Finance & Accounting Div.
Apr. 2007 Senior Vice President, General Manager of Finance & Accounting Div.
Apr. 2009 General Manager of Corporate Planning & Development Dept.
June 2009 Director
Apr. 2010 Executive Vice President
Apr. 2011 Representative Director, CFO, General Manager of Export Administration Dept.
Apr. 2012 Senior Executive Vice President
Apr. 2013 Representative Director, President and CEO (current)

Shinji Nishimura
Representative Director, Senior Executive Vice President

Apr. 1974 Joined the Company
Feb. 2001 General Manager of Ship and Steel Structure Group
June 2002 Senior Vice President
Apr. 2003 Vice President, General Manager of Ship & Marine Div., Representative Director and President of Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Apr. 2005 Senior Vice President, General Manager of Corporate Planning & Development Dept.
June 2005 Director
Apr. 2006 Executive Vice President
Apr. 2007 Representative Director (current), Senior Executive Vice President (current), General Manager of Power Transmission & Controls Group (current)

Yuji Takaishi
Representative Director, Executive Vice President

Apr. 1977 Joined the Company
July 2000 Acting General Manager of Niihama Works
Apr. 2005 General Manager of Human Resources Dept.
Apr. 2007 Senior Vice President
June 2007 Director
Apr. 2010 Executive Vice President (current), General Manager of Plastics Machinery Div.
Apr. 2012 General Manager of Corporate Planning & Development Dept. (current)
Apr. 2013 Representative Director (current), General Manager of Export Administration Dept. (current)

Akio Yoshikawa
Director, Senior Vice President

Apr. 1974 Joined the Company
June 2008 Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Apr. 2011 Director and Executive Vice President of Sumitomo (S.H.I.) Construction Machinery Co., Ltd. (current), General Manager of China Business Div. (current)
Apr. 2012 Vice President
Apr. 2013 Senior Vice President (current), China Head Representative (current), Chairman of Sumitomo Heavy Industries (China), Ltd. (current), Chairman of Sumitomo Heavy Industries (Shanghai) Management, Ltd. (current)
June 2013 Director (current)

Toshiharu Tanaka
Director, Senior Vice President

Apr. 1983 Joined the Company
Apr. 2011 General Manager of Precision Equipment Div. (current)
June 2012 General Manager of Tanashi Works (current)
Apr. 2013 Executive Vice President (current)
June 2013 Director (current)

Yoshiyuki Tomita
Director, Vice President

Apr. 1981	Joined the Company
May 2009	General Manager of Technology Development Center of Corporate Technology Operations Group
Apr. 2011	Vice President (current), General Manager of Technology Research Center of Corporate Technology Operations Group (current)
June 2012	Director (current)

Kensuke Shimizu
Director

Apr. 1968	Joined the Company
Mar. 1999	General Manager of Plastics Machinery Div.
June 1999	Senior Vice President
June 2000	General Manager of Chiba Works, Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
June 2001	Executive Vice President
June 2002	Director
Apr. 2005	Representative Director, Senior Executive Vice President
Apr. 2006	Director (current), Representative Director, President and CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Apr. 2011	Representative Director and Chairman of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Apr. 2013	Corporate Adviser of Sumitomo (S.H.I.) Construction Machinery Co., Ltd. (current)

Mikio Ide
Director

Apr. 1973	Joined the Company
Apr. 2001	Director of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
June 2003	Vice President
June 2005	Director (current)
Apr. 2010	Senior Executive Vice President, Director and Senior Executive Vice President of Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Apr. 2011	Representative Director, President and CEO of Sumitomo (S.H.I.) Construction Machinery Co., Ltd. (current)

Toshiaki Kakimoto
External Director

June 2000	Chairman of The Japan Research Institute, Limited
June 2004	Senior Fellow of The Japan Research Institute, Limited (current)
June 2005	Director of the Company (current)

Corporate Auditors

Yukio Kinoshita	Standing Corporate Auditor
Shigeru Toyosumi	Standing Corporate Auditor
Hideo Kojima	External Corporate Auditor
Takeo Wakae	External Corporate Auditor

Executive Officers

Shunsuke Betsukawa	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
Yuji Takaishi	Executive Vice President	General Manager, Corporate Planning & Development Dept., General Manager, Export Administration Dept.
Osamu Sekiya	Executive Vice President	General Manager, Energy & Environment Group
Katsuhide Yokota	Executive Vice President	Representative Director and President, Sumitomo Heavy Industries Material Handling Systems Co., Ltd., General Manager, Ehime Works
Chuck Martz	Executive Vice President	Chairman and CEO, Link-Belt Construction Equipment Company, L.P., LLLP
Junjiro Nogami	Senior Vice President	General Manager, Kansai Office, General Manager, Corporate Marketing Dept.
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.
Kazuto Kaneshige	Senior Vice President	General Manager, Industrial Equipment Div.
Tetsuya Okamura	Senior Vice President	CEO, Sumitomo (SHI) Demag Plastics Machinery GmbH
Akio Yoshikawa	Senior Vice President	China Head Representative, Chairman, Sumitomo Heavy Industries (China), Ltd., Chairman, Sumitomo Heavy Industries (Shanghai) Management, Ltd., Director and Executive Vice President, Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
Nobutaka Miyawaki	Senior Vice President	General Manager, Ship & Marine Div., Representative Director and President, Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
Toshiharu Tanaka	Senior Vice President	General Manager, Precision Equipment Group, General Manager, Tanashi Works
Yukio Kumata	Vice President	Deputy General Manager, Industrial Equipment Div.
Yoshiyuki Tomita	Vice President	General Manager, Technology Research Center, Corporate Technology Operations Group
Isao Kohno	Vice President	Deputy General Manager, Power Transmission & Controls Group

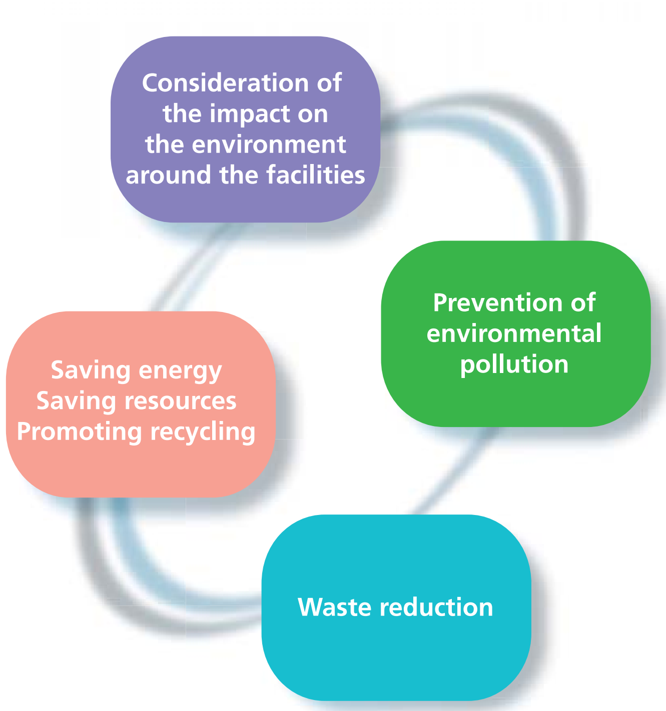
Basic Approach to Environmental Issues

Sumitomo Heavy Industries Group Environmental Philosophy

The Sumitomo Heavy Industries Group contributes to implementing sustainable development of society by holding fast to the "Sumitomo Business Spirit."
The Sumitomo Heavy Industries Group is taking action across the Group to protect the global environment.

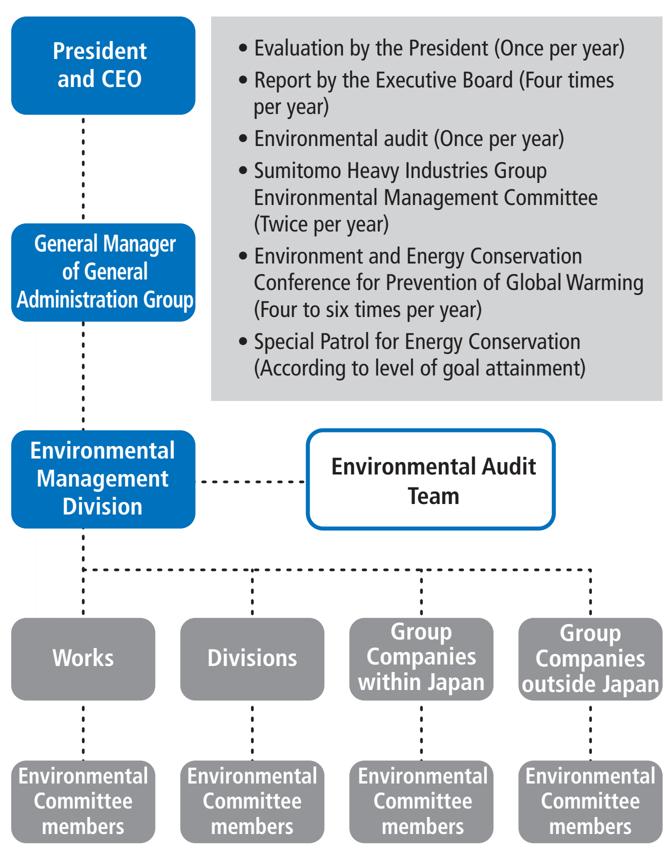
Environmental Policy

In order to implement the sustainable development of society, we must respond to global environment issues and reduce the burden on the environment posed by various aspects of corporate activity. To do so, the Group is promoting autonomous and proactive initiatives to protect the environment. In 1992, we established the Environmental Committee to promote environmental protection and compliance in local communities. In September 1997, we established the Sumitomo Heavy Industries Environmental Policy in order to drive home the message of environmental management. In addition, in order to clarify the basic policy of activities across the SHI Group, we established the Sumitomo Heavy Industries Group Environmental Policy in November 1999, expanding environmental management across the Group as a whole including overseas facilities.



Environmental Management

We have established an Environmental Management Division in the General Affairs Group, which draws up the medium-term environmental plan (the current third medium-term environmental plan runs from FY2011 to FY2013), environmental goals on an annual basis, and develops environmental management across the Group including personnel training. In 2011, we assigned an environmental manager to Shanghai, China, to promote environmental activity monitoring and support throughout China.



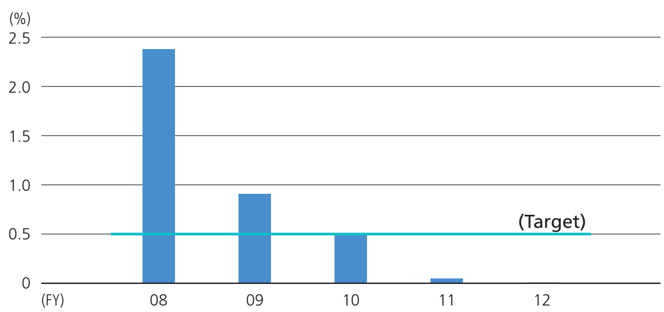
Environmental Initiatives

Zero Emissions

The SHI Group has defined factories at which the amount of waste disposed of as landfill as a percentage of total waste (the zero emissions rate) is less than 0.5% as zero emissions factories. We have been promoting this program since FY2005, and as a result in FY2012 we achieved zero emissions at all seven works and all eight Group companies. We were also able to achieve a zero emissions rate of 0.01% for the Group as a whole, greatly exceeding the target. Recycling by separating waste is crucial in achieving zero emissions. Going forward, we will conduct thoroughgoing waste separation so that we can maintain zero emissions status, and we will aim to make our plants friendly to the global environment.

The Group has put in place the target of achieving zero emissions at its overseas factories since fiscal 2011 and continues to promote measures aimed at reducing the generation of waste for disposal, that is, the volume of nonrecyclable industrial waste to be discarded as landfill. In fiscal 2012, the Group achieved a zero emissions rate, the rate of the volume of waste for disposal to the total volume of waste, across all of its overseas factories of 2.2% against a target of 11%.

Zero emissions rate (Domestic)



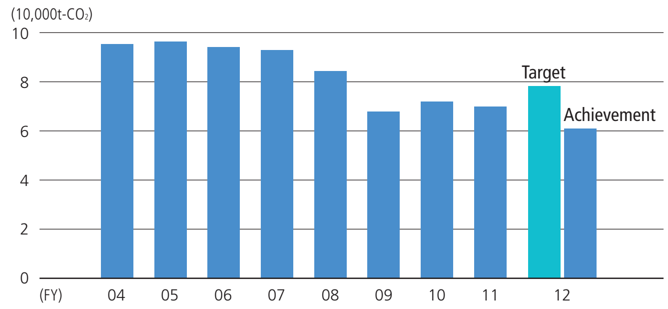
Reducing CO_2 Emissions

The SHI Group started to take action in FY2005 with the first medium-term environmental plan to reduce CO_2 emissions by 10% from FY2004 levels by FY2007. As of FY2011, we launched the third medium-term environmental plan aiming to further reduce CO_2 emissions by 19% from the FY2004 level by FY2013.

Compared to the benchmark year of FY1990 for the Kyoto Protocol, the target is to achieve a 28% reduction. In FY2012 we were able to control emissions to per unit of output far exceeding the target, with a 36% (21% per unit of output) reduction over FY2004 levels and a 43% reduction over FY1990 levels.

The Group is expanding its production scale across factories located overseas. At the same time, the Group has taken steps to establish CO_2 emission reduction targets on an individual factory basis since fiscal 2011. Accordingly, each factory is undertaking a host of initiatives aimed at achieving the established CO_2 emission reduction targets. In fiscal 2012, the Group achieved all targets across its network of overseas factories. Total emissions amounted to 68,180 tons of CO_2 against a target of 69,170 tons of CO_2.

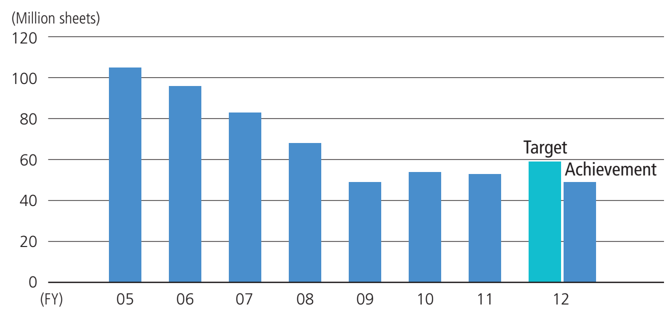
CO_2 emissions (Domestic)



Activities to Reduce Paper Usage

Reducing paper usage is part of activities to save resources and at the same time, it is linked to activities to prevent global warming such as reducing CO_2 emissions in the papermaking process. In FY2013, the SHI Group aims for a 45% reduction compared to FY2005 levels. In FY2012 we exceeded the target of a 43% reduction over FY2005 levels with a reduction of 54%.

Paper usage



Social Contribution Activities

Local Community Cleanup Activities

The SHI Group conducts regular cleanup activities of areas neighboring its works. We also take part in cleanup activities organized by local governments and volunteer groups. For example, the Group participates in cleanup activities in the vicinity of its Ehime Works as well as the annual "Refresh Setouchi" Inland Sea cleanup activities at Takasu Beach. Takasu Beach is the only natural sand beach that remains in Saijo City, and protecting the environment there is seen to be in everyone's interest. This campaign, launched in 1993, marked its 20th meeting this year, and it was a major event among the city's volunteer campaigns. Moreover, the Group's Nagoya Works and the Niihama Plant participate in the Adopt Program* supervised by local municipalities. Through these activities, we are actively engaging in efforts to clean up surrounding areas.

▲ Cleanup (Niihama Factory)

◀ Families cleaning up Takasu Beach in Saijo City

* Adopt Program
It is a volunteer campaign in which residents designate a public facility, such as a park or a footpath, to take care of on their own responsibility. They then pick up trash, water the plants, and weed it as if it were their own, so that people will be able to enjoy using that facility.

Cooperation with Welfare Facilities

The Yokosuka Works provides a Yokosuka municipal welfare support center with cut ends of electrical wire generated during shipbuilding and empty cans from business offices and dormitories. At the facility, the insulation is stripped off to remove the core wire, and aluminum cans are crushed together in a compactor. The materials are then sold and the proceeds are applied toward facility operating costs. The Nagoya Works cooperated with a welfare facility located in Obu City by regularly placing cookies and bread baked at the facility on sale in the employees' dining hall.

▲ Work under way at the Kagamida-En in Yokosuka

▲ Selling cookies and bread from the Akebi-En in Obu

Overseas Activities

• The Philippines

SHI Designing & Manufacturing, Inc., in the Philippines, has been engaging in social service activities two or three times every year since 2009. An executive committee has organized badminton meets and bingo games to raise funds. The company then donates a matching amount to the executive committee, and it is used to support social service activities. In addition, steps are taken to visit elementary schools in the mountains, where cleanup activities and classes are undertaken. While providing games and stationery as presents, the company also promotes a variety of activities including tree planting.

▲ Tree planting

▲ Fun in elementary school classes

◀ Classroom scene

• Germany

Sumitomo (SHI) Demag Plastics Machinery GmbH in Germany held a family day and invited employees' families to visit their plant. Attended by many employee families, the event was a great success, and the president received many messages of thanks. Japanese resident staff members and their families also cooperated by setting up a typical Japanese festival game of fishing for water balloons while organizing other events. These amusements are not generally found in Germany, and the other participants greatly enjoyed this contact, which had considerable appeal as an opportunity to interact and develop cultural exchange.

Scenes from the family day

Financial Section

Eleven-Year Summary

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

	FY2002	FY2003	FY2004	FY2005
Summary of Income (for the year):				
Net sales	¥481,289	¥482,765	¥521,310	¥551,339
Cost of sales	400,460	378,422	407,512	434,904
Selling, general and administrative expenses	63,616	64,112	65,025	68,930
R&D expenses	5,800	6,263	6,317	7,434
Operating income	17,213	40,231	48,773	47,505
EBITDA (Note 2)	29,322	50,344	58,055	56,577
Net income	2,688	16,262	22,792	29,742
Cash Flows (for the year):				
Cash flows from operating activities	¥ 29,499	¥ 75,775	¥ 45,451	¥ 50,023
Cash flows from investing activities	(1,074)	(7,929)	(6,087)	(7,024)
Free cash flows (Note 3)	28,425	67,846	39,364	42,999
Cash flows from financing activities	(22,116)	(56,666)	(46,490)	(48,812)
Cash and cash equivalents at the end of year	47,661	57,678	49,108	43,644
Financial Position (at year-end):				
Total assets	¥588,010	¥580,291	¥569,771	¥579,233
Total current assets	329,231	321,400	316,166	317,813
Total non-current assets	196,104	258,891	253,605	261,421
Interest-bearing debt	273,544	215,807	169,228	125,504
Net interest-bearing debt	225,571	157,353	119,592	81,587
Stockholders' equity	89,331	114,526	137,157	167,740
Total net assets (Note 4)	—	—	—	—
Amounts per Share of Common Stock:				
Net income (Note 5)	¥ 4.57	¥ 27.01	¥ 37.80	¥ 49.45
Stockholders' equity	151.86	190.25	227.90	279.02
Cash dividends	—	—	3.00	5.00
Financial Indexes:				
Operating income margin	3.6	8.3	9.4	8.6
EBITDA margin	6.1	10.4	11.1	10.3
R&D expenses ratio to net sales	1.2	1.3	1.2	1.3
Return on assets (ROA)	0.4	2.8	4.0	5.2
Return on equity (ROE)	3.0	16.0	18.1	19.5
Stockholders' equity ratio	15.2	19.7	24.1	29.0
Interest-bearing debt ratio	46.5	37.2	29.7	21.7
D/E ratio (Times)	3.1	1.9	1.2	0.7
ROIC (Note 6)	2.6	6.5	8.5	8.8
Investment in Plant and Equipment, and Others:				
Capital expenditures (Note 7)	¥ 14,406	¥ 10,562	¥ 8,175	¥ 10,285
Depreciation and amortization	12,118	10,112	9,282	9,072
Number of employees	11,777	11,282	11,149	11,319

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥94=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2013.

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) = $\frac{\text{(Operating income + Interest and dividends received) x 55\% (= 1– Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$
7. Capital expenditures are capitalized and recorded as assets.

Millions of yen							Thousands of U.S. dollars (Note 1)
FY2006	FY2007	FY2008	FY2009	FY2010	FY2011	**FY2012**	**FY2012**
¥600,256	¥660,769	¥642,918	¥516,165	¥548,015	¥624,100	**¥585,871**	**$6,232,665**
464,071	505,366	503,072	412,751	426,479	490,878	**465,309**	**4,950,093**
71,961	77,613	82,906	75,160	75,733	86,087	**89,274**	**949,723**
8,581	9,908	10,047	8,187	7,445	9,343	**9,835**	**104,626**
64,224	77,790	56,940	28,254	45,803	47,135	**31,288**	**332,849**
74,873	91,578	75,260	47,979	63,744	64,955	**49,570**	**527,339**
37,352	42,974	13,649	13,280	27,926	19,492	**5,865**	**62,392**
¥ 56,789	¥ 29,096	¥ 34,676	¥ 57,513	¥ 36,521	¥ 23,309	**¥ 2,660**	**$ 28,298**
(12,461)	(41,250)	(35,924)	(13,954)	(23,513)	(22,672)	**(19,660)**	**(209,154)**
44,328	(12,154)	(1,248)	43,559	13,008	638	**(17,000)**	**(180,856)**
(41,193)	(5,238)	15,625	(26,686)	(22,020)	19,879	**(11,428)**	**(121,579)**
47,523	29,879	42,414	61,452	51,700	72,376	**46,476**	**494,420**
¥600,890	¥678,634	¥657,436	¥610,087	¥626,829	¥691,841	**¥647,724**	**$6,890,679**
332,509	381,946	380,293	339,780	365,342	429,046	**386,628**	**4,113,060**
268,381	296,688	277,143	270,308	261,487	262,795	**261,096**	**2,777,619**
88,045	89,567	110,339	87,660	67,833	96,522	**98,547**	**1,048,368**
39,890	59,311	65,654	25,149	15,347	23,149	**50,732**	**539,705**
—	—	—	—	—	—	**—**	**—**
206,010	246,371	238,697	254,153	269,380	282,145	**292,826**	**3,115,172**
Yen							U.S. dollars (Note 1)
¥ 61.99	¥ 71.19	¥ 22.62	¥ 22.01	¥ 45.87	¥ 31.75	**¥ 9.56**	**$ 0.10**
338.95	392.80	378.78	404.73	435.10	454.43	**470.69**	**5.01**
7.00	10.00	6.00	4.00	8.00	10.00	**8.00**	**0.09**
%							
10.7	11.8	8.9	5.5	8.4	7.6	**5.3**	
12.5	13.9	11.7	9.3	11.6	10.4	**8.5**	
1.4	1.5	1.6	1.6	1.4	1.5	**1.7**	
6.3	6.7	2.0	2.1	4.5	3.0	**0.9**	
20.1	19.5	5.9	5.6	10.9	7.1	**2.1**	
34.1	34.9	34.8	40.0	42.6	40.3	**44.6**	
14.7	13.2	16.8	14.4	10.8	14.0	**15.2**	
0.4	0.4	0.4	0.4	0.3	0.3	**0.3**	
12.2	14.0	9.6	4.8	7.8	7.4	**4.9**	
Millions of yen							Thousands of U.S. dollars (Note 1)
¥ 17,257	¥ 28,180	¥ 31,753	¥ 24,465	¥ 14,292	¥ 19,682	**¥ 29,888**	**$ 317,961**
10,649	13,788	18,320	19,725	17,941	17,820	**18,282**	**194,490**
12,561	14,408	14,984	15,463	17,025	18,139	**18,245**	

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

1. Overview of the Business Environment and Performance in Fiscal 2012

During the consolidated fiscal year under review, although there were some bright signs, such as the weakening of the Japanese yen during the second half of the fiscal year and an upswing in public investments, the economic outlook continued to remain uncertain, as it did one year ago. At the same time, the overall global economy remained unstable as partial signs of recovery in the U.S. market were out-staged by the slowdown of the Chinese economy, the driver of global economic growth, as well as disruptions to public-sector finance and financial markets in the Eurozone, which negatively impacted the real economy.

Against this economic backdrop, the Sumitomo Heavy Industries Group (hereinafter referred to as the "Group") strengthened its sales activities, decided to integrate various parts of its organization to increase operational efficiency, and executed other initiatives that focused on increasing market competitiveness. These initiatives were consistent with the Group's plans to set forth in its Innovation 21 Medium-Term Management Plan and reflect the Group's focus on such key words as "Globalization" and "Innovation." Despite these efforts, and because of the impact of stagnant markets, the consolidated fiscal year under review saw the Group post lower than prior fiscal year figures for orders, net sales, operating income, and net income.

2. Analysis of Operating Results

(1) Orders

Orders received during fiscal 2012 declined ¥20.6 billion compared with the previous fiscal year, to ¥550.7 billion. While order volumes were up year on year in the Ships as well as Environmental Facilities & Plants segments, this overall decline was largely attributable to lower year-on-year order volumes in the Machinery Components, Precision Machinery, Construction Machinery, and Industrial Machinery segments.

(2) Net Sales

Net sales decreased ¥38.2 billion, to ¥585.9 billion. The downturn in sales was consistent across all of the Group's business segments. Overseas sales fell ¥19.0 billion, to ¥308.8 billion. The ratio of overseas sales to total consolidated net sales increased 0.2 of a percentage point, to 52.7%.

(3) Cost of Sales

In line with the decrease in net sales, cost of sales contracted ¥25.6 billion, to ¥465.3 billion. The cost of sales ratio deteriorated 0.7 of a percentage point compared with the previous fiscal year, to 79.4%. With the exceptions of the Construction Machinery as well as Environmental Facilities & Plants segments, this deterioration in the cost of sales ratio was felt across all business segments.

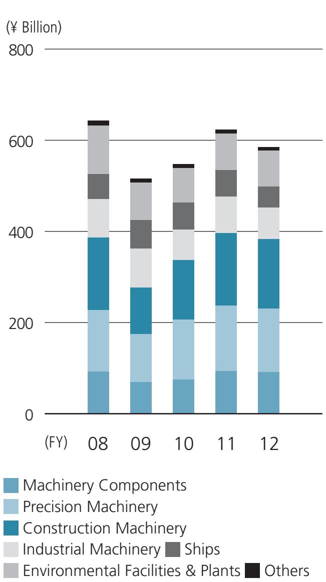
(4) Selling, General and Administrative (SG&A) Expenses

SG&A expenses edged up ¥3.2 billion year on year, to ¥89.3 billion. This was largely attributable to increases in salary as well as research and development costs and reflected provisions made to the allowance for doubtful receivables and losses on bad debts. The SG&A expense ratio was 15.2%, 1.4 percentage points higher than the previous fiscal year.

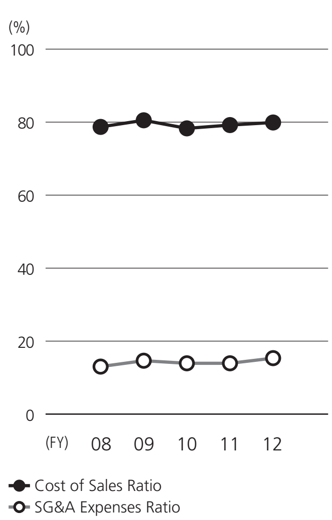
(5) Operating Income

Operating income declined ¥15.8 billion compared with the previous fiscal year, to ¥31.3 billion. With the exceptions of the Environmental Facilities & Plants segment, all other business segments suffered a downturn in operating income. In each

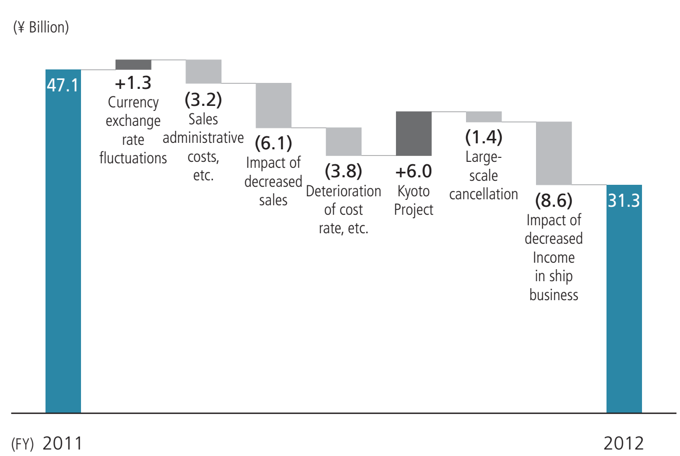
Net Sales



Cost of Sales Ratio, SG&A Expenses Ratio



Breakdown of Variation in Operating Income (Fiscal 2011–Fiscal 2012)



case, the principal factor was the decrease in net sales. Moreover, in the Machinery Components and Construction Machinery segments, results were impacted by deterioration in overseas earnings. At the same time, earnings saw a downturn in plastic machinery in the Precision Machinery segment as well as the medical systems. Operating income in the Ships segment fell substantially owing mainly to the delivery of low-priced vessels. Taking each of the aforementioned factors into consideration, the operating income margin declined 2.3 percentage points, to 5.3%.

(6) Other Income and Expenses

Other income and expenses amounted to net expenses of ¥0.3 billion. This represented a year-on-year improvement of ¥2.2 billion. Buoyed an increase in dividend income, other income climbed ¥2.9 billion, to ¥6.6 billion. Meanwhile, other expenses increased ¥0.7 billion, to ¥6.9 billion, due mainly to the higher interest expense.

(7) Extraordinary Gains and Losses

Extraordinary gains and losses amounted to net losses of ¥20.2 billion, up ¥13.8 billion, compared with the previous fiscal year. Extraordinary gains totaled ¥2.1 billion, mainly representing the gain on sales of investment securities. In contrast, the prospect of generating future earnings in the Ships segment declined. This largely reflected poor market conditions and the considerable amount of time required before realizing a positive turnaround. As a result, steps were taken to record impairment losses on fixed assets in connection with new shipbuilding activities during the fiscal year under review. Accounting for the year-on-year increase in impairment losses of ¥16.7 billion, extraordinary losses came to ¥22.4 billion, up ¥16.0 billion, compared with the previous fiscal year.

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

Income taxes decreased ¥13.1 billion, to ¥4.6 billion.

(9) Minority Interests in Net Income

Minority interests in net income came to ¥0.3 billion, down ¥0.7 billion year on year.

(10) Net Income

Net income contracted ¥13.6 billion compared with the previous fiscal year, to ¥5.9 billion. As a result, net income per share came to ¥9.56, compared with ¥31.75 in fiscal 2011. In addition, ROIC was 4.9%, down 2.5 percentage points.

For an overview of operating results by business segment, please refer to the Review of Operations section of this report on pages 26 to 36.

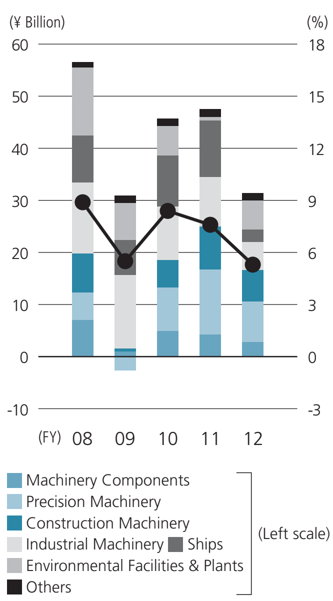
3. Discussion and Analysis of Financial Condition as of the Fiscal 2012 Year-End

(1) Assets, Liabilities, and Net Assets

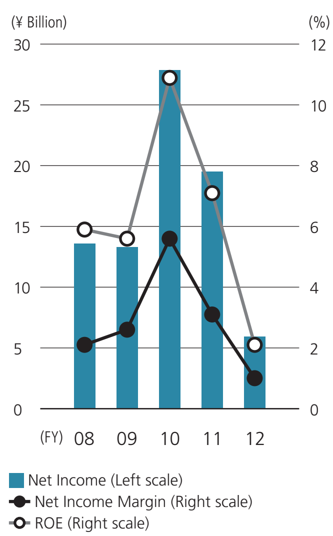
As of March 31, 2013, total assets stood at ¥647.7 billion, down ¥44.1 billion, compared with the balance as of March 31, 2012. Although there was a ¥6.1 billion increase in investments and other assets, this was offset by decreases of ¥25.6 billion in cash and time deposits, ¥7.9 billion in notes and accounts receivable, ¥4.7 billion in inventories, and ¥9.2 billion in property, plant and equipment.

Total liabilities as of the end of the consolidated fiscal year under review stood at ¥354.9 billion, a decrease of ¥54.8 billion, compared with the end of the previous consolidated fiscal year. Although there was an increase of ¥2.0 billion in interest-bearing debt as a result of the Group issuing new commercial paper, there was a ¥40.3 billion decrease in notes and

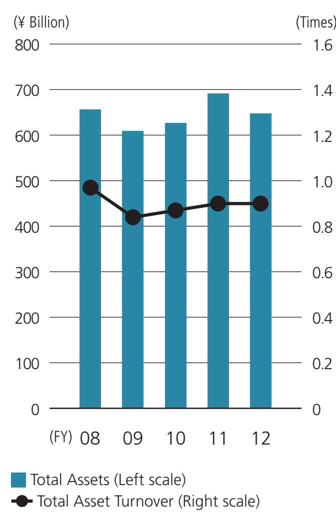
Operating Income, Operating Income Margin



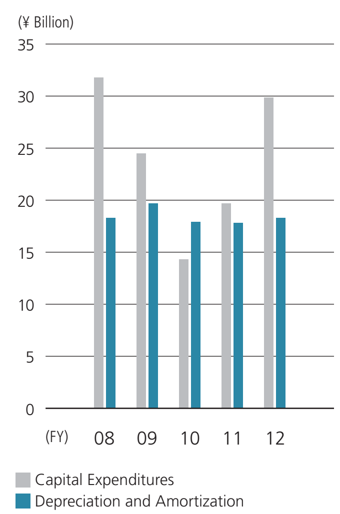
Net Income, Net Income Margin, ROE



Total Assets, Total Asset Turnover



Capital Expenditures, Depreciation and Amortization



accounts payable and a ¥3.0 billion decrease in deferred tax liabilities. With regard to the latter, the decrease was due to a revaluation of the deferred tax liability amount, which was necessary as the impairment loss booked for the assets in the Ships segment included land. Net interest-bearing debt—the amounts of interest-bearing debt less cash and time deposits—rose ¥27.6 billion compared with the balance as of the end of the previous fiscal year, to ¥50.7 billion. The ratio of net interest-bearing debt to total assets increased 4.5 percentage points, to 7.8%.

Net assets as of the end of the consolidated fiscal year under review stood at ¥292.8 billion, an increase of ¥10.7 billion compared with the end of the previous consolidated fiscal year. Although there was a decrease of ¥5.2 billion pertaining to the difference in the revaluation of land assets, retained earnings and the foreign currency translation adjustments increased by ¥6.1 billion and ¥9.7 billion, respectively.

Consequently, the stockholders' equity ratio for the consolidated fiscal year under review improved by 4.3 percentage points, compared with the end of the previous consolidated fiscal year to finish at 44.6%.

(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 ¥2.7 billion, down ¥20.6 billion year on year. The major cash outflow was the decrease in notes and accounts payable, which more than offset principal cash inflows of income before income taxes and minority interests, which contracted year on year, and decreases in notes and accounts receivable as well as inventories.

Net cash used in investing activities totaled ¥19.7 billion for the fiscal year under review, a decrease of ¥3.0 billion, compared with the previous fiscal year. The primary cash outflow was payments for purchases of property, plant and equipment.

Net cash used in financing activities was ¥11.4 billion for the fiscal year under review. This was compared with net cash provided by financing activities of ¥19.9 billion in fiscal 2011. The main cash outflow was cash dividends paid.

As a result, cash and cash equivalents as of March 31, 2013 stood at ¥46.5 billion, a decrease of ¥25.9 billion, compared with the previous fiscal year-end.

(3) Capital Expenditures and Depreciation and Amortization

In the fiscal year under review, the SHI Group positioned efforts to restore and fortify its global supply chain as a key priority with capital expenditures accordingly undertaken. Capital expenditures for fiscal 2012 totaled ¥29.9 billion, up ¥10.2 billion, compared with the previous fiscal year. Depreciation and amortization was ¥18.3 billion, up ¥0.5 billion year on year. Capital expenditures by segment are described as follows.

a. Machinery Components
With the restoration and fortification of its global supply chain as a key priority, the Group focused mainly on strengthening the cost-competitiveness of its production bases, particularly in South America and Central America. Capital expenditures in the Machinery Components segment in fiscal 2012 amounted to ¥7.4 billion.

b. Precision Machinery
Continuing to make its global supply chain a key priority, the Group placed considerable weight on bolstering production bases in Japan as a part of efforts to enhance cost-competitiveness. Capital expenditures in the Precision Machinery segment totaled ¥6.5 billion.

c. Construction Machinery
Emphasis was placed on the global supply chain in addition to strengthening the competitiveness of production bases. Concentrating on its bases in Southeast Asia, capital expenditures in the Construction Machinery segment for fiscal 2012 were ¥13.0 billion.

d. Industrial Machinery
In its Industrial Machinery activities, the Group undertook to increase production capacity and improve productivity. To this end, a total of ¥1.2 billion was directed toward the renewal of existing facilities.

e. Ships
To increase production capacity and improve productivity in the Ships segment, the Group channeled a total of ¥0.7 billion toward the renewal of existing facilities.

f. Environmental Facilities & Plants
In the Environmental Facilities & Plants segment, the Group undertook capital expenditures totaling ¥0.7 billion aimed primarily at bolstering production capacity and improving productivity by renewing existing facilities.

In the fiscal year ending March 31, 2014, capital expenditures are projected to total ¥16.6 billion. Focus will be placed on the Machinery Components, Precision Machinery, and Construction Machinery segments. Depreciation and amortization is forecast to total ¥17.4 billion.

4. Policy on the Distribution of Profits

The SHI Group 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 Group works to maintain retained earnings at a level sufficient to ensuring sustainable business growth over the long term.

With due consideration given to this basic policy and the continuous payment of stable dividends, the Group decided to pay out an annual dividend of ¥8 per share (including an interim dividend of ¥4 per share). This represents a ¥2 per share decrease compared with fiscal 2011. On this basis, the payout ratio for fiscal 2012 was 83.7%.

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, 2013.

1. Macroeconomic Factors

Demand for capital equipment, which accounts for more than half of the 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 Asia, North America, Europe, and other countries and regions 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. For the fiscal year under review, the ratio of overseas sales to total sales was 53%. To minimize the impact of exchange-rate fluctuations on our business performance, the 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 the Machinery Components, Precision Machinery, and Construction Machinery segments 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, 2013 was ¥19.5 billion, a decline of 22%. If land values continue to fall, or conditions are such that the Group is not expected to recover the book values of its assets or asset groups, we may have to recognize impairment losses on fixed assets, which could adversely affect the business performance and financial position of the Group.

6. Impact of Uncompleted Projects

In connection with an order received from the city of Kyoto for the construction of an incinerated ash melting facility, certain construction defects were uncovered at the test operating stage. As a result, delivery has been delayed. Currently, the Group is making every effort to put in place appropriate measures to secure formal handover. The Company recorded a loss in an amount that could be reasonably estimated at this stage. In the event that SHI is forced to incur additional construction losses, the Group could suffer an adverse impact on the business performance or financial position.

7. 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 Group be responsible for an incidence of environmental pollution, significant costs could ensue, negatively affecting the business performance and financial position of the Group.

8. Natural and Other Disasters

The Group has in place inspection, training, and communications mechanisms for minimizing the occurrence and fallout from such disasters 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.

Consolidated Balance Sheets

March 31, 2013 and 2012

ASSETS	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (Note 1) 2013
Current assets:			
Cash and time deposits (Notes 2, 4 and 11)	¥ 47,814	¥ 73,373	$ 508,663
Trade receivables (Note 11):			
Notes receivable	14,152	14,897	150,558
Accounts receivable	159,147	166,351	1,693,056
Allowance for doubtful accounts	(1,117)	(855)	(11,888)
Inventories:			
Finished products	66,877	51,326	711,459
Work in process	44,791	71,562	476,502
Raw materials and supplies	27,548	21,034	293,067
Deferred tax assets (Note 5)	12,191	12,196	129,692
Other current assets (Note 13)	15,225	19,162	161,951
Total current assets	386,628	429,046	4,113,060
Property, plant and equipment:			
Land (Note 4)	108,033	116,306	1,149,284
Buildings and structure (Note 4)	120,784	140,023	1,284,932
Machinery and equipment	127,337	127,582	1,354,648
Construction in progress	2,614	9,448	27,813
Other tangible fixed assets	34,847	34,949	370,717
	393,615	428,308	4,187,394
Accumulated depreciation	(182,963)	(208,496)	(1,946,414)
Net property, plant and equipment	210,652	219,812	2,240,980
Intangible assets	7,765	6,374	82,604
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	9,717	9,138	103,374
Investment securities (Notes 11 and 12)	15,471	14,783	164,581
Deferred tax assets (Note 5)	11,838	7,419	125,940
Other assets	7,470	6,683	79,475
Allowance for doubtful accounts	(1,817)	(1,414)	(19,335)
Total investments and other assets	42,679	36,609	454,035
Total assets (Note 9)	¥647,724	¥691,841	$6,890,679

LIABILITIES AND NET ASSETS	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 1) 2013
Current liabilities:			
Short-term bank loans (Notes 4 and 11)	¥ 48,032	¥ 27,383	$ 510,978
Long-term debts due within one year (Notes 4 and 11)	1,245	19,796	13,241
Commercial paper (Note 4)	10,000	—	106,383
Trade payables (Note 11):			
Notes payable	26,379	35,230	280,628
Accounts payable	87,196	118,613	927,614
Advance receipt on contracts	20,937	27,770	222,731
Income taxes payable	3,014	11,329	32,059
Allowance for warranty	5,115	5,106	54,416
Allowance for losses on construction contracts	2,017	4,984	21,459
Allowance for losses on business transfer	161	161	1,716
Other current liabilities (Notes 4, 5 and 13)	38,919	38,089	414,035
Total current liabilities	243,015	288,461	2,585,260
Long-term liabilities:			
Long-term debts (Notes 4 and 11)	39,270	49,343	417,766
Employees' severance and retirement benefits (Note 14)	39,169	35,884	416,687
Allowance for losses on product liabilities	48	54	506
Deferred tax liabilities on revaluation difference on land	24,608	27,651	261,787
Other long-term liabilities (Note 4)	8,788	8,303	93,501
Total long-term liabilities	111,883	121,235	1,190,247
Contingent liabilities (Note 7)			
Net assets (Note 6):			
Stockholders' equity:			
Common stock:	30,872	30,872	328,422
Number of shares authorized 1,800,000 thousand shares			
Number of shares issued: 614,527 thousand shares in 2013 614,527 thousand shares in 2012			
Capital surplus	23,789	23,789	253,073
Retained earnings	207,580	201,433	2,208,303
Treasury stock at cost: 858 thousand shares in 2013 812 thousand shares in 2012	(455)	(445)	(4,845)
Total stockholders' equity	261,786	255,649	2,784,953
Accumulated other comprehensive income:			
Unrealized gains on securities, net of income taxes	2,694	2,267	28,660
Unrealized gains (losses) on hedging derivatives, net of income taxes	(562)	277	(5,975)
Adjustment on pension obligations of consolidated foreign subsidiaries	(3,808)	(3,573)	(40,505)
Revaluation difference on land	38,197	43,381	406,352
Foreign currency translation adjustments	(9,458)	(19,113)	(100,621)
Total accumulated other comprehensive income	27,063	23,239	287,911
Minority interests	3,977	3,257	42,308
Total net assets	292,826	282,145	3,115,172
Total liabilities and net assets	¥647,724	¥691,841	$6,890,679

See accompanying notes.

Consolidated Statements of Income

Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net sales (Note 9)	¥585,871	¥624,100	$6,232,665
Costs and expenses:			
Cost of sales	465,309	490,878	4,950,093
Selling, general and administrative expenses	89,274	86,087	949,723
Total	554,583	576,965	5,899,816
Operating income (Note 9)	31,288	47,135	332,849
Other income (expenses):			
Interest and dividend income	2,377	953	25,283
Interest expense	(2,097)	(1,652)	(22,308)
Foreign exchange gain, net	1,347	349	14,327
Gain on sales of investment securities	1,343	—	14,290
Reversal of provision for loss on litigation	802	—	8,531
Impairment losses on fixed assets (Note 3)	(17,392)	(688)	(185,023)
Loss on defense equipment business	(4,986)	—	(53,046)
Contract loss	—	(2,863)	—
Loss on valuation of investment securities (Note 12)	—	(2,166)	—
Amortization of prior service costs (Note 14)	—	(706)	—
Other – net	(1,918)	(2,167)	(20,394)
Income before income taxes and minority interests	10,764	38,195	114,509
Income taxes (Note 5):			
Current	10,553	19,077	112,264
Deferred	(5,959)	(1,395)	(63,390)
Total	4,594	17,682	48,874
Income before minority interests	6,170	20,513	65,635
Minority interests in net income	(305)	(1,021)	(3,243)
Net income	¥ 5,865	¥ 19,492	$ 62,392

	Yen		U.S. dollars (Note 1)
	2013	2012	2013
Amounts per share of common stock:			
Net income	¥9.56	¥31.75	$0.10
Diluted net income	—	—	—
Cash dividends applicable to the year (Note 15)	8.00	10.00	0.09

See accompanying notes.

Consolidated Statements of Comprehensive Income

Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Income before minority interests	¥ 6,170	¥20,513	$ 65,635
Other comprehensive income:			
Unrealized gains on securities, net of income taxes	426	1,287	4,529
Unrealized losses on hedging derivatives, net of income taxes	(811)	(680)	(8,626)
Adjustment on pension obligations of consolidated foreign subsidiaries	(234)	(1,596)	(2,493)
Revaluation difference on land	—	3,918	—
Foreign currency translation adjustments	10,234	(3,967)	108,879
Share of other comprehensive income of affiliates accounted for using equity method	(1)	(3)	(10)
Total other comprehensive income (Note 8)	9,614	(1,041)	102,279
Comprehensive income	¥15,784	¥19,472	$167,914
Comprehensive income attributable to:			
Owners of the parent	¥15,068	¥18,433	$160,292
Minority interests	716	1,039	7,622

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2013 and 2012

	Number of shares of common stock (Thousands)	Stockholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total
Net assets at April 1, 2011	614,527	¥30,872	¥23,789	¥188,047	¥ (67)	¥242,641
Dividends				(7,370)		(7,370)
Net income				19,492		19,492
Acquisition of treasury stock					(383)	(383)
Disposal of treasury stock				(1)	5	4
Increase due to transfer of revaluation difference on land				388		388
Increase of consolidated subsidiaries with change in scope of consolidation				877		877
Decrease of consolidated subsidiaries with change in scope of consolidation				0		0
Changes in items other than stockholders' equity in the period (net)						
Total changes in the period	—	—	—	13,386	(378)	13,008
Net assets at March 31, 2012	614,527	¥30,872	¥23,789	¥201,433	¥(445)	¥255,649

	Number of shares of common stock (Thousands)	Stockholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total
Net assets at April 1, 2012	614,527	¥30,872	¥23,789	¥201,433	¥(445)	¥255,649
Dividends				(6,137)		(6,137)
Net income				5,865		5,865
Acquisition of treasury stock					(26)	(26)
Disposal of treasury stock				(6)	16	10
Increase due to transfer of revaluation difference on land				5,184		5,184
Increase of consolidated subsidiaries with change in scope of consolidation				1,123		1,123
Increase due to merger				118		118
Changes in items other than stockholders' equity in the period (net)						
Total changes in the period	—	—	—	6,147	(10)	6,137
Net assets at March 31, 2013	614,527	¥30,872	¥23,789	¥207,580	¥(455)	¥261,786

	Number of shares of common stock (Thousands)	Stockholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Sub-total
Net assets at April 1, 2012	614,527	$328,422	$253,073	$2,142,907	$(4,735)	$2,719,667
Dividends				(65,288)		(65,288)
Net income				62,392		62,392
Acquisition of treasury stock					(282)	(282)
Disposal of treasury stock				(66)	172	106
Increase due to transfer of revaluation difference on land				55,148		55,148
Increase of consolidated subsidiaries with change in scope of consolidation				11,954		11,954
Increase due to merger				1,256		1,256
Changes in items other than stockholders' equity in the period (net)						
Total changes in the period	—	—	—	65,396	(110)	65,286
Net assets at March 31, 2013	614,527	$328,422	$253,073	$2,208,303	$(4,845)	$2,784,953

See accompanying notes.

Millions of yen

Accumulated other comprehensive income							
Unrealized gains on securities, net of income taxes	Unrealized gains (losses) on hedging derivatives, net of income taxes	Adjustment on pension obligations of consolidated foreign subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
¥ 982	¥960	¥(1,978)	¥39,851	¥(15,129)	¥24,686	¥2,053	¥269,380
							(7,370)
							19,492
							(383)
							4
							388
							877
							0
1,285	(683)	(1,595)	3,530	(3,984)	(1,447)	1,204	(243)
1,285	(683)	(1,595)	3,530	(3,984)	(1,447)	1,204	12,765
¥2,267	¥277	¥(3,573)	¥43,381	¥(19,113)	¥23,239	¥3,257	¥282,145

Millions of yen

Accumulated other comprehensive income							
Unrealized gains on securities, net of income taxes	Unrealized gains (losses) on hedging derivatives, net of income taxes	Adjustment on pension obligations of consolidated foreign subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
¥2,267	¥ 277	¥(3,573)	¥43,381	¥(19,113)	¥23,239	¥3,257	¥282,145
							(6,137)
							5,865
							(26)
							10
							5,184
							1,123
							118
427	(839)	(235)	(5,184)	9,655	3,824	720	4,544
427	(839)	(235)	(5,184)	9,655	3,824	720	10,681
¥2,694	¥(562)	¥(3,808)	¥38,197	¥ (9,458)	¥27,063	¥3,977	¥292,826

Thousands of U.S. dollars (Note 1)

Accumulated other comprehensive income							
Unrealized gains on securities, net of income taxes	Unrealized gains (losses) on hedging derivatives, net of income taxes	Adjustment on pension obligations of consolidated foreign subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
$24,121	$ 2,943	$(38,012)	$461,500	$(203,325)	$247,226	$34,654	$3,001,547
							(65,288)
							62,392
							(282)
							106
							55,148
							11,954
							1,256
4,539	(8,918)	(2,493)	(55,148)	102,704	40,685	7,654	48,339
4,539	(8,918)	(2,493)	(55,148)	102,704	40,685	7,654	113,625
$28,660	$(5,975)	$(40,505)	$406,352	$(100,621)	$287,911	$42,308	$3,115,172

Consolidated Statements of Cash Flows

Years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥10,764	¥38,195	$114,509
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	18,282	17,820	194,490
Gain on sales of investment securities	(1,343)	—	(14,290)
Reversal of provision for loss on litigation	(802)	—	(8,531)
Impairment losses on fixed assets	17,392	688	185,023
Contract loss	—	2,863	—
Loss on valuation of investment securities	—	2,166	—
Amortization of prior service costs	—	706	—
Loss on disposal of property, plant and equipment	329	345	3,501
Increase in employees' severance and retirement benefits	1,560	2,619	16,595
Increase (decrease) in allowance	(2,643)	199	(28,114)
Interest and dividend income	(2,377)	(953)	(25,283)
Interest expenses	2,097	1,652	22,308
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	6,025	(30,305)	64,093
(Increase) decrease in inventories	12,702	(14,485)	135,133
Increase (decrease) in notes and accounts payable	(44,837)	21,159	(476,988)
Other—net	4,356	376	46,340
Sub-total	21,505	43,045	228,786
Interest and dividend received	2,240	1,438	23,827
Interest paid	(2,038)	(1,660)	(21,685)
Income taxes paid	(19,047)	(19,514)	(202,630)
Net cash provided by operating activities	¥ 2,660	¥23,309	$ 28,298

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash flows from investing activities:			
Net increase in time deposits	¥ (212)	¥ (201)	$ (2,256)
Proceeds from sale of securities	1,362	768	14,490
Acquisition of property, plant and equipment	(22,052)	(24,227)	(234,594)
Proceeds from sale of property, plant and equipment	1,570	1,486	16,700
Net decrease in short-term loans receivable	441	305	4,687
Other—net	(769)	(803)	(8,181)
Net cash used in investing activities	(19,660)	(22,672)	(209,154)
Cash flows from financing activities:			
Net increase in short-term bank loans	16,393	6,246	174,398
Net increase in commercial paper	10,000	—	106,383
Proceeds from long-term debts	15,416	27,214	164,004
Repayments of long-term debts	(44,427)	(4,416)	(472,652)
Proceeds from sale of treasury stock	10	5	106
Purchases of treasury stock	(27)	(383)	(282)
Cash dividends paid	(6,120)	(7,354)	(65,103)
Cash dividends paid to minority stockholders	(426)	(49)	(4,532)
Repayments of finance lease obligations	(2,247)	(1,384)	(23,901)
Net cash provided by (used in) financing activities	(11,428)	19,879	(121,579)
Effect of exchange rate changes on cash and cash equivalents	2,073	(649)	22,055
Net increase (decrease) in cash and cash equivalents	(26,355)	19,867	(280,380)
Cash and cash equivalents at beginning of year	72,376	51,700	769,954
Increase in cash and cash equivalents due to change in scope of consolidation	455	809	4,846
Cash and cash equivalents at end of year (Note 2)	¥46,476	¥72,376	$494,420

See accompanying notes.

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.

The accounts of foreign consolidated subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified five items as applicable.

The accompanying consolidated financial statements for Sumitomo Heavy Industries, Ltd. (SHI) and subsidiaries (collectively, the Company) have been reformatted and translated into English (with certain expanded descriptions) from the ones 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, 2013, which was ¥94 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 SHI and its significant subsidiaries. All significant inter-company balances and transactions are eliminated in consolidation. Investments in significant affiliated companies are accounted for using the equity method of accounting.

Marketable and investment securities

Held-to-maturity debt securities are stated at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Available-for-sale securities with fair values are stated at fair value. Unrealized holding gains and losses, net of applicable income taxes, on available-for-sale securities are excluded from earnings and reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of such securities are computed using the moving-average method. Investment securities in unconsolidated subsidiaries and affiliated companies that are not subject to the equity method of accounting, 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

Finished products, raw materials and supplies are stated at the lower of cost (determined primarily by the weighted average method) or market. Work-in-process is stated at the lower of cost (determined primarily by specific identification method) or market.

Property, plant, and equipment

(A) Tangible fixed assets (excluding lease assets)

Tangible assets are stated at cost and depreciated primarily by declining-balance method for SHI and its domestic consolidated subsidiaries except for buildings acquired after April 1, 1998, which are depreciated primarily using a straight-line method. Tangible assets of SHI's overseas consolidated subsidiaries are also depreciated primarily by a straight-line method.

The estimated useful lives of tangible assets are as follows:

– Buildings and structure 10 to 50 years
– Machinery and equipment 5 to 12 years

(B) Lease assets

Property and equipment held under finance lease arrangements, which are not subject to the ownership transfer from a lessor to a lessee, are depreciated on a straight-line basis over the lease term except for certain immaterial arrangements or ones commenced prior to March 31, 2008, which are accounted for as operating leases.

Software

Costs of software obtained for internal use are amortized using the straight-line method over the estimated useful lives (5 years).

Allowance for doubtful accounts

The Company provides an allowance for doubtful accounts for estimated losses inherent in its receivable portfolio. The required allowance is determined based on historical losses for general accounts receivables. For accounts receivable considered at risk (bankruptcy, companies under reorganization plan), the required allowance is determined based on certain specific factors such as current market conditions, customers' financial condition, the amount of receivables in dispute, current receivables aging, and current payment patterns on an individual basis.

Allowance for warranty

Allowance for warranty is provided for the estimated future warranty costs associated with repair work after delivery of products. These estimates are derived from historical data and trends of product reliability, and costs of repairing and replacing defective products.

Allowance for losses on construction contracts

Allowance for losses on construction contracts is provided when the current estimates of total contract revenue and contract cost indicate substantial losses, and such losses are reasonably estimated.

Allowance for losses on business transfer

Allowance for losses on business transfer is provided for the estimated future expenses due to the transfer of resort development business.

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 amounts of retirement benefit obligations and pension plan assets at the end of the fiscal year.

Prior service costs are expensed as incurred for SHI or amortized using the straight-line method over a period within the average remaining service life of the Company's active employees (mainly 12 years) for consolidated subsidiaries.

The actuarial gains (losses) are amortized using the straight-line method over a period within the average remaining service life of the Company's active employees (mainly 12 years) commencing from the following year of the incurrence.

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 foreign subsidiaries.

Derivatives and hedge accounting

The Company recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheet at their respective fair values, and changes in the fair values are recognized as gains or losses. For derivatives designated in hedging relationship, the related gains or losses are deferred until the hedged items affect earnings.

For forward foreign exchange contracts that 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,

1. 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 carrying value of the receivable or payable is recognized in the consolidated statement of income in the period which includes the inception date, and
2. 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.

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

For currency option contracts that 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.

Revenue recognition on 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.

Amortization of goodwill

Goodwill, and negative goodwill which was generated on or before March 31, 2010, are equally amortized over 5 years. In case the amount of goodwill or negative goodwill is insignificant, it is amortized in full as generated.

Revaluation difference on land

The Company revaluated land held for business use as of March 31, 2002 in accordance with Enforcement Ordinance for the Law Concerning Revaluation Reserve for Land effective March 31, 1998.

The current market value of the land as of March 31, 2013 has declined by ¥19,515 million ($207,608 thousand) as compared to the carrying value.

Research and development costs

Research and development costs are expensed when incurred. Research and development costs included in manufacturing cost and selling, general and administrative expenses were ¥10,001 million ($106,398 thousand) and ¥9,665 million for the years ended March 31, 2013 and 2012, respectively.

Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

SHI files a Japanese consolidated tax return with certain domestic consolidated subsidiaries.

Foreign currency translation and transactions

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

Transactions in foreign currencies are translated at the exchange rate in effect at the time of the transaction. Any assets and liabilities denominated in foreign currencies are translated into Yen using the year end exchange rate. Gains and losses resulting from transactions in foreign currencies are included in the consolidated statements of income.

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 as 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 the year-end cash dividend resolved at the shareholders' meeting held after the end of the fiscal year, but applicable to the year-end.

Reclassifications

Certain amounts in the consolidated financial statements for the year ended March 31, 2012 have been reclassified to conform to the 2013 presentation.

Change in accounting policies with amendment of respective law or regulation that are not distinguishable from change in accounting estimates

Change in depreciation method

From the year ended March 31, 2013, in accordance with the amendment in corporate tax law, SHI and its domestic subsidiaries have changed its depreciation method for property, plant and equipment. Assets acquired on or after April 1, 2012 are depreciated using the method prescribed in amended corporate tax law. The effect of this change is insignificant to the consolidated statements of income.

Impending application of newly issued accounting standards, etc.

Accounting standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012)

(1) Summary

These accounting standard and guidance have been amended from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on (a) how actuarial gains and losses and past service costs should be accounted for, (b) how retirement benefit obligations and current service costs should be determined and (c) enhancement of disclosures.

(2) Effective dates
They will be effective for the end of annual periods ending on or after March 31, 2014. Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015.
(3) Effect of application of the standard
SHI and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

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, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and time deposits	¥47,814	¥73,373	$508,663
Time deposits with maturities over three months	(1,201)	(829)	(12,782)
Restricted deposits	(137)	(168)	(1,461)
Cash and cash equivalents	¥46,476	¥72,376	$494,420

3. Impairment losses on fixed assets

(A) The Company recognized the following impairment losses in the year ended March 31, 2013.

Use	Type of assets	Location	Millions of yen 2013	Thousands of U.S. dollars 2013
Ships business assets, etc.	Lands and buildings, etc.	Yokosuka, Kanagawa Pref, etc.	¥16,441	$174,902
Idle, etc.	Lands and buildings, etc.	Kurashiki, Okayama Pref, etc.	951	10,121
Total			¥17,392	$185,023

Reason for recognition of impairment losses

Due to the significant adverse change in the business environment, an impairment analysis was required. As a result of the cash flow analysis, it was determined that the carrying values of the related fixed assets were not recoverable, resulting in the impairment for the year ended March 31, 2013.

Grouping of assets

Each division is considered an asset group since the asset group is the lowest level at which cash flows can be identified that are largely independent of the cash flows of other asset groups. A temporarily idle asset is also considered an asset group.

Calculation of recoverable amount

The recoverable amount is generally determined based on a net selling price of each asset, which is calculated by deducting the related selling expenses from the selling price.

(B) The Company recognized the following impairment losses in the year ended March 31, 2012.

Use	Type of assets	Location	Millions of yen 2012
Common assets	Lands and buildings, etc.	Yokosuka, Kanagawa Pref, etc.	¥229
Idle	Lands and buildings	Yokosuka, Kanagawa Pref, etc.	254
Business assets	Buildings, etc.	Kurashiki, Okayama Pref, etc.	205
Total			¥688

Reason for recognition of impairment losses

Due to decline of profitability and related revision of the business plan for certain product lines, an impairment analysis was required. As a result of the cash flow analysis, it was determined that the projected cash flows generated by the related assets were less than their carrying values, resulting in the impairment for the year ended March 31, 2012.

Grouping of assets

Each division is considered an asset group since the asset group is the lowest level at which cash flows can be identified that are largely independent of the cash flows of other asset groups. A temporarily idle asset is also considered an asset group.

Calculation of recoverable amount

The recoverable amount is generally determined based on a net selling price of each asset, which is calculated by deducting the related selling expenses from the selling price.

4. Bank loans, commercial paper, lease obligations and long-term debts

Bank loans as of March 31, 2013 and 2012 consist of short-term loans, bearing average interest at 2.12% and 2.26% per annum, respectively.

Commercial paper as of March 31, 2013 bore interest principally at 0.11% per annum. There was no balance of the commercial paper as of March 31, 2012.

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

Long-term debts and lease obligations as of March 31, 2013 and 2012 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
0.9% domestic bonds due in December 2014	¥10,000	¥10,000	$106,383
Loans principally from banks and insurance companies due serially through June 2018 with interest ranging from 0.47% to 6.30% in FY2012			
Secured	199	204	2,113
Unsecured	30,316	58,935	322,511
Lease obligations	5,609	5,055	59,673
	¥46,124	¥74,194	$490,680
Amount due within one year	2,599	21,194	27,646
Amount due after one year	43,525	53,000	463,034

Long-term debts and lease obligations are due as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31	2013	2013
2014	¥ 2,599	$ 27,646
2015	27,864	296,427
2016	12,312	130,976
2017	1,606	17,084
2018	1,723	18,332
2019 and thereafter	20	215
Total	¥46,124	$490,680

As of March 31, 2013 and 2012, assets pledged as collateral for long-term loans from banks and contingent liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and time deposits	¥ 122	¥ 168	$ 1,295
Buildings and structure	849	746	9,040
Land	131	115	1,393
Total	¥1,102	¥1,029	$11,728

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

As of March 31, 2013 and 2012, unused revolving lines of credit and global commitment lines are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Limit of revolving lines of credit and global commitment lines	¥51,041	¥48,730	$542,996
Used	2,275	4,980	24,204
Unused	¥48,766	¥43,750	$518,792

5. Income Tax

SHI and its consolidated domestic companies are subject to corporate, inhabitants' and enterprise taxes, which, in the aggregate show a statutory tax rate in Japan of approximately 38% and 41% for the years ended March 31, 2013 and 2012, respectively.

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, 2013 and 2012.

	2013	2012
Statutory tax rate	38.01%	40.69%
Non deductible expenses for tax purpose such as meals and entertainment, etc.	2.89	0.82
Per capita inhabitant tax	2.01	0.55
Non taxable income such as dividend income	(6.77)	(0.83)
Tax rates difference	(5.87)	(3.86)
Valuation allowance	9.64	2.41
Equity in earnings (losses) of affiliates	(2.04)	0.48
Undistributed earnings in consolidated overseas subsidiaries	4.05	(1.00)
Others	0.76	7.03
Effective tax rate	42.68%	46.29%

Main components of deferred tax assets and liabilities as of March 31, 2013 and 2012 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Accrued bonuses	¥ 3,231	¥ 3,390	$ 34,373
Allowance for doubtful accounts	763	421	8,114
Allowance for warranty	1,819	1,693	19,348
Allowance for employees' severance and retirement benefit	16,442	15,456	174,917
Unrealized profit on inventories	1,377	1,379	14,651
Devaluation of marketable securities and investments into affiliated companies	1,173	1,388	12,483
Depreciation	755	981	8,030
Net operating loss carryforward	3,111	3,144	33,093
Loss on valuation of inventories	4,569	2,089	48,608
Impairment losses on fixed assets	3,288	172	34,983
Unrealized gains or losses on hedging derivatives	249	—	2,646
Others	7,983	9,449	84,931
Total deferred tax assets	44,760	39,562	476,177
Less—valuation allowance	(12,600)	(12,461)	(134,045)
Deferred tax assets—net	¥32,160	¥27,101	$342,132
Deferred tax liabilities:			
Tax depreciation reserve	(85)	(88)	(899)
Difference on revaluation of assets and liabilities of subsidiaries	(3,313)	(3,461)	(35,245)
Accelerated depreciation	(2,069)	(1,994)	(22,013)
Undistributed earnings in consolidated overseas subsidiaries	(2,366)	(1,930)	(25,175)
Net unrealized holding gains on securities	(862)	(784)	(9,175)
Unrealized gains or losses on hedging derivatives	—	(252)	—
Others	(456)	(243)	(4,849)
Deferred tax liabilities	¥ (9,151)	¥ (8,752)	$ (97,356)
Net deferred tax assets	¥23,009	¥18,349	$244,776

6. 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 case 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 allowed to be distributed as dividend is determined based on the entity's non-consolidated financial statements in accordance with the Japanese laws and regulations.

At the general shareholders' meeting held on June 27, 2013, the shareholders resolved cash dividend amounting to ¥2,455 million ($26,114 thousand). Such appropriations have not been accrued in the accompanying consolidated financial statements as of March 31, 2013 and will be recorded in the period in which they are resolved.

7. Contingent liabilities

SHI and certain consolidated domestic subsidiaries are contingently liable as endorsers of trade notes receivable discounted with banks in the amounts of ¥2,277 million ($24,221 thousand) and ¥5,261 million as of March 31, 2013 and 2012, respectively. In addition, SHI and certain consolidated subsidiaries are contingently liable as guarantors for bank loans or other borrowings obtained by unconsolidated subsidiaries, affiliated companies and employees in the amounts of ¥37,684 million ($400,896 thousand) and ¥41,720 million as of March 31, 2013 and 2012, respectively.

8. Statement of comprehensive income

Amounts reclassified to net income in the current fiscal period that were recognized in other comprehensive income in the current or previous period and related tax effects for each component of other comprehensive income in the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized gains (losses) on securities, net of income taxes			
Increase (decrease) during the year	¥ 1,494	¥ (525)	$ 15,900
Reclassification adjustments	(1,072)	2,050	(11,408)
Sub-total, before tax	422	1,525	4,492
Tax (expense) or benefit	4	(238)	37
Sub-total, net of tax	426	1,287	4,529
Unrealized gains (losses) on hedging derivatives, net of income taxes			
Increase (decrease) during the year	(1,527)	548	(16,248)
Reclassification adjustments	291	(1,715)	3,097
Sub-total, before tax	(1,236)	(1,167)	(13,151)
Tax (expense) or benefit	425	487	4,525
Sub-total, net of tax	(811)	(680)	(8,626)
Adjustment regarding pension obligations of consolidated foreign subsidiaries			
Increase (decrease) during the year	(682)	(2,636)	(7,260)
Reclassification adjustments	290	193	3,085
Sub-total, before tax	(392)	(2,443)	(4,175)
Tax (expense) or benefit	158	847	1,682
Sub-total, net of tax	(234)	(1,596)	(2,493)
Revaluation difference on land			
Tax (expense) or benefit	—	3,918	—
Foreign currency translation adjustment			
Increase (decrease) during the year	10,234	(3,967)	108,879
Share of other comprehensive income of affiliates accounted for using equity method			
Increase (decrease) during the year	(4)	(3)	(40)
Reclassification adjustments	3	—	30
Sub-total, net of tax	(1)	(3)	(10)
Total other comprehensive income	¥ 9,614	¥(1,041)	$102,279

9. Segment information

(A) Segment information

The Company's major operations comprise (1) machinery components segment, (2) precision machinery segment, (3) construction machinery segment, (4) industrial machinery segment, (5) ships segment, (6) environmental facilities and plants segment. The method of the accounting of the reportable operating segments is generally the same as explained in the Note 1. "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 operating segments for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen									
	Reportable segment									
2013	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants	Total	Other	Adjustment	Consolidated
Net sales:										
Outside customers	¥ 91,174	¥139,218	¥152,773	¥69,649	¥46,013	¥78,583	¥577,410	¥ 8,461	¥ —	¥585,871
Inter-segment	2,113	1,733	23	239	86	501	4,695	2,872	(7,567)	—
Total	93,287	140,951	152,796	69,888	46,099	79,084	582,105	11,333	(7,567)	585,871
Segment income	¥ 2,767	¥ 7,664	¥ 6,132	¥ 5,358	¥ 2,366	¥ 5,575	¥ 29,862	¥ 1,361	¥ 65	¥ 31,288
Segment assets	¥106,582	¥138,072	¥158,186	¥46,383	¥52,848	¥61,533	¥563,604	¥49,006	¥35,114	¥647,724
Other items:										
Depreciation	¥ 4,272	¥ 5,137	¥ 4,526	¥ 1,419	¥ 1,663	¥ 913	¥ 17,930	¥ 352	¥ —	¥ 18,282
Impairment losses on fixed assets	369	7	29	—	16,441	—	16,846	58	488	17,392
Investments in equity method affiliates	—	1,450	3,953	3,182	—	—	8,585	—	—	8,585
Increase in property, plant and equipment, and intangible assets	7,395	6,516	12,983	1,198	692	743	29,527	361	—	29,888

Notes: 1. Other" includes the other operating segments such as real estate, software, and other operations, which are not included in the reportable segments.
2. "Adjustment" is referred to below:
(1) Adjustment of segment income (¥65 million) represents elimination of inter-segment transactions.
(2) Adjustment of segment assets (¥35,114 million) primarily represents the Company's cash and time deposits and marketable securities.
(3) Adjustment of impairment losses on fixed assets (¥488 million) is related to the Company's corporate assets such as housing lots, etc.
3. Segment income has been reconciled with operating income in the accompanying consolidated statements of income.

	Millions of yen									
	Reportable segment									
2012	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants	Total	Other	Adjustment	Consolidated
Net sales:										
Outside customers	¥ 93,205	¥144,145	¥158,942	¥80,683	¥58,111	¥80,116	¥615,202	¥ 8,898	¥ —	¥624,100
Inter-segment	2,311	1,416	18	321	90	607	4,763	2,886	(7,649)	—
Total	95,516	145,561	158,960	81,004	58,201	80,723	619,965	11,784	(7,649)	624,100
Segment income	¥ 4,238	¥ 12,507	¥ 8,293	¥ 9,499	¥10,935	¥ 6	¥ 45,478	¥ 1,632	¥ 25	¥ 47,135
Segment assets	¥104,660	¥144,860	¥143,153	¥59,344	¥79,266	¥60,241	¥591,524	¥45,599	¥54,718	¥691,841
Other items:										
Depreciation	¥ 3,750	¥ 5,063	¥ 3,929	¥ 1,536	¥ 2,081	¥ 1,026	¥ 17,385	¥ 435	¥ —	¥ 17,820
Impairment losses on fixed assets	100	122	84	—	149	—	455	4	229	688
Investments in equity method affiliates	—	1,452	3,317	3,132	—	—	7,901	—	—	7,901
Increase in property, plant and equipment, and intangible assets	7,517	3,488	5,901	825	924	853	19,508	174	—	19,682

Notes: 1. "Other" includes the other operating segments such as real estate, software, and other operations, which are not included in the reportable segments.
2. "Adjustment" is referred to below:
(1) Adjustment of segment income (¥25 million) represents elimination of inter-segment transactions.
(2) Adjustment of segment assets (¥54,718 million) primarily represents the Company's cash and time deposits and marketable securities.
(3) Adjustment of impairment losses on fixed assets (¥229 million) is related to the Company's corporate assets such as housing lots.
3. Segment income has been reconciled with operating income in the accompanying consolidated statements of income.

2013	Thousands of U.S. dollars									
	Reportable segment									
	Machinery components	Precision machinery	Construction machinery	Industrial machinery	Ships	Environmental facilities and plants	Total	Other	Adjustment	Consolidated
Net sales:										
Outside customers	$ 969,932	$1,481,043	$1,625,247	$740,949	$489,496	$835,996	$6,142,663	$ 90,002	$ —	$6,232,665
Inter-segment	22,480	18,437	243	2,539	915	5,325	49,939	30,559	(80,498)	—
Total	992,412	1,499,480	1,625,490	743,488	490,411	841,321	6,192,602	120,561	(80,498)	6,232,665
Segment income	$ 29,435	$ 81,538	$ 65,229	$ 56,996	$ 25,172	$ 59,312	$ 317,682	$ 14,483	$ 684	$ 332,849
Segment assets	$1,133,846	$1,468,852	$1,682,830	$493,437	$562,216	$654,609	$5,995,790	$521,343	$373,546	$6,890,679
Other items:										
Depreciation	$ 45,445	$ 54,648	$ 48,146	$ 15,093	$ 17,691	$ 9,717	$ 190,740	$ 3,750	$ —	$ 194,490
Impairment losses on fixed assets	3,933	75	304	—	174,902	—	179,214	621	5,188	185,023
Investments in equity method affiliates	—	15,429	42,043	33,855	—	—	91,327	—	—	91,327
Increase in property, plant and equipment, and intangible assets	78,665	69,321	138,119	12,749	7,357	7,903	314,114	3,847	—	317,961

Notes: 1. "Other" includes the other operating segments such as real estate, software, and other operations, which are not included in the reportable segments.
2. "Adjustment" is referred to below:
(1) Adjustment of segment income ($684 thousand) represents elimination of inter-segment transactions.
(2) Adjustment of segment assets ($373,546 thousand) primarily represents of the Company's cash and time deposits and marketable securities.
(3) Adjustment of impairment losses on fixed assets ($5,188 thousand) is related to the Company's corporate assets such as housing lots, etc.
3. Segment income has been reconciled with operating income in consolidated statements of income.

(B) Related information

Information by geographical area

1. Net sales

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Japan	¥277,075	¥296,335	$2,947,604
U.S.A.	73,227	65,199	779,008
Other areas	235,569	262,566	2,506,053
Total	¥585,871	¥624,100	$6,232,665

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

2. Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Japan	¥157,953	¥175,482	$1,680,358
Other areas	52,699	44,330	560,622
Total	¥210,652	¥219,812	$2,240,980

10. Leases

(A) As lessee

The Company has various finance leases for its machinery and other assets, which have been accounted for in the same manner as operating leases. The information of gross amount of such assets and the related accumulated depreciation as well as their carrying value as of March 31, 2013 and 2012 is as follows:

	Millions of yen		
2013	Acquisition cost	Accumulated depreciation	Carrying value
Machinery and equipment	¥4,565	¥3,298	¥1,267
Other tangible fixed assets	648	544	104
Total	¥5,213	¥3,842	¥1,371

	Millions of yen		
2012	Acquisition cost	Accumulated depreciation	Carrying value
Machinery and equipment	¥6,871	¥4,627	¥2,244
Other tangible fixed assets	1,239	955	284
Intangible assets	121	110	11
Total	¥8,231	¥5,692	¥2,539

	Thousands of U.S. dollars		
2013	Acquisition cost	Accumulated depreciation	Carrying value
Machinery and equipment	$48,566	$35,088	$13,478
Other tangible fixed assets	6,898	5,788	1,110
Total	$55,464	$40,876	$14,588

Total lease payments for finance leases, which are not subject to the ownership transfer from a lessor to a lessee, amounted to ¥762 million ($8,104 thousand) and ¥1,225 million for the years ended March 31, 2013 and 2012, respectively.

Future lease payments (including interest) under finance leases as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due within one year	¥ 792	¥1,210	$ 8,424
Due after one year	579	1,329	6,164
Total	¥1,371	¥2,539	$14,588

Also, future lease payments under non-cancelable operating leases as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Future lease payments	¥2,251	¥2,738	$23,950
Due within one year included in above	1,107	1,081	11,781

(B) As lessor

The Company has some finance leases for its certain assets, which have been accounted for in the same manner as operating leases. The information of gross amount of such assets and the related accumulated depreciation as well as their carrying value is not disclosed due to immateriality.

Total lease payments receivable under finance leases, which are not subject to the ownership transfer from a lessor to a lessee, for the years ended March 31, 2013 and 2012 are not disclosed because the amounts are not material.

Future lease receivables under finance leases as of March 31, 2013 and 2012 are not disclosed due to immateriality.

Also, future lease receivables under non-cancelable operating leases as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Future lease receivables	¥280	¥340	$2,982
Due within one year included in above	46	53	494

11. Financial instruments

(A) Qualitative information on financial instruments

1. Utilization policy of financial instruments

The Company obtains the required funds for its operation and investment primarily from bank loans and bond issuances. The Company limits its investment portfolio for temporary excess funds to short-term financial assets that carry little risk. The derivative instruments are utilized only to mitigate the risks described below and no speculative transactions are permitted under the Company's policy.

2. 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 entering into forward exchange contracts and option contracts, and maintains the ratio of the exposure within a certain range. The hedge ratio and unhedged balances are regularly reported to the Board of Directors.

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

Most trade payables are due within one year. Although part of them is denominated in foreign currencies and exposed to foreign exchange rate fluctuation risk, such exposure is naturally mitigated as there is constantly corresponding balance of accounts receivables denominated in the same foreign currencies.

Loans, commercial papers, and corporate bonds are primarily used for obtaining the fund required for operation and investment. For part of long-term loans, the Company enters into an interest rate swap contract for each individual loan as hedging instruments.

3. Risk management for financial instruments:

(1) Credit risk

The Company reviews credit status of customers before accepting orders to mitigate their credit risk 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 Company enters into contracts only with highly rated financial institutions.

(2) Market risk

In relation to amounts of net of trade receivables and trade payables denominated in foreign currencies, the Company executes the hedge transaction to mitigate the exchange rate fluctuation risk in accordance with a market risk management policy. The status of the hedging activities is reported to the Board of Directors every month. Major consolidated subsidiaries also manage the foreign exchange rate fluctuation risk in the same manner.

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 investment securities, the current fair market value and the financial condition of the issuers are monitored regularly. The Company continuously reevaluates the investment portfolio in consideration of relationship with counterparties.

The Company's derivative transactions are executed solely for the purpose of hedging risks concerning exchange rate and interest rate fluctuations as explained above. The Company reconciles outstanding balances with the contract counterparties on a monthly basis.

(3) Liquidity risk

The Company implemented a cash management system among major consolidated subsidiaries whereby SHI centralizes management of available funds within the consolidated group companies. 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

The following table presents the carrying amounts and fair values of the Company's financial instruments recorded on the consolidated balance sheets as of March 31, 2013 and 2012. Certain financial instruments are excluded from the following table as the fair value information is not available.

	Millions of yen		
2013	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 47,814	¥ 47,814	¥ —
Trade receivables	173,299	172,728	(571)
Investment securities	13,066	13,066	—
Assets total	234,179	233,608	(571)
Trade payables	113,575	113,575	—
Short-term bank loans	48,032	48,032	—
Corporate bonds	10,000	10,012	12
Long-term bank loans	30,515	30,749	234
Liabilities Total	202,122	202,368	246
Derivatives	(1,289)	(1,771)	(482)

	Millions of yen		
2012	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 73,373	¥ 73,373	¥ —
Trade receivables	181,248	181,187	(61)
Investment securities	12,596	12,596	—
Assets total	267,217	267,156	(61)
Trade payables	153,843	153,843	—
Short-term bank loans	27,383	27,383	—
Corporate bonds	10,000	9,941	(59)
Long-term bank loans	59,139	59,255	116
Liabilities Total	250,365	250,422	57
Derivatives	(735)	(1,132)	(397)

2013	Thousands of U.S. dollars Carrying amount	Fair value	Difference
Cash and time deposits	$ 508,663	$ 508,663	$ —
Trade receivables	1,843,614	1,837,528	(6,086)
Investment securities	139,004	139,004	—
Assets total	2,491,281	2,485,195	(6,086)
Trade payables	1,208,242	1,208,242	—
Short-term bank loans	510,978	510,978	—
Corporate bonds	106,383	106,514	131
Long-term bank loans	324,624	327,122	2,498
Liabilities Total	2,150,227	2,152,856	2,629
Derivatives	(13,712)	(18,840)	(5,128)

1. Cash and time deposits

The carrying amounts approximate the fair values because of the short-term maturity of these instruments.

2. Trade receivables

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

3. Investment securities

The market prices are used to estimate the fair values.

4. Trade payables and short-term bank loans

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

5. Corporate bonds

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

6. Long-term bank loans

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

7. 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 the above table because there is no fair value available.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Affiliate stocks	¥9,717	¥9,138	$103,374
Unlisted stocks	2,394	2,176	25,465
Investment bonds	11	11	112

The aggregate maturities of financial assets subsequent to March 31, 2013 and 2012 are as follows:

	Millions of yen		
2013	Within one year	Over one year within five years	Over five years
Cash and time deposits	¥ 47,814	¥ —	¥ —
Trade receivables	169,588	3,325	387
Total	¥217,402	¥3,325	¥387

	Millions of yen		
2012	Within one year	Over one year within five years	Over five years
Cash and time deposits	¥ 73,373	¥ —	¥ —
Trade receivables	174,604	6,549	95
Total	¥247,977	¥6,549	¥95

	Thousands of U.S. dollars		
2013	Within one year	Over one year within five years	Over five years
Cash and time deposits	$ 508,663	$ —	$ —
Trade receivables	1,804,123	35,376	4,115
Total	$2,312,786	$35,376	$4,115

The aggregate maturities of long-term bank loans and corporate bonds subsequent to March 31, 2013 and 2012 are as follows:

	Millions of yen					
2013	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 bank loans	¥1,245	¥15,025	¥11,651	¥1,038	¥1,538	¥18
Corporate bonds	—	10,000	—	—	—	—

	Millions of yen					
2012	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 bank loans	¥19,796	¥26,044	¥12,174	¥35	¥1,036	¥54
Corporate bonds	—	—	10,000	—	—	—

	Thousands of U.S. dollars					
2013	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 bank loans	$13,241	$159,843	$123,948	$11,042	$16,361	$189
Corporate bonds	—	106,383	—	—	—	—

12. Investment securities

(A) Carrying amounts of investment securities not stated at fair values as of March 31, 2013 and 2012 are disclosed in the Note 11. "Financial instruments".

(B) Acquisition costs and carrying amounts of marketable securities as of March 31, 2013 and 2012 are as follows:

		Millions of yen		Thousands of U.S. dollars
Available-for-sale securities		2013	2012	2013
Equity securities	Acquisition cost	¥ 9,489	¥ 9,441	$100,947
	Carrying amount	13,066	12,596	139,004
	Difference	¥ 3,577	¥ 3,155	$ 38,057

(C) Total sales amount of available-for-sale securities and the related net gain in the fiscal years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Sale of securities	¥1,362	¥563	$14,490
Net gain	1,342	251	14,279

(D) There were no available-for-sale securities with maturity and held-to-maturity securities as of March 31, 2013 and 2012.

(E) Impairment of securities

Impairment losses for securities were ¥0 million ($1 thousand) and ¥2,085 million for the years ended March 31, 2013 and 2012, respectively.

13. Derivatives information

The Company enters into forward currency exchange contracts, interest rate swap contracts, and currency option contracts as derivative financial instruments. The Company utilizes forward currency exchange transactions to hedge risk of fluctuation in a foreign currency exchange rate with respect to receivables and payables denominated in foreign currencies. Interest rate swap transactions are utilized to minimize risk of increase in interest rate on borrowings. The Company enters 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 authorized individuals at the Company based on an internal policy, which indicates acceptable transaction types and monetary limits for each transaction.

(A) Forward foreign exchange contracts for which no hedge accounting is applied

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts for which no hedge accounting is applied as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Contracted amounts to be paid/received:			
To buy foreign currencies	¥ 102	¥ 725	$ 1,089
To sell foreign currencies	14,967	26,171	159,220
Fair value:			
To buy foreign currencies	(3)	(8)	(33)
To sell foreign currencies	(508)	(884)	(5,402)
Net unrealized exchange gain (loss)	¥ (511)	¥ (892)	$ (5,435)

(B) Interest rate swap contracts for which no hedge accounting is applied

There are no interest rate swap contracts for which no hedge accounting is applied as of March 31, 2013 and 2012.

(C) Forward foreign exchange contracts for which hedge accounting is applied

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts for which hedge accounting is applied as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred hedge accounting			
Contracted amounts to be paid/received:			
To buy foreign currencies	¥ 1,137	¥ 587	$ 12,098
To sell foreign currencies	10,311	18,326	109,691
Fair value:			
To buy foreign currencies	151	19	1,602
To sell foreign currencies	(932)	138	(9,911)
Alternative method (Note)			
Contracted amounts to be paid/received:			
To buy foreign currencies	131	138	1,398
To sell foreign currencies	1,422	1,131	15,124
Fair value:			
To buy foreign currencies	(3)	(90)	(30)
To sell foreign currencies	(252)	(27)	(2,679)
Net unrealized exchange gain (loss)	¥ (1,036)	¥ 40	$ (11,018)

Note: When certain conditions are met, foreign currency denominated receivables and payables are translated into Japanese yen based on the fixed exchange rates provided by the respective forward contracts.

(D) Interest rate swap contracts for which hedge accounting is applied

The aggregate amounts of interest rate swap contracts for which hedge accounting is applied as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Interest rate swap contracts (special treatment) (Note)			
Contract amounts to be paid/received:			
Interest swap fixed rate to floating rate	¥16,795	¥22,700	$178,666
Fair value:			
Interest swap fixed rate to floating rate	(224)	(280)	(2,386)

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 swap contract is executed.

14. Employees' severance and retirement benefits

SHI provides both an unfunded retirement benefit plan and a defined contribution plan for employees. Most of its domestic consolidated subsidiaries also provide the same plans for their employees. Some foreign consolidated subsidiaries sponsor a defined benefit plan for their employees.
Additionally, SHI provides 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
	2013	2012	2013
(1) Projected benefit obligation	¥(76,588)	¥(68,944)	$(814,769)
(2) Fair value of employees retirement benefit plan assets	33,011	28,807	351,182
(3) Unfunded projected benefit obligation	(43,577)	(40,137)	(463,587)
(4) Unrecognized actuarial difference	4,444	4,237	47,280
(5) Unrecognized prior service cost	(36)	16	(380)
(6) Employees' severance and retirement benefit	¥(39,169)	¥(35,884)	$(416,687)

(B) The following severance and pension benefit expenses are included in the statements of income for the years ended March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
(1) Service cost	¥3,062	¥3,620	$32,587
(2) Interest cost on projected benefit obligation	1,471	1,678	15,644
(3) Expected return on plan assets	(709)	(691)	(7,541)
(4) Amortization of actuarial difference	1,743	1,364	18,540
(5) Amortization of prior service cost (Note)	118	787	1,251
(6) Severance and pension benefit expense	¥5,685	¥6,758	$60,481

Note: ¥706 million out of ¥787 million for the year ended March 31, 2012 represents the one-time amortization of prior service cost generated due to the revision of SHI's unfunded retirement benefit plan.

(C) Major actuarial assumptions used to determine pension obligations as of March 31, 2013 and 2012 are as follows:

	2013	2012
(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 1.5%	Mainly 1.5%
(3) Expected rate of return on plan assets	Mainly 0.0%	Mainly 0.0%
(4) Amortization period of prior service cost	SHI: 1 year Subsidiaries: Mainly 12 years	SHI: 1 year Subsidiaries: Mainly 12 years
(5) Amortization period of actuarial differences	Mainly 12 years	Mainly 12 years

15. 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, 2013, were approved at the SHI's general shareholders' meeting held on June 27, 2013:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Year-end cash dividends ¥4.00 ($0.04) per share	¥2,455	$26,114

The approved dividend will be paid to the shareholders as of March 31, 2013.

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Sumitomo Heavy Industries, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sumitomo Heavy Industries, Ltd. and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 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

June 27, 2013
Tokyo, Japan

Major Subsidiaries and Affiliates

(As of April 1, 2013)

Segment	Business	Company Name	Telephone Number
Machinery Components	Power Transmission and Control Equipment	Sumitomo Heavy Industries Gearmotors Co., Ltd.	0562-88-3040
		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
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
	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

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
		Sumitomo Heavy Industries (China) Financial Leasing, Ltd.	86-21-5204-9192
		PT. SUMITOMO S.H.I. CONSTRUCTION MACHINERY INDONESIA	62-21-5795-2254
		PT. SUMITOMO S.H.I. CONSTRUCTION MACHINERY SOUTHEAST ASIA	62-21-8910-8688
	Mobile Cranes	Link-Belt Construction Equipment Company, L.P., LLLP	1-859-263-5200
Industrial Machinery	Material Handling Systems	Sumitomo Heavy Industries Material Handling Systems Co., Ltd.	03-6737-2640
	Forging Presses	Sumijiu Technocraft Co., Ltd.	0897-32-6306
	Turbines and Pumps	Shin Nippon Machinery Co., Ltd.	03-6737-2630
	Forklift Trucks	Sumitomo NACCO Materials Handling Co., Ltd.	0562-48-5251
	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
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
		Sumitomo Heavy Industries (Shanghai) Management, Ltd.	86-21-3462-7660

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 Gearmotor®

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 plastic injection molding machine

[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"

[Cryocoolers]

Cryocoolers utilize a process under which helium gas is compressed and expanded, enabling cooling to temperatures near absolute zero (-273˚C).

Cryogenic equipment

[Laser drills]

Laser drills employ laser beams to cut holes in insulating resin. Primarily applied during printed circuit board manufacturing processes, the Company's laser drills boast the industry's highest speeds with the potential to cut over 1,000 holes per second.

Laser drills

Construction Machinery

[Telescopic machinery]

Telescopic refers to a configuration that can both contract and expand much like the term “telescope” in English. The telescopic boom crawler crane, for example, delivers a crane arm that can both extend and contract.

Telescopic machinery

[Asphalt pavers]

Self-propelled machines used asphalt when paving roads; S the market leader in asphalt pavers in Japan.

Asphalt paver “HA

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

[Ladle cranes]

Ladle cranes are generally used at steelworks to convey molten steel and hot metals.

Ladle cranes

Ships

[Aframax tankers]

Aframax tankers are mid-sized oil tankers with dead weight freight capacity in the 80,000 to 120,000MTDW class.

Aframax tankers

Environmental Facilities & Plants

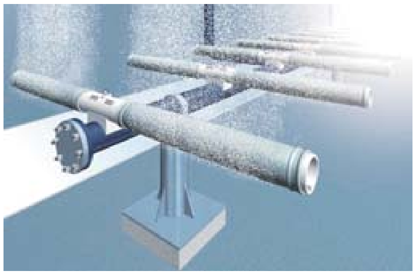
[Circulating fluidized-bed (CFB) boiler]

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.

Circulating fluidized-bed (CFB) boiler

[Superfine-bubble membrane tube diffusers]

Superfine-bubble membrane tube diffusers are used for aeration systems at sewage treatment facilities. The use of a high-quality silicon rubber membrane for the diffuser tubes contributes to the high performance and durability of the systems.



Superfine-bubble membrane tube diffuser “MICRAS®”

Corporate Data

(As of March 31, 2013)

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: 18,245 (Consolidated)
2,446 (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: Sumitomo Mitsui Trust Bank, Limited

Stock Exchange Listings: Tokyo, Osaka

Shares Outstanding: 614,527,405

Number of Shareholders: 56,541

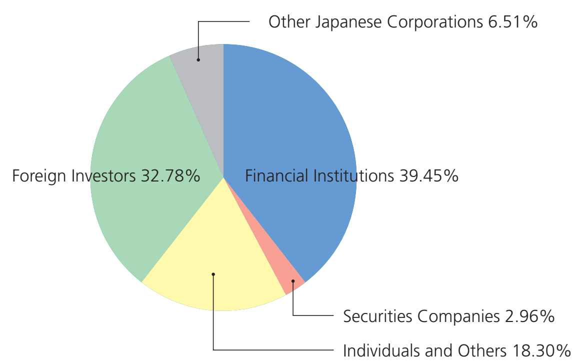
Major Shareholders:

Name of shareholder	Percentage of voting rights
The Master Trust Bank of Japan, Ltd. (Trust account)	7.3
Japan Trustee Services Bank, Ltd. (Trust account)	7.1
Sumitomo Life Insurance Company	3.6
Japan Trustee Services Bank, Ltd. (Trust account 9)	2.7
Sumitomo Mitsui Banking Corporation	2.6
Sumitomo Heavy Industries, Ltd. Kyoeikai	2.0
SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS	1.7
Trust & Custody Services Bank, Ltd. (Equity investment trust account)	1.4
Japan Trustee Services Bank, Ltd. Sumitomo Mitsui Trust Retirement Benefit Trust Account	1.4
STATE STREET BANK AND TRUST COMPANY 505224	1.3

Breakdown of Shareholders as of March 31, 2013:

Breakdown of shareholders	Number of shares held (unit 1,000)
Financial Institutions	242,490
Securities Companies	18,166
Individuals and Others	112,432
Foreign Investors	201,454
Other Japanese Corporations	39,986

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.
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