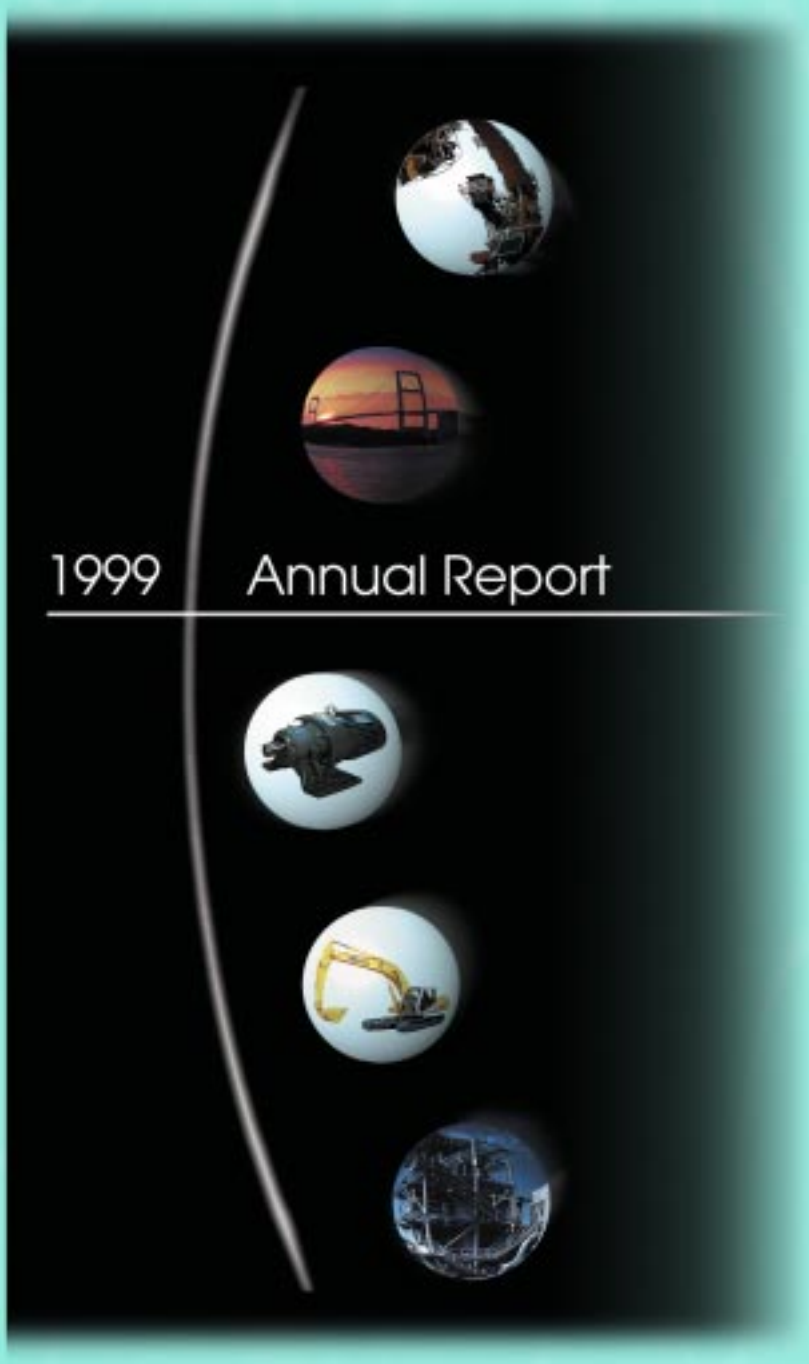
SHI
Sumitomo Heavy Industries



Sumitomo Heavy Industries, Ltd.

Profile

Sumitomo Heavy Industries, Ltd. first opened for business in 1888 and was incorporated in 1934. An integrated manufacturer of leading-edge industrial products, SHI's core businesses include production and sales of iron & steel manufacturing machines, logistics and handling systems, environmental systems, chemical process equipment, ships, bridges and steel structures, power transmission equipment, plastic processing machines, precision forgings and castings, and advanced laser systems. Offering both the latest in technology and the finest in quality, we provide our customers around the world with superior products designed to meet a wide range of demands.

Contents

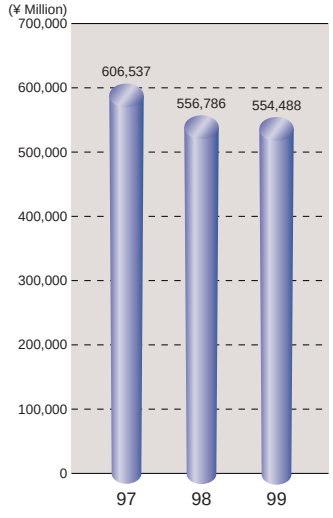
FINANCIAL HIGHLIGHTS

SUMITOMO HEAVY INDUSTRIES, LTD. and Consolidated Subsidiaries
Years ended March 31, 1999, 1998 and 1997

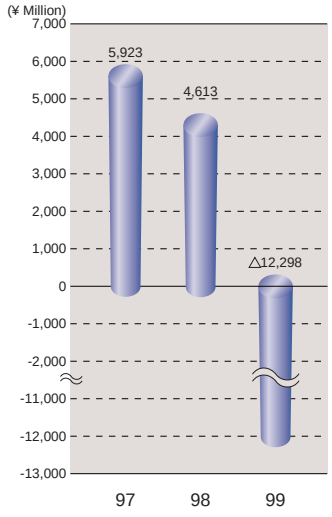
	Millions of yen (except per share amounts)			Thousands of U.S. dollars (except per share amounts)
	1997	1998	**1999**	**1999**
Net sales	¥ 606,537	¥ 556,786	**¥ 554,488**	**$ 4,582,546**
Net income (loss)	5,923	4,613	**(12,298)**	**(101,636)**
Net income (loss) per share of common stock (*)	10.06	7.83	**(20.88)**	**(0.17)**
Stockholders' equity	76,123	78,909	**72,975**	**603,099**
Total assets	740,091	748,017	**723,673**	**5,980,769**

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

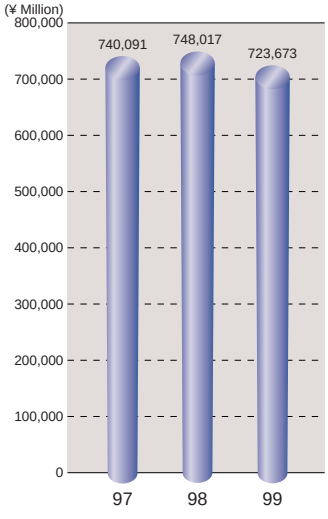
Net Sales



Net Income



Total Assets



TO OUR SHAREHOLDERS

With the deepest gratitude to all our shareholders and customers, we are pleased to present our company's Annual Report for the fiscal year ended March 31, 1999.

Overall, business remained flat this term, continuing at much the same level as the preceding year. Signs of deflation also exacerbated the growing lack of confidence in the Japanese financial system, leading to further declines in capital investment and consumer spending. The net result of all this was a depression in Japan which according to many analysts was the worst since the end of the Second World War.

Conditions in Japan were further aggravated by the stagnation affecting most Asian economies, bringing about a drop in total SHI sales to ¥554.5 billion, down ¥2.3 billion from the previous fiscal year. Moreover, in spite of continued efforts to reduce expenses and develop more effective cost controls, the Company's ordinary profits were -¥2.1 billion, a decline of ¥10.6 billion from the previous year. Much of this decline can be attributed to intensified competition and a significant decrease in sales and profits in the mass-produced machinery and construction machinery sectors.

Losses this term came to ¥12.3 billion, with an overall profit decline of ¥16.9 billion from the previous year, primarily as a result of a general market collapse and the poor performance of the construction machinery business. To counter this, we are pushing through a package of management reform measures including reduction of fixed costs (personnel expenses, etc.) and dealer reorganization, integration and discontinuance.

During this past term, SHI also continued with its medium-term management plan called "CHALLENGE 98" which aimed at improving earning power through 1998. Though the plan has shown consistent results, the severe economic environment prevailing this past term prevented any further

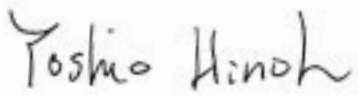
improvements in earning power for 1998. In view of the dramatic changes in the business climate, we have developed a new three-year management plan called "C21". Beginning in 1999, "C21" will introduce a new shareholder-focused management indicator — the "Return On Invested Capital (ROIC)". We will also be focusing our management strategies on the themes of "Change", "Innovation" and "Speed" based on the invested capital effective ratio and market competitiveness in an era of intensified global competition. This strategy involves focusing on human resource development, enhancing the competitiveness of core businesses and aiming for market leadership, and investing additional management resources in business sectors which are already competitive and number one in their markets and have the potential to grow further. As we begin the full-scale introduction of this consolidated system, financial, human resources and technical management will become more group-management oriented and greater efforts will be made to strengthen group competence and company-wide profits. Moreover, in order to achieve faster and more efficient decision-making with corporate governance, we are introducing a new "executive officers' system" in conjunction with the reform of the board of directors.

In other areas, we have implemented a corporate-scale "Y2K project" to ensure that all our key in-company systems and products in general are "Y2K compliant".

In the coming year, we are anticipating an end to the decline of the Japanese economy, but expect that decreasing public investment, reductions in surplus corporate equipment, and increasing unemployment will continue to keep the Japanese economy in the doldrums for some time to come. However, with the development of C21, we expect to maintain a profit level over our capital costs, while reforming and consolidating the structure of our company and boosting group management power.

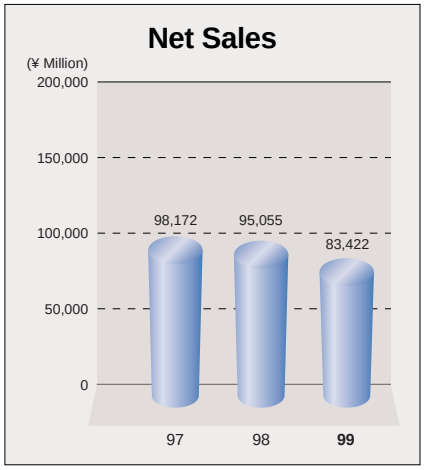
In conclusion, we would like to say once again how greatly we appreciate the support that all of you have given us over the years. We sincerely hope that you will continue to provide the same level of support in the years to come.

Mitoshi Ozawa,
Chairman of the Board



Yoshio Hinoh
President and CEO

Industrial Machinery



With investment in heavy machinery and infrastructure severely curtailed by the current economic difficulties in Japan and other Asian economies, we focused our sales efforts this term on those sectors where market trends were more positive. Nonetheless, total orders slumped to ¥71,624 million, down 31.2% from the previous year. Sales also declined, falling by 12.2% to ¥83,422 million, primarily because no large paper machine related items were delivered during fiscal 1998.

The most significant orders received in 1998 included an automated storage system for a beverage manufacturer, a large crane for a shipbuilding company, and a cyclotron for the Institute of Physical and Chemical Research (RIKEN). Sales included a logistics and handling system for a mail-order house and an automated storage system for a beverage manufacturer.

Typically, order bookings for iron and steel manufacturing machines are directly influenced by the amount of investment in new equipment in Japan. With Japan still struggling to recover from an extended recession, investment in this area has been declining. Overseas, the situation was more positive and we received a major order for continuous casting machines from Turkey. In spite of this, however, total orders were reduced. In rolling mills, new technologies such as a 4-roll mill for wire rods and an H-shifting reverse mill for steel bars are beginning to be applied in commercial production and we expect demand in this area to increase in the future. Another positive development took place in the metal plate processing sector with SHI-produced tension levellers and skin pass mills going into operation in China, Taiwan, Korea and Brazil. These plants will be processing a variety of materials including steel, aluminum and stainless sheets. Things

Large section Bar Mill Line for Aichi Steel Works, Ltd.

Milling cutter for 20" ERW mill for British Steel Tubes & Pipes

were gloomier in the forging machine sector with car manufacturing-related industries at a standstill in Asia as well as in Japan. However, with European car production on the rise, orders for auto forging press lines were received from Italy and Germany and these products are now being manufactured.

In the quantum equipment sector, SHI's leading expertise in the cyclotron field resulted in an order for a large ring cyclotron from the Japanese Physical and Chemical Research Institute. The cyclotron will be used at the Institute's "RI beam factory" for the study of unknown radioisotopes.

With the number of large-scale research projects in Japan expected to rise, we are confident that demand for our cyclotron technology will increase in the future. However, because demand in this area varies from year to year it is not sufficient to sustain a profitable business on a continuous basis. For this reason, we are shifting the focus of our marketing from research facilities to general industry. Cyclotron technology is particularly

useful in the medical field where it is applied in a variety of diagnostic and therapeutic systems including a proton irradiation system for the treatment of cancer and PET diagnostic systems.

High performance is crucial in the field of material handling equipment and logistics & handling systems, and SHI's reputation for superior products continues to serve us well. Among the material handling equipment delivered this year were automated gantry cranes featuring sophisticated control functions and bucket elevator type continuous ship unloaders. We also delivered several RTGs to Southeast Asia, which contributed further to our results. Logistics & handling systems delivered this year included a number of large-scale systems such as paper roll handling equipment for paper and printing industries and an automated storage system for the beverage industry. In addition to conventional sorting systems, we received an order for a large-scale system using a new type of hanger sorter called a "space sorter". Newly developed products such as this can be expected to provide a powerful impetus to sales growth in the future. Order bookings also rose for parking systems, thanks to increased demand for our GPS series which combines puzzle system technology with a high-speed lift and high-speed bogie. With its ability to handle 60 or more cars, this system is expected to be increasingly popular. Another item that remains popular is our moving sidewalk system for which regular orders are received from air terminals and artificial ski slopes.

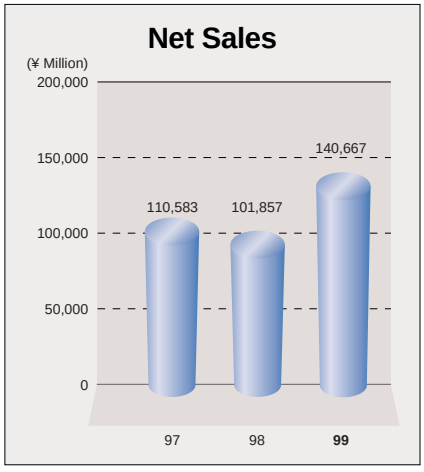
Automated storage & retrieval system

Paper machine for Hokuetsu Paper Mills, Ltd.

With many recently delivered paper machines going into operation this year at Hokuetsu Paper Mills, Ltd. and elsewhere, demand in this area seems to be satiated. Given that there are few signs of large-scale capital investment because of the recession, the order of a paper machine from Takasago Paper Mfg. Co., Ltd. was a bright spot in an otherwise slow year.

In the machine tool industry there is growing emphasis on multi-function and eco-friendly features in addition to high-speed, unmanned and high-precision features. With years of experience at the cutting edge of this industry, SHI has been able to remain successful in spite of the difficult economic climate. As a result, order bookings were favorable for large grinders such as a super-precision double-housing planing grinder for semiconductor manufacturing equipment related parts.

Ship, Steel Structure & Precision Products



Despite slumps in the marine transportation and shipbuilding markets brought on by surplus shipbuilding facilities and slowdowns in many Asian economies, the orders for ships were up over the previous year. Unfortunately, a decline in bridge-related orders brought total order bookings in this segment down slightly from the previous year to ¥115,561 million. Sales, on the other hand, were up by 38.1%, increasing to ¥140,667 million with 13 ships delivered.

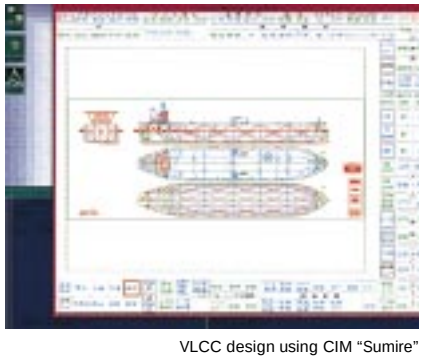
The upswing in the shipbuilding industry was driven largely by increased replacement demand for VLCCs and other types of vessels. However, with increased competition from Korea and the depressed Asian economy combining to reduce demand for seaborne trade, ship prices remained stagnant. At the same time, the Japanese yen surged in value during the second half of the year, negatively impacting the order booking environment. During this period, our merchant vessel sector completed a VLCC and 10 Panamax-type bulk carriers and plans to continue building bulk carriers in 1999 as well.

The government and public agency ship sector completed a naval ship and a patrol vessel and received an order for a training support ship. Our CIM shipbuilding system (Sumire) went into full-scale operation and related developments are proceeding in this area. In cooperation with other organizations, we are also participating in the Ministry of Transport/ Technological Research Association's large-scale Mega-Float project. "Mega-Float Phase 2" was launched this term and will continue for three years. This project involves construction of a 1000-meter-long floating air terminal model that will be used to test the feasibility of aircraft landing, takeoff, and other air terminal related functions.

"MIURA" patrol vessel

In the bridges and water gate

"OSPREY" VLCC

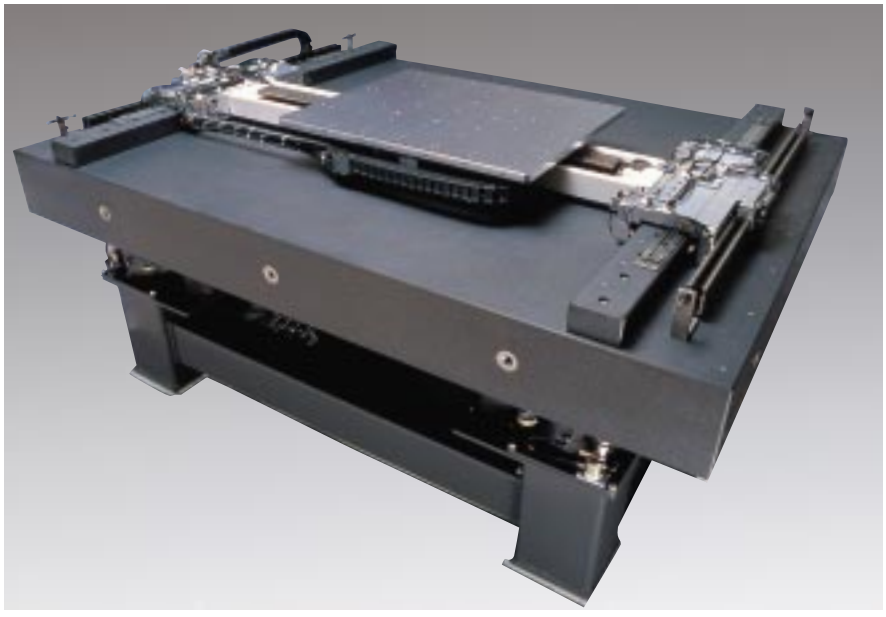


VLCC design using CIM "Sumire"

Kurushima Kaikyo Bridge

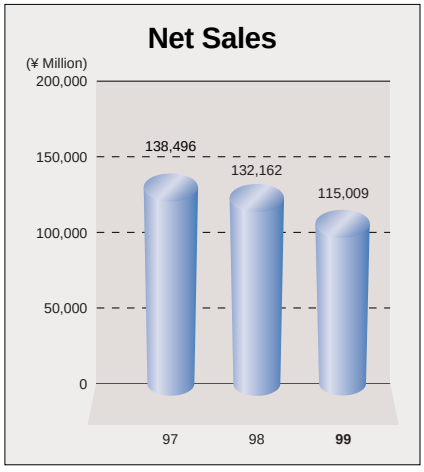
sectors, SHI has undertaken a major new technical R&D program aimed at developing new structures, design methods and construction technology to respond to increasing demands for rationalization, longevity technology and enhanced aseismatic structure. For the Kurushima Kaikyo Bridge which opened in April 1999, we manufactured and installed the Kurushima Kaikyo Dai-ni Bridge's stiffening girder. In the reactor field, we continued shipping coke drums to the North, Central and South American markets and introduced an NC cutting machine to our Toyo Works plant to ensure greater precision in the external dimensions of parts and in overall assembling quality. At the same time, we intend to shorten the lead time to meet the demand for shorter delivery time.

Our XY stage features precision control based on the original low-center-of-gravity structure and disturbance observer control, as well as use of a linear motor drive. The accuracy of the ultra precision surface stage has been further enhanced with a piezoelectrically driven five-axis motion control function. We intend to make the stroke longer for a large surface stage and shorten the positioning time for a high-speed stage. The efficiency of the linear motor has been improved by 1.5 times over conventional systems, making it possible to reduce heat generation. As for cryogenic equipment, our unique technology has enabled the 4 Kelvin Gifford McMahon cryocoolers to dominate so-called "high-technology" applications such as superconducting magnets for medical and research purposes, superconducting property measurement equipment and cryopumps for semiconductor production.



Large surface XY stage

Mass-Produced Machinery



Both orders and sales for plastics processing machines remained at about the same level as the previous year. However, both orders and sales for variators and laser systems decreased due to declining investment in private facilities. As a result, the total order bookings of this segment fell to ¥111,050 million, a decrease of 10.2% over the previous year while sales totaled ¥115,009 million, a decrease of 13% over the previous year.

In the power transmission and electrical equipment sector, SHI was forced to cope in an increasingly competitive environment that demanded a fast response to changing market structures and customer requirements. We now have 135 sales offices and 35 manufacturing plants in over 50 countries worldwide. Under the slogan “The Available Solution”, we are redefining our model strategy to optimize the entire product lineup and ensure that the best and most reliable products are available for each market.

Based on this strategy, we have undertaken to expand the worldwide market for our Cyclo® speed reducer 4000# series and are developing speed reducers exclusively for escalators and cranes — one of our most important markets. In addition, we have begun to manufacture a planetary accelerator exclusively for wind power generation and are actively strengthening the lineup of inverters and controllers by function.

Cyclo® speed reducer

SF-320 and HF-320 inverters

By speeding up such strategic developments, we intend to outpace our competition and establish a reputation as “The Best in the Market”.

One aspect of this strategy was the recent establishment of Sumitomo (SHI) Plastics Machinery Mfg. (USA), LLC whose goal is to expand the market for our injection molding machines throughout the United States. With our new U.S. factory starting mass-production in December of 1998, we expect to see stable sales growth in the U.S. Overseas growth is critical since domestic demand

Complete view of the factory operated by Sumitomo (SHI) Plastics Machinery Mfg. (USA), LLC

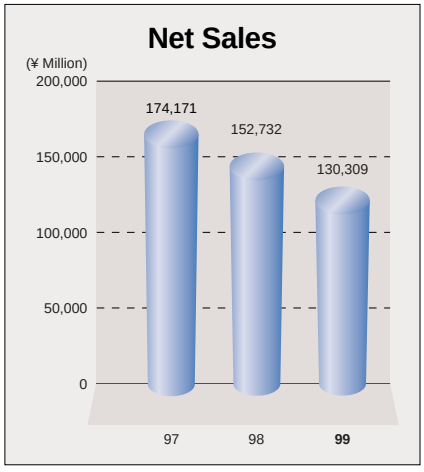
SE280S injection molding machine

dropped by about 25% over the previous year. In the second half of the year, all-electric injection molding machines accounted for about 30% of the molding machines sold by each molding machine manufacturer. In the hydraulic equipment sector, falling prices and increasing differentiation are also heightening competition. To maintain our competitiveness, we developed the SE-S series all-electric injection molding machines featuring a built-in Direct-Drive mechanism. We've also revamped our SH-A series multi-purpose hydraulic injection molding machines and are now marketing them as the SH-C series. Finally, despite the difficulties facing the semiconductor industry, we were buoyed by the delivery of the F1 semiconductor encapsulation auto molding system to a leading semiconductor manufacturer and expect sales in this area to grow in the future.

In the laser system sector, deliveries of the top-of-the-line MW4000 high-output YAG laser continued. Customer interest has been especially heightened by the fact that this system enables manufacturers to perform a level of processing previously not possible. Newly introduced this term was the IMPACT laser, the successor to the "LAVIA 600TW". With a processing speed of 1000 holes/sec., the "LAVIA 1000TW" laser via drill machine is used for full-scale PWB processing in mass production. We also developed the "LAVIA UV2000" which uses a UV laser and XY table with linear motor drive to provide high-speed, high-precision and low-noise processing. Because it can offer high-quality via processing with a small hole diameter, this system makes it possible to perform through-hole processing on a PCB simply by changing the parameters.

LAVIA UV2000

Construction Machinery



With the economy in recession and public investment at a standstill, demand for construction machinery in Japan and Asia fell steeply. As a result, bookings were down to ¥126,634 million. Sales also dropped to ¥130 billion, down 14.7% from the previous year.

To adapt to the domestic economy's prolonged recession and the sharp decrease in demand for construction machinery in Asia triggered by the currency crisis, we implemented several globally-oriented measures to restructure our construction machinery business in 1998. These included:

1. The previous functionally organized system of Distribution, Production and Administration was reorganized into three independent operating business units—the Excavators Business Division, Cranes Business Division and Road Machinery Business Division.
2. The multi-tiered distribution network in place in the domestic market was reorganized into 7 regionally based distribution companies.

"SC 650-S" crane


"HA60W-3" asphalt finisher

3. The Niihama Works was closed and crane manufacturing was consolidated at the Nagoya Works.
4. Increased emphasis was placed on development of our business in the global marketplace by forming an alliance with Case Corporation in the United States for excavators and strengthening our ties with Link-Belt Construction Equipment Company (U.S. subsidiary of Sumitomo) for cranes.
5. Operations were streamlined by adjusting the headcount by 400 and by curtailing expenses through

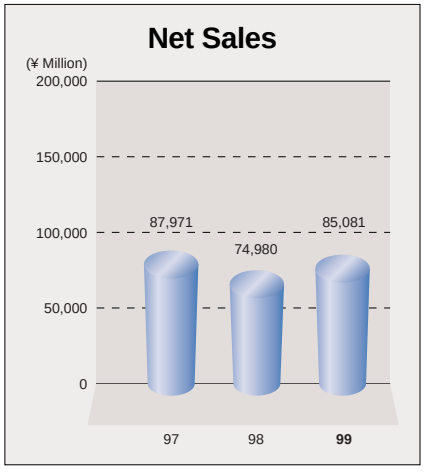
factory integration, debt reduction, integration of distribution channels, and reduction of fixed costs.

We expect that these measures, together with the introduction of new products, will produce a return to profitability for our construction business operations in 1999.

In the area of product development, we are working hard to develop new models and an expanded product line to best match the needs of the market, putting more emphasis on safety and environmentally-friendly considerations. In the excavator market, where our highly reputed PAX series has long been a mainstay, we expanded our product offerings with the addition of the Pipe Clam Series of vertical deep digging excavators to meet demand in subway construction projects and other excavation applications. We've also taken steps to improve our cranes by introducing advanced technology to ensure longer durability under the most stringent operating conditions, as well as to improve workability and increase drum speed. To strengthen our position in the road machines field, we introduced two new asphalt finishers and two new tire rollers to the market last year. The new HA60W-3 and HA60C-3 asphalt finishers are equipped with devices that allow more efficient screed overhang and storing, while emission control and noise control meet the toughest regulatory standards. Similarly, the new HN200W and HN200WT tire rollers feature improved emission control and a low-noise design, as well as ensuring more safety with better rear and front visibility.

"SH200" excavator

Environmental Systems, Plants & Others



The major orders this term were for an independent power producer (IPP) for a cement manufacturer and a night soil treatment plant for a local municipality. Overall, orders for large items fell to ¥75,746 million, a decline of 27.6% from the previous year. Total sales, on the other hand, increased as a result of the completion of a large municipal solid waste incineration plant for Akashi Clean Center and a night soil treatment plant. Total sales for this term were up 13.5% over the previous year, an increase of ¥85,081 million.

Sanei industrial incineration plant

SHI is a leader in the development of technology to reduce environmental damage from emissions and industrial waste. One of the main features of our chemical processing and environmental systems is that they are designed to prevent the emission of dioxin into the air, as well as into the soil and water.

We have developed new facilities which use ozone and ultraviolet irradiation to reduce the dioxin concentration in leachate to less than 0.1 pg-TEQ/m^{3}L. In addition, to meet industry demand for advanced waste water treatment technology, we have developed a sophisticated new technology which combines biological treatment and membrane separation to produce safe and reusable water. In the field of industrial waste treatment, we have delivered rotary kiln systems which can incinerate and melt industrial waste for reducing its volume as harmless slag.

Reducing the impact of treatment facilities on the environment also extends to energy usage. Our energy-saving system (Sumi sludge system) which combines biological denitrification treatment and coagulation treatment is now being applied at a high-load treatment facility in Kakegawa-shi. We have also completed a compost system in Tottori-

Akashi Clean Center

Takenogawa night soil treatment plant

shi on a grant from the Ministry of Health and Welfare and Ministry of Agriculture, Forestry and Fisheries. This system performs primary and secondary fermentation on excess sludge produced by night soil treatment and agriculture colony wastewater treatment.

Sumiju Environment Engineering, Inc., which is responsible for the operation and maintenance of environmental facilities, is currently entrusted with the operation and maintenance of environmental facilities at more than 80 locations throughout Japan. Our labor-saving Sumi Cutter, a solid waste grinding machine for sewage that solves blockage problems in pumps and other machines in sewage treatment plants and pumping station facilities, boasts an excellent market share in excess of 60%.

In recent years, minimizing the environmental impact of the pulp and paper industry has become an important concern around the world. In cooperation with Ahlstrom Sumiju K.K., we delivered an elemental-chlorine-free (ECF) bleaching process which uses chlorine dioxide to Hokuetsu Paper Mills, Ltd.—our first delivery in Japan of a full-scale system of this kind. Since this process dramatically reduces the amount of AOXs (Absorbable Organic Halides) produced, we expect demand for the system will be very high. We also delivered an eco-friendly pulp manufacturing plant incorporating the world's newest continuous pulp cooking system to Oji Paper Co., Ltd.

This term we received an order for a coal-fired power plant from the Taiheiyou Cement Corporation—our first order from an IPP. This will be the first circulating fluidized bed boiler (CFB) used by an IPP in Japan. SHI's CFB is manufactured by Foster Wheeler KK, a subsidiary of Foster Wheeler Energy International, Inc.

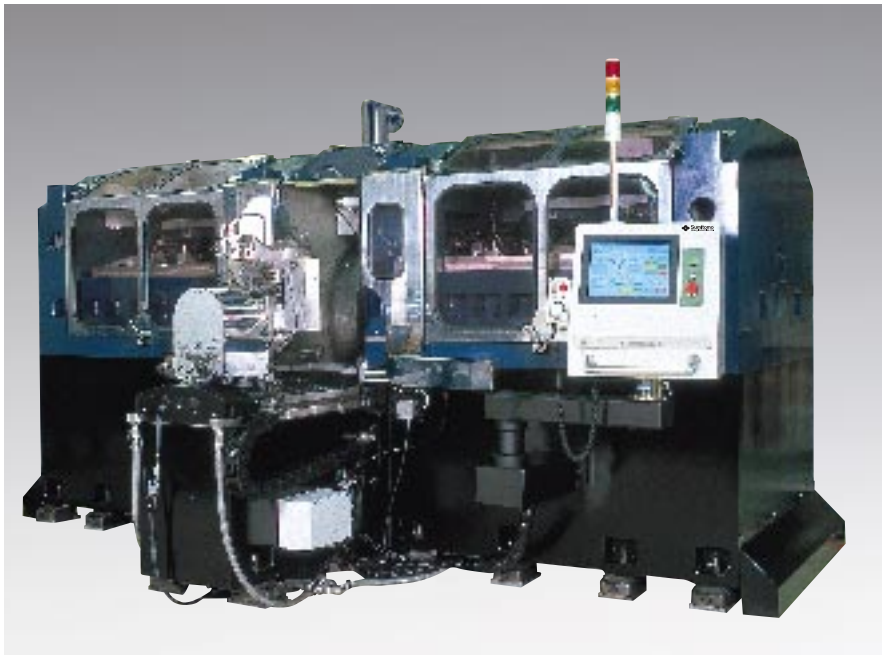
Another major development this year was the successful development of a divided wall column type continuous distillation system—the "column-in-column™" system. An industry-first in Japan, this distillation system was developed in cooperation with Kyowa Yuka Co., Ltd. The system is based on the petlyuk principle and received the Technical Award in the distillation field from the Japanese Society of Separation Process Engineers. In comparison with conventional systems which distill various components in separate distillation columns, this system realizes energy savings of 30%, as well as a 30% reduction in capital expenditures.

In the food processing field, Izumi Food Machinery Co., Ltd. suffered a decrease in order bookings for plants after the boom in '97. However, orders for processing machines and equipment such as the "aseprizer™" were brisk and orders for the multi-function extractor remained constant thanks to the high level of productivity-enhancing functionality. Our newly developed pasteurizing equipment, the "hi-cera-joule heater™", which introduces self-generated Joule heat into foodstuffs, is also attracting a lot of industry interest for its application to bean paste, fruit with syrup, and other foods which cannot be satisfactorily pasteurized with other methods.

Oji Paper Co., Ltd. pulp plant in Yonago

Research & Development

Research and development is the key to SHI's continued success, providing the foundation for the innovative and competitive products we need to build market share and grow our business. At our Technology Center's Comprehensive Technical Laboratory established in April 1994, we are moving ahead with R&D in new businesses, existing products, basic technology and next-generation technology. Working hand in hand with the Corporate Development Department, the Technology Center is developing the products that our customers want and need.



Ultra-precision double-disc grinding machine

Cryogenic argon aerosol cleaning system

Cryogenic argon aerosol cleaning system

Our dry wafer cleaning system using an argon aerosol was recently introduced to the market. In the developed cryogenic argon aerosol cleaning system, pre-cooled argon is injected into the vacuum chamber to form an argon aerosol, which is then blown onto a wafer to clean it. The argon aerosol collides with particulate contaminants on the wafer and is purged out of the system together with the contaminants. Since the argon aerosol evaporates and disappears immediately from the wafer surface, the drying step necessary in the wet process is not required. Adopting a patented accelerator nozzle which accelerates the argon aerosol, our system dislodges contaminants very efficiently, even fine particles smaller than 0.05 µm.

This dry cleaning system is very useful to improve yield in the manufacture of advanced microchips. The process is non-hazardous and very friendly on the environment, as only argon and nitrogen are used. This dry process reduces cost of ownership when compared with the conventional wet process, as no DI water, chemicals or materials that can wear out are used.

Ultra-precision double-disc grinding machine for super-large diameter silicon wafers

In cooperation with Super Silicon Crystal Research Institute Corp., we developed an ultra-precision double-

disc grinding machine for super-large diameter silicon wafers. Capable of simultaneously processing double sides of a super-large silicon wafer with a diameter up to 400 mm, this machine offers a very high degree of flatness and is part of our ongoing effort to achieve micronization and reduce the number of processes used in ductile mode grinding, with a nano-technology-equipped device as our final goal.

With this new machine, conventional lapping and etching processes are eliminated before the final polishing, reducing the total number of processes, increasing productivity and reducing costs.

Cryocooled superconducting magnet for 300-mm single crystal growing process

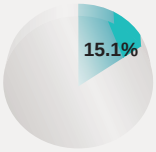
The Magnetic Field Applied Czochralski Method (MCZ) is now available for application in the 300-mm silicon single crystal growing process. We have developed a cryocooled superconducting magnet with a cusp magnetic configuration for use as an MCZ single crystal growing device. The superconducting magnet has a room temperature bore of 1,600 mm and generates a magnetic field of 1,200 Gauss at a diameter of 36 inches. The outer diameter, height and weight of the magnet are 2,300 mm, 1,030 mm and 5,800 kg, respectively. The leakage field is below 100 Gauss at a position 200 mm away from the magnet. The magnet is cooled without liquid helium by two 4K-GM cryocoolers. As SHI possesses all the key technologies required to produce a cryocooled superconducting magnet —such as superconducting coils, oxide superconducting current leads, 4K-GM cryocoolers and cryostats— we are in a position to optimize this magnet for MCZ applications. Moreover, since our 4K-GM cryocooler units are designed so that they can be detached at cryogenic temperatures, the magnet does not need to be warmed up for cryocooler maintenance and maintenance operation time can be reduced. Measured initial cooling time and sweep time up to the operating magnetic field were 150 hours and 25 minutes, respectively. The magnet was successfully operated on a continuous basis for four days at 1,200 Gauss, confirming that it is suitable for application in the MCZ process. Performance confirmation tests have now been completed and the magnet will soon be installed at the customer's premises. It is scheduled to be applied to a 300-mm MCZ device in the near future.

Cryocooled superconducting magnet

OVERVIEW OF SEGMENTS

(As of March 31, 1999)

Industrial Machinery



	(million)
1999	**¥ 83,422**
1998	¥ 95,055

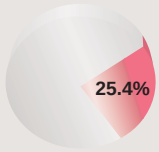
Main Products

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

Major Units

- Shin Nippon Machinery Co., Ltd.
- Nihon Spindle Mfg. Co., Ltd.
- Sumiju Engineering Services, Ltd.
- Sumiju Machinery & Engineering Co., Ltd.
- Sumiju Accelerator Service, Ltd.
- SHI Machinery Service Hong Kong, Ltd.

Ship, Steel Structure & Precision Products



	(million)
1999	**¥ 140,667**
1998	¥ 101,857

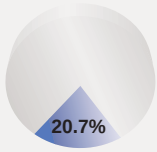
Main Products

- Ships
- Offshore Steel Structures
- Bridge & Steel Structures
- Water Gates
- Shield Tunneling Machines
- Pressure Vessels
- Mixing Reactors
- Coke Oven Machines
- Precision Forgings & Castings
- Cryogenic Equipment
- XY Stages
- Defense Equipment
- Engines for Ships

Major Units

- Sumiju Steel Construction & Engineering Co., Ltd.
- Marine United, Inc.
- Diesel United, Ltd.
- Oshima Shipbuilding Co., Ltd.
- Sumiju Techno Center Co., Ltd.
- Sumiju Yokosuka Kogyo Co., Ltd.
- Sumiju Tokki Service Co., Ltd.
- Sumiju Precision Casting Co., Ltd.
- SHI Tech-Max Co., Ltd.
- SHI Examination & Inspection, Ltd.

Mass-Produced Machinery



	(million)
1999	**¥ 115,009**
1998	¥ 132,162

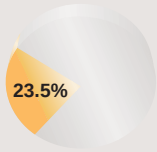
Main Products

- Power Transmission Equipment
- Electrical Equipment
- Plastic Injection Molding Machines
- Laser Processing Systems
- Forklift Trucks
- Hydraulic Motors

Major Units

- Sumitomo Eaton Nova Corporation
- Sumitomo Eaton Hydraulics Co., Ltd.
- Sumitomo Yale Co., Ltd.
- Sumitomo Machinery Corporation of America
- Sumitomo (SHI) Cyclo Drive Europe, Ltd.
- Sumitomo (SHI) Cyclo Drive Asia Pacific Pte., Ltd.
- Sumitomo Heavy Industries PTC Sales Co., Ltd.
- Sumitomo Plastics Machinery Inc. of America
- S.H.I. Plastics Machinery (S) Pte., Ltd.
- SHI Plastics Machinery, Ltd.
- Sumitomo Heavy Industries Foundry & Forging Co., Ltd.
- Sumiju Technical Engineering Co., Ltd.
- Lumonics Pacific Co., Ltd.

Construction Machinery



	(million)
1999	**¥ 130,309**
1998	¥ 152,732

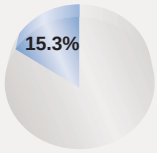
Main Products

- Construction Machinery

Major Units

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

Environmental Systems, Plants & Others



	(million)
1999	**¥ 85,081**
1998	¥ 74,980

Main Products

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

Major Units

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

Consolidated Balance Sheets

March 31, 1999 and 1998

ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	**1999**
Current assets:			
Cash and time deposits	**¥ 57,410**	¥ 35,403	**$ 474,463**
Marketable securities (Notes 3 and 10)	**32,367**	39,396	**267,496**
Trade receivables:			
Notes receivable (Note 3)	**102,307**	119,117	**845,512**
Accounts receivable	**143,331**	146,000	**1,184,554**
Allowance for doubtful accounts	**(1,916)**	(2,405)	**(15,835)**
Inventories (Note 2)	**169,035**	200,256	**1,396,983**
Deferred income taxes	**8,303**	—	**68,620**
Prepaid expenses and other current assets	**31,852**	28,792	**263,240**
Total current assets	**542,689**	566,559	**4,485,033**
Property, plant and equipment (Note 3):			
Land	**27,572**	27,115	**227,868**
Buildings and yards	**125,294**	124,527	**1,035,488**
Machinery and equipment	**167,923**	173,869	**1,387,793**
Construction in progress	**4,696**	2,802	**38,810**
	325,485	328,313	**2,689,959**
Less accumulated depreciation	**200,728**	199,556	**1,658,909**
	124,757	128,757	**1,031,050**
Investments, long-term loans and other assets:			
Unconsolidated subsidiaries and affiliated companies (Note 10)	**25,748**	25,379	**212,793**
Other long-term loans receivable and investments	**7,528**	7,573	**62,215**
Other assets	**22,161**	18,945	**183,149**
Allowance for doubtful accounts	**(4,065)**	(2,447)	**(33,595)**
	51,372	49,450	**424,562**
Foreign currency translation adjustment	**4,855**	3,251	**40,124**
	¥ 723,673	¥ 748,017	**$ 5,980,769**

LIABILITIES AND STOCKHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	**1999**
Current liabilities:			
Bank loans (Note 3)	**¥ 148,037**	¥ 147,357	**$ 1,223,446**
Long-term debt due within one year (Note 3)	**29,075**	54,666	**240,289**
Commercial paper	**46,930**	20,000	**387,851**
Trade payables:			
Notes payable	**56,467**	63,115	**466,669**
Accounts payable	**76,197**	81,808	**629,727**
Advance payments received on contracts	**67,539**	95,325	**558,174**
Accrued expenses and other current liabilities	**53,519**	52,632	**442,307**
Total current liabilities	**477,764**	514,903	**3,948,463**
Long-term debt due after one year (Note 3)	**163,157**	143,900	**1,348,405**
Employees' severance and retirement benefits (Note 4)	**3,455**	3,172	**28,554**
Other long-term liabilities	**1,425**	1,347	**11,777**
Minority interests	**4,897**	5,786	**40,471**
Contingent liabilities (Note 7)			
Stockholders' equity (Note 6):			
Common stock, par value ¥50 per share:			
Authorized — 1,200,000 thousand shares			
Issued — 588,697 thousand shares	**30,872**	30,872	**255,140**
Additional paid-in capital	**26,752**	26,752	**221,091**
Retained earnings	**15,352**	21,286	**126,876**
	72,976	78,910	**603,107**
Less treasury stock at cost, 2,395 shares (2,726 shares in 1998)	**1**	1	**8**
Total stockholders' equity	**72,975**	78,909	**603,099**
	¥ 723,673	¥ 748,017	**$ 5,980,769**

See accompanying notes.

Consolidated Statements of Operations

Years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	**1999**
Net sales (Note 8)	**¥ 554,488**	¥ 556,786	**$ 4,582,546**
Costs and expenses (Note 8):			
Cost of sales	**464,286**	460,254	**3,837,075**
Selling, general and administrative expenses	**80,572**	75,743	**665,884**
	544,858	535,997	**4,502,959**
Operating income (Note 8)	**9,630**	20,789	**79,587**
Other income (expenses):			
Interest and dividend income	**3,586**	2,470	**29,636**
Interest expense	**(8,123)**	(8,455)	**(67,132)**
Loss on devaluation of securities	**(2,585)**	(4,123)	**(21,364)**
Gain on sale of securities–net	**1,589**	3,215	**13,132**
Gain on sale of property, plant and equipment-net	**859**	415	**7,100**
Foreign currency exchange gains (losses), net	**(1,556)**	540	**(12,860)**
Equity in earnings (losses) of affiliated companies	**(1,109)**	1,595	**(9,165)**
Other-net	**(8,557)**	(2,070)	**(70,719)**
	(15,896)	(6,413)	**(131,372)**
Income (loss) before income taxes	**(6,266)**	14,376	**(51,785)**
Income taxes (Note 5):			
Current	**9,582**	9,666	**79,190**
Deferred	**(3,035)**	—	**(25,083)**
Total	**6,547**	9,666	**54,107**
Minority interests in consolidated subsidiaries	**515**	(97)	**4,256**
Net income (loss)	**(12,298)**	4,613	**(101,636)**

	Yen		U.S. dollars (Note 1)
	1999	1998	**1999**
Amounts per share of common stock:			
Net income (loss)	**¥ (20.88)**	¥ 7.83	**$ (0.17)**
Diluted net income	**—**	7.65	**—**
Cash dividends applicable to the year	**—**	3.00	**—**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

Years ended March 31, 1999 and 1998

	Millions of yen			
	Number of shares of common stock (thousand)	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1997	588,697	¥ 30,872	¥ 26,752	¥ 18,500
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	(12)
Net income	—	—	—	4,613
Cash dividends paid (¥3 per share)	—	—	—	(1,766)
Bonuses to directors and statutory auditors	—	—	—	(49)
Balance at March 31, 1998	588,697	30,872	26,752	21,286
Cumulative effect of adopting deferred income tax accounting	—	—	—	8,111
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	—	54
Net loss	—	—	—	(12,298)
Cash dividends paid (¥3 per share)	—	—	—	(1,766)
Bonuses to directors and statutory auditors	—	—	—	(35)
Balance at March 31, 1999	**588,697**	**¥ 30,872**	**¥ 26,752**	**¥ 15,352**

	Thousands of U.S. dollars (Note 1)		
	Common stock	Additional paid-in capital	Retained earnings
Balance at March 31, 1997	$ 255,140	$ 221,091	$ 152,893
Decrease due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	(99)
Net income	—	—	38,124
Cash dividends paid ($0.02 per share)	—	—	(14,595)
Bonuses to directors and statutory auditors	—	—	(405)
Balance at March 31, 1998	255,140	221,091	175,918
Cumulative effect of adopting deferred income tax accounting	—	—	67,033
Increase due to change in numbers of consolidated subsidiaries and companies accounted for by the equity method	—	—	446
Net loss	—	—	(101,636)
Cash dividends paid ($0.02 per share)	—	—	(14,595)
Bonuses to directors and statutory auditors	—	—	(290)
Balance at March 31, 1999	**$ 255,140**	**$ 221,091**	**$ 126,876**

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	**1999**
Cash flows from operating activities:			
Net income (loss)	**¥ (12,298)**	¥ 4,613	**$ (101,636)**
Adjustments to reconcile net loss (income) to net cash provided by operating activities:			
Depreciation	**14,076**	15,767	**116,331**
Provision for employees' severance and retirement benefits	**283**	254	**2,339**
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**1,109**	(1,595)	**9,165**
Decrease in minority interests	**(889)**	(5,972)	**(7,347)**
Bonuses to directors and statutory auditors	**(35)**	(49)	**(289)**
Changes in operating assets and liabilities:			
Decrease in notes and accounts receivable	**19,479**	15,144	**160,983**
Decrease (increase) in inventories	**31,221**	(35,874)	**258,025**
Increase (decrease) in notes accounts payable	**(11,548)**	3,493	**(95,438)**
Decrease (increase) in other current assets	**(11,363)**	3,158	**(93,909)**
Increase (decrease) in other current liabilities	**(18,735)**	4,984	**(154,835)**
Other-net	**48**	(3,407)	**397**
Net cash provided by operating activities	**11,348**	516	**93,786**
Cash flows from investing activities:			
Payments for purchases of property, plants and equipment	**(17,461)**	(15,966)	**(144,306)**
Proceeds from sale of property, plants and equipment	**3,807**	3,464	**31,463**
Payments for investment securities	**(3,356)**	(593)	**(27,736)**
Proceeds from sale of investment securities	**3,293**	3,279	**27,215**
Decrease in marketable securities	**7,029**	5,270	**58,091**
Decrease (increase) in long-term loans receivable and investments	**(2,362)**	348	**(19,521)**
Net cash used in investing activities	**(9,050)**	(4,198)	**(74,794)**
Cash flows from financing activities:			
Increase in long-term debt	**55,604**	56,935	**459,537**
Decrease in long-term debt	**(61,739)**	(54,482)	**(510,240)**
Increase (decrease) in bank-loans	**27,610**	(2,620)	**228,182**
Cash dividends paid	**(1,766)**	(1,766)	**(14,595)**
Net cash provided by (used in) financing activities	**19,709**	(1,933)	**162,884**
Net increase (decrease) in cash and time deposits	**22,007**	(5,615)	**181,876**
Cash and time deposits at beginning of year	**35,403**	41,018	**292,587**
Cash and time deposits at end of year	**¥ 57,410**	¥ 35,403	**$ 474,463**
Supplemental disclosures of cash flows information:			
Cash paid during the year for:			
Interest	**¥ 8,610**	¥ 8,315	**$ 71,157**
Income taxes	**21,144**	8,256	**174,744**

Notes to Consolidated Financial Statements

March 31, 1999 and 1998

1. Significant accounting policies

Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows have been prepared for the purpose of inclusion in the consolidated financial statements, although such statements are not customarily prepared in Japan and are not required to be filed with MOF.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 1999, which was ¥121 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Principles of consolidation

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

Investments in 20% - 50% owned significant affiliated companies are accounted for by the equity method.

The difference between costs and net assets acquired in subsidiaries and affiliated companies, consolidated or accounted for by the equity method, are deferred and amortized over 5 years so long as the amounts are significant. In case of amounts being insignificant, such amounts are charged or credited to income as incurred.

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, equity in earnings (losses) of affiliated companies is included in other income (expenses).

Prior year amounts, which were presented between income taxes and net income, have been reclassified to conform to the 1999 presentation.

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, amortization of difference between costs and net assets acquired is included in selling, general and administrative expenses. Prior year amounts, which were presented between income tax expense and net income, have been reclassified to conform to the 1999 presentation.

The effect of the change on segment information is explained in Note 8 (D).

Marketable and Investment Securities

Listed securities, other than securities of subsidiaries and affiliated companies, are valued at the lower of cost or market. Other securities are valued at cost. Cost is calculated based on the moving average method.

Commencing with the year ended March 31, 1999, the Company and its domestic subsidiaries record recoveries of write-downs of securities in accordance with a revision in the Corporation Tax Law. There was no effect on net income resulting from adopting this accounting policy.

Inventories

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

Property, plant and equipment and depreciation

Property, plant and equipment are carried at cost. Depreciation is computed primarily using the declining-balance method. In accordance with revisions of the Corporation Tax Law, buildings acquired after March 31, 1998 are depreciated using the straight-line method. The effect of this change was immaterial.

Also effective April 1, 1998, in accordance with revisions referred to above, the Company and its domestic subsidiaries shortened the estimated useful lives of buildings, excluding building fixtures. The effect of this change was immaterial.

Allowance for doubtful accounts

The Company and domestic consolidated subsidiaries provide for doubtful accounts principally at an estimated amount of probable bad debt plus the maximum amount permitted to be charged to income under Japanese tax regulations. Foreign consolidated subsidiaries provide for doubtful accounts at an estimated amount of probable bad debt.

Employees' severance and retirement benefits

The Company has a non-contributory funded pension plan covering all employees. In general, the plan provides for pension payments for a period of 15 years to employees leaving the Company after 20 or more years of service.

Under certain conditions, participants may elect to receive the current value of their vested benefits in a lump-sum distribution. If employees with one or more years, but less than 20 years, of service leave the Company, they receive a lump-sum distribution.

Prior service costs under the non-contributory funded pension plan are amortized over 15 years.

Employees of certain domestic and overseas consolidated subsidiaries are covered primarily by funded pension plans. Employees of other domestic consolidated subsidiaries are covered primarily by unfunded retirement benefit plans.

Foreign currency translation

Cash and current receivables and payables denominated in foreign currencies are translated at the exchange rate prevailing on balance sheet date. Other assets and liabilities denominated in foreign currencies are translated at the historical exchange rate.

Long-term debt with long-term forward exchange contracts is translated at the contracted forward rate. Unrealized exchange gains on forward exchange contracts are deferred and amortized over the periods of contracts.

Financial statements of overseas subsidiaries and affiliated companies are translated into Japanese yen at the exchange rate prevailing on the balance sheet date for all items except that intercompany transactions and balances are translated at the historical exchange rate. Translation differences resulting from translation of the financial statements of consolidated subsidiaries are deferred in the balance sheet and those of the companies accounted for by the equity method are included in retained earnings.

Sales

Sales are principally recognized on a delivery basis.

Through the years ended March 31, 1998, long-term contracts were recognized based on the completed-contract method.

Effective April 1, 1998, the Company and some of its subsidiaries changed the method of revenue recognition for long-term contracts with contract amounts not less than a certain amount from the completed-contract method to the percentage-of-completion method.

The effect of this change was to increase net sales for the year ended March 31, 1999 by ¥2,675 million ($22,107 thousand), operating income by ¥194 million ($1,603 thousand) and to decrease loss before income taxes by ¥194 million ($1,603 thousand).

The effect of the change on segment information is explained in Note 8 (D).

Selling, general and administrative expenses

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

Research and development

Research and development expenses are charged to income when incurred.

Income taxes

The Company and the Companies provided income taxes at the amounts currently payable through the year ended March 31, 1998.

Effective April 1, 1998, the Company and the Companies adopted a new accounting standard, which recognizes tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1998 is reflected as an adjustment of ¥8,111 million ($67,033 thousand) to the retained earnings brought forward from the previous year. Prior years' financial statements have not been restated.

The effect for the year ended March 31, 1999 was to decrease net loss by ¥3,035 million ($25,083 thousand) and to increase total assets and retained earnings by ¥11,851 million ($97,942 thousand) and ¥11,146 million ($92,116 thousand), respectively.

Bond issuance expense

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

Amounts per share

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

The diluted net income per share is calculated assuming the conversion of all dilutive convertible bonds at the time of their issuance.

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

Segment information

The Company and the Companies changed the business segments by dividing "mass-produced machinery" segment into "construction machinery" segment. The Company's domestic subsidiary, which conducted construction machinery business, carried out restructuring and integration of its own subsidiaries in the year ended March 31, 1999, and upon this occasion, the Company and the Companies decided to separate the construction machinery businesses from the mass-produced machinery segment to show the operating performance of the business more clearly. The effect of the change on segment information is explained in Note 8 (D).

Reclassifications

Certain prior year amounts have been reclassified to conform to 1999 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

2. Inventories

Inventories at March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Finished products and semi-finished products	**¥ 39,497**	¥ 48,045	**$ 326,421**
Work in process	**120,745**	142,395	**997,893**
Raw materials and supplies	**8,793**	9,816	**72,669**
	¥ 169,035	¥ 200,256	**$ 1,396,983**

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

Bank loans at March 31, 1999 and 1998 consisted of short-term notes, bearing interest principally at 0.6% and 1.2% per annum, respectively.
The Company and its consolidated subsidiaries have a yen domestic commercial paper program with a current maximum facility amount of ¥55,000 million ($454,545 thousand). The amount outstanding under this program is subject to variation from time to time. At March 31, 1999 and 1998, commercial paper principally bore an average annual interest rate of 0.79% and 1.03%, respectively.
Long-term debt at March 31, 1999 and 1998 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Euro-yen 3.4% notes due in June 1998	**—**	6,000	**—**
3.9% domestic bonds due in February 2004	**8,000**	8,000	**66,116**
3.0% domestic bonds due in January 2005	**3,000**	3,000	**24,793**
U.S. dollar variable rate demand industrial development revenue bonds due in January 2008	**904**	991	**7,471**
U.S. dollar variable rate demand industrial development revenue bonds due in May 2008	**603**	—	**4,984**
U.S. dollar variable rate demand industrial development revenue bonds due in January 2009	**723**	792	**5,975**
U.S. dollar variable rate demand industrial development revenue bonds due in September 2010	**241**	264	**1,992**
1.8% domestic mortgage bonds due in January 2000	**1,000**	1,000	**8,264**
1.9% domestic mortgage bonds due in February 2000	**500**	500	**4,132**
1.7% domestic mortgage bonds due in November 2005	**1,000**	—	**8,264**
Euro-yen floating rate notes due in September 2000	**7,500**	7,500	**61,983**
Euro-yen floating rate notes due in September 2001	**7,500**	7,500	**61,983**
Euro-yen convertible bonds due in July 2001	**10,000**	10,000	**82,645**
2.8% domestic bonds due in August 2001	**2,000**	2,000	**16,529**
U.S. dollar loans from banks due serially through November 2000 with interest ranging from 5.4% to 6.2% in 1999 and 6.1% to 13.5% in 1998	**5,341**	5,623	**44,141**
Loans principally from banks and insurance companies due serially through September 2014 with interest ranging from 1.6% to 7.9% in 1999 and 1.2% to 7.0% in 1998:			
Secured	**8,911**	8,928	**73,645**
Unsecured	**135,009**	136,468	**1,115,777**
	192,232	198,566	**1,588,694**
Less amount due within one year	**29,075**	54,666	**240,289**
Amount due after one year	**¥ 163,157**	¥ 143,900	**$ 1,348,405**

The annual maturities of long-term debt at March 31, 1999 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2000	¥29,075	$240,289
2001	51,610	426,529
2002	40,398	333,868
2003	23,163	191,430
2004	33,897	280,141
Thereafter	14,088	116,430

At March 31, 1999, assets pledged as collateral for bank loans, secured long-term loans from banks and insurance companies and domestic mortgage bonds were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes receivable	¥ 4,187	$ 34,603
Marketable equity securities at carrying value	6,983	57,711
Property, plant and equipment, at cost less accumulated depreciation	5,356	44,264
	¥16,526	$136,578

4. Employees' severance and retirement benefits

Unamortized prior service costs under the non-contributory funded pension plan, less related balance sheet accruals, amounted to ¥47,550 million ($392,975 thousand) at September 30, 1998, the most recent valuation date.

Total charges with respect to employees' severance and retirement benefits were ¥6,302 million ($52,083 thousand) in 1999 and ¥6,056 million ($50,050 thousand) in 1998.

5. Income taxes

The Company is subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 47% and 52% for the years ended March 31, 1999 and 1998, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rate for financial statement purposes for the year ended March 31, 1999:

Statutory tax rate	47.68%
Increase (decrease) in tax rates resulting from:	
Temporary differences from one of subsidiary's unrealized profit which exceeds its taxable income	(137.15)
Operating losses of subsidiaries not applying deferred income tax accounting	(17.35)
Effect of changing in normal statutory tax rate in Japan	(6.49)
Expenses not deductible for tax purposes	(4.36)
Per capita inhabitant tax	(2.50)
Others	15.69
Effective tax rate	(104.48)

Significant components of the Company and the Companies' deferred tax assets and liabilities as of March 31, 1999 were as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred Tax assets:		
Unrealized profit on tangible fixed assets	¥ 2,925	$ 24,174
Unrealized profit on inventories	2,331	19,265
Inventories	2,077	17,165
Operating loss carryforwards	1,623	13,413
Allowance for warranty	1,040	8,595
Marketable securities and investments	646	5,339
Others	4,350	35,950
Total deferred tax assets	14,992	123,901
Less-valuation allowance	(2,029)	(16,769)
Deferred tax assets-net	12,963	107,132
Deferred tax liabilities:		
Excess tax depreciation reserve	(633)	(5,231)
Special depreciation reserve	(582)	(4,810)
Others	(534)	(4,413)
Deferred tax liabilities	(1,749)	(14,454)
Net deferred tax assets	¥ 11,214	$ 92,678

6. Stockholders' equity

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

In accordance with the new disclosure requirements effective from the year ended March 31, 1999, legal reserve is included in retained earnings for 1999. Previously it was presented as a separate component of the stockholders' equity. The accompanying consolidated financial statements for the year ended March 31, 1998 have been reclassified to conform to the 1999 presentation.

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

At June 26, 1998 annual meeting, the Company's stockholders approved the change in the articles of incorporation of the Company, that the Company may acquire its own shares after June 26, 1998, upon resolution of the Board of Directors, within the maximum limit of (1) 58,000 thousand shares to retire such shares and to offset related purchase costs against retained earnings and (2) 82,000 thousand shares at less than ¥24,900 million ($205,785 thousand) to retire shares and to offset costs against additional paid-in capital.

7. Contingent liabilities

The Companies were contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥535 million ($4,421 thousand) at March 31, 1999. In addition, at the same date the Companies were contingently liable as guarantors of bank loans to unconsolidated subsidiaries and affiliated companies in the amount of ¥20,499 million ($169,413 thousand) (net of guarantees by co-guarantors).

8. Segment information

(A) The Companies' primary business activities include (1) industrial machinery, (2) ship, steel structure & other specialized equipment, (3) mass-produced machinery, (4) construction machinery and (5) environmental protection facilities, plants & others.
A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 1999 and 1998, and a summary of identifiable assets, depreciation expense and capital expenditures by segment of business activities for the years ended March 31, 1999 and 1998 were as follows:

	Millions of yen						
1999	Industrial machinery	Ship, steel structure & other specialized equipment	Mass-produced machinery	Construction machinery	Environmental protection facilities, plants & others	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	¥ 83,422	¥ 140,667	¥ 115,009	¥ 130,309	¥ 85,081	¥ —	¥ 554,488
Intersegment	276	569	602	62	1,314	(2,823)	—
Total	83,698	141,236	115,611	130,371	86,395	(2,823)	554,488
Costs and expenses	85,255	137,585	109,434	131,949	83,458	(2,823)	544,858
Operating income	¥ (1,557)	¥ 3,651	¥ 6,177	¥ (1,578)	¥ 2,937	¥ —	¥ 9,630
II Identifiable assets	¥ 104,229	¥ 117,048	¥ 130,620	¥ 221,666	¥ 103,048	¥ 47,062	¥ 723,673
Depreciation expense	1,756	3,493	4,470	3,629	823	—	14,171
Capital expenditures	1,590	3,243	4,782	6,120	1,269	—	17,004
1998							
I Sales and operating income							
Sales:							
Unaffiliated customers	¥ 95,055	¥ 101,857	¥ 132,162	¥ 152,732	¥ 74,980	¥ —	¥ 556,786
Intersegment	210	791	1,433	15	2,706	(5,155)	—
Total	95,265	102,648	133,595	152,747	77,686	(5,155)	556,786
Costs and expenses	95,082	99,670	119,391	150,673	76,336	(5,155)	535,997
Operating income	¥ 183	¥ 2,978	¥ 14,204	¥ 2,074	¥ 1,350	¥ —	¥ 20,789
II Identifiable assets	¥ 100,564	¥ 142,578	¥ 135,949	¥ 227,345	¥ 86,727	¥ 54,854	¥ 748,017
Depreciation expense	1,694	3,007	4,106	5,424	1,575	—	15,806
Capital expenditures	1,247	2,597	5,315	4,694	2,356	—	16,209

	Thousands of U.S. dollars						
1999	Industrial machinery	Ship, steel structure & other specialized equipment	Mass-produced machinery	Construction machinery	Environmental protection facilities, plants & others	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Unaffiliated customers	$ 689,438	$ 1,162,537	$ 950,488	$ 1,076,934	$ 703,149	$ —	$ 4,582,546
Intersegment	2,281	4,703	4,975	512	10,860	(23,331)	—
Total	691,719	1,167,240	955,463	1,077,446	714,009	(23,331)	4,582,546
Costs and expenses	704,587	1,137,066	904,413	1,090,488	689,736	(23,331)	4,502,959
Operating income	$ (12,868)	$ 30,174	$ 51,050	$ (13,042)	$ 24,273	$ —	$ 79,587
II Identifiable assets	$ 861,397	$ 967,339	$ 1,079,505	$ 1,831,950	$ 851,636	$ 388,942	$ 5,980,769
Depreciation expense	14,512	28,868	36,942	29,992	6,802	—	117,116
Capital expenditures	13,140	26,802	39,521	50,578	10,488	—	140,529

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

(B) Information by geographic area for the year ended March 31, 1999 and 1998 was as follows:

	Millions of yen				
1999	Japan	North America	Other areas	Elimination and / or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	¥ 484,090	¥ 61,588	¥ 8,810	¥ —	¥ 554,488
Intersegment	21,848	512	862	(23,222)	—
Total	505,938	62,100	9,672	(23,222)	554,488
Costs and expenses	500,332	56,571	11,177	(23,222)	544,858
Operating income	¥ 5,606	¥ 5,529	¥ (1,505)	¥ —	¥ 9,630
II Identifiable assets	¥ 614,841	¥ 47,413	11,921	¥ 49,498	¥ 723,673
1998					
I Sales and operating income					
Sales:					
Unaffiliated customers	¥ 482,641	¥ 65,253	¥ 8,892	¥ —	¥ 556,786
Intersegment	28,239	714	1,173	(30,126)	—
Total	510,880	65,967	10,065	(30,126)	556,786
Costs and expenses	494,977	61,026	10,120	(30,126)	535,997
Operating income	¥ 15,903	¥ 4,941	¥ (55)	¥ —	¥ 20,789
II Identifiable assets	¥ 641,273	¥ 56,177	¥ 11,391	¥ 39,176	¥ 748,017

	Thousands of U.S. dollars				
1999	Japan	North America	Other areas	Elimination and / or corporate	Consolidated
I Sales and operating income					
Sales:					
Unaffiliated customers	$ 4,000,744	$ 508,992	$ 72,810	$ —	$ 4,582,546
Intersegment	180,562	4,231	7,124	(191,917)	—
Total	4,181,306	513,223	79,934	(191,917)	4,582,546
Costs and expenses	4,134,975	467,529	92,372	(191,917)	4,502,959
Operating income	$ 46,331	$ 45,694	$ (12,438)	$ —	$ 79,587
II Identifiable assets	$ 5,081,331	$ 391,843	$ 98,521	$ 409,074	$ 5,980,769

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

(C) Overseas sales of the Companies for the years ended March 31, 1999 and 1998 were as follows:

1999	Millions of yen			
	To North America	To Asia	To other areas	Total
Overseas Sales	¥ 78,234	¥ 50,225	¥ 49,307	¥ 177,766
	14.1 (%)	9.0 (%)	8.9 (%)	32.0 (%)
	Thousands of U.S. dollars			
Overseas Sales	$ 646,562	$ 415,082	$ 407,496	$ 1,469,140

Other areas include the United Kingdom, Germany, Singapore and so on.

Overseas sales of the Companies for the year ended March 31, 1998 were ¥159,592 million ($1,318,942 thousand) and accounted for 28.7% of consolidated net sales. Overseas sales consist of export sales by the Company and its domestic consolidated subsidiaries as well as sales by overseas consolidated subsidiaries.

(D) The effects of the change on segment information

As explained in Note 1, the Company and some of its subsidiaries changed the method of recognizing revenue on certain long-term contracts. The effects of the change on the industrial machinery segment are to increase net sales by ¥1,267 million ($10,471 thousand) and operating income by ¥57 million ($471 thousand), and those on the environmental protection facilities, plants & others segment are to increase net sales by ¥1,409 million ($11,645 thousand) and operating income by ¥137 million ($1,132 thousand), respectively.

As explained in Note 1, the Company and some of its subsidiaries changed the method of recognizing revenue on certain long-term contracts. The effects of the change on Japan segment are to increase net sales by ¥2,675 million ($22,107 thousand) and operating income by ¥194 million ($1,603 thousand).

As explained in Note 1, the Company changed the location of disclosing amortization of differences between costs and net assets acquired on the consolidated statement of operations. The effect of the change on the construction machinery segment is to decrease operating income by ¥225 million ($1,860 thousand).

As explained in Note 1, the Company changed the location of disclosing amortization of differences between costs and net assets acquired on the consolidated statement of operations. The effect of the change on Japan segment is to decrease operating income by ¥225 million ($1,860 thousand).

As explained in Note 1, the Company created a new segment, the construction machinery segment, which was previously included in the mass-produced machinery segment. The effects of the change on the mass-produced machinery segment are to decrease net sales by ¥130,309 million ($1,076,934 thousand), to increase operating income by ¥1,578 million ($13,042 thousand), and those on the construction machinery segment are to increase net sales by ¥130,309 million ($1,076,934 thousand), to decrease operating income by ¥1,578 million ($13,042 thousand), respectively.

9. Information for certain leases

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 1999 was as follows:

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥ 9,172	¥ 5,079	¥ 4,093
Others	7,351	4,637	2,714
Total	16,523	9,716	6,807

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	$ 75,802	$ 41,975	$ 33,826
Others	60,752	38,322	22,430
Total	136,554	80,297	56,256

Total expenses for finance leases which do not transfer ownership to lessees amounted to ¥3,387 million ($27,992 thousand) and ¥4,470 million ($36,942 thousand) for the years ended March 31, 1999 and 1998, respectively.

Future lease payments as of March 31, 1999 and 1998, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Due within one year	**¥ 2,630**	¥ 4,354	**$ 21,735**
Due after one year	**4,177**	8,306	**34,521**
Total	**¥ 6,807**	¥ 12,660	**$ 56,256**

10. Market value information for securities of the Company

Book value, market value and net unrealized gains of quoted securities of the Company at March 31, 1999 and 1998, were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Book value:			
Current	**¥ 28,854**	¥ 37,396	**$ 238,463**
Non-current	**2,811**	2,811	**23,231**
	31,665	40,207	**261,694**
Market value:			
Current	**45,789**	57,496	**378,421**
Non-current	**3,622**	4,017	**29,934**
	49,411	61,513	**408,355**
Net unrealized gains	**¥ 17,746**	¥ 21,306	**$ 146,661**

The Company does not have any outstanding options or futures transactions.

11. Derivatives information of the Company

The Company enters into forward currency exchange contracts and interest rate swap contracts as derivative financial instruments. The Company deals with forward currency exchange transactions to hedge exchange rate risk of monetary receivables and payables denominated in foreign currencies in order to obtain stabilized profit. Interest rate swap transactions are made in order to minimize the risk of interest rate on borrowings changing upward.

The Company deals with international financial institutions with higher credit ratings as counterparty of transactions to avoid credit risk exposure. Details of transactions are reviewed and approved by responsible officials of the Company in accordance with the Company's internal regulations.

(A) Forward foreign exchange contracts

The aggregate amounts contracted to be paid/received and the fair values of forward foreign exchange contracts in Japanese yen of the Company at March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	**1999**
Contracted amount to be paid/received:			
To buy foreign currencies	**¥ 153**	¥ 1,741	**$ 1,264**
To sell foreign currencies	**3,770**	6,223	**31,157**
Fair value:			
To buy foreign currencies	**139**	1,777	**1,149**
To sell foreign currencies	**3,769**	6,526	**31,149**
Net unrealized exchange loss	**¥ 13**	¥ 267	**$ 107**

(B) Interest rate swap and swaption agreements

	Millions of yen		
Year ended March 31, 1999	Contract amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive fix/Pay float	¥ 1,000	¥ 41	¥ 41
Receive float/Pay float	1,000	(30)	(30)
Interest rate swaption:			
Receive float/Pay fix	1,000	14	14
	¥ 3,000	¥ 25	¥ 25

	Millions of yen		
Year ended March 31, 1998	Contract amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive fix/Pay float	¥ 7,000	¥ 244	¥ 244
Receive float/Pay fix	17,000	(993)	(993)
	¥ 24,000	¥ (749)	¥ (749)

	Thousands of U.S. dollars		
Year ended March 31, 1999	Contract amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive fix/Pay float	$ 8,264	$ 339	$ 339
Receive float/Pay float	8,264	(248)	(248)
Interest rate swaption:			
Receive float/Pay fix	8,264	116	116
	$ 24,792	$ 207	$ 207

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Sumitomo Heavy Industries, Ltd. (a Japanese corporation) and subsidiaries as of March 31, 1999 and 1998, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Sumitomo Heavy Industries, Ltd. and subsidiaries as of March 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan which were applied on a consistent basis except for the changes made in the year ended March 31, 1999, in the method of accounting for long-term contracts referred to in Note 1 and in the classification of segments referred to in Note 1, with which we concur.

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

Asahi & Co.

Tokyo, Japan
June 29, 1999

Statement on Accounting Principles and Auditing Standards

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

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Tel: (65) 863-2238 Fax: (65) 863-4238

■ **Sumitomo (SHI) Cyclo Drive Tianjin, Ltd.**
No. 7 Sanijing Road, Dongli Economic Development Zone, Tianjin, China
Tel: (86) 22-2499-3501 Fax: (86) 22-2499-3133

■ **SHI Plastics Machinery Inc. of America**
1266 Oakbrook Drive, Norcross, Georgia 30093, U.S.A.
Tel: (1) 770-447-5430 Fax: (1) 770-441-9168

■ **SHI Plastics Machinery (Europe) B.V.**
Breguetlaan 10A 1438 BC OUDE MEER, Netherlands
Tel: (31) 20-65-33-111 Fax: (31) 20-65-31-749

■ **S.H.I. Plastics Machinery (S) Pte., Ltd.**
67 Ayer Rajah Crescent #01-15 to 26, Singapore 13950
Tel: (65) 779-7544 Fax: (65) 777-9211

■ **SHI Plastics Machinery (TAIWAN) Inc.**
3F-1 687 Chung Shan North Road, Sec. 5, Taipei, Taiwan, R.O.C.
Tel: (886) 2-2831-4500 Fax: (886) 2-2831-4483

■ **SHI Plastics Machinery (Hong Kong) Ltd.**
RM 601, Telford House, 12-16 Wang Hoi Road, Kowloon Bay, Hong Kong
Tel: (852) 2750-6630 Fax: (852) 2759-0008

■ **SHI Plastics Machinery (Malaysia) Sdn. Bhd.**
9th Floor Menara PKNS, Blok A PJ Jalan Yong Shook Lin 46050, Petaling Jaya, Selangor, Malaysia
Tel: (60) 3-758-2079 Fax: (60) 3-758-2084

■ **Link-Belt Construction Equipment Company**
2651 Palumbo Drive, P.O. Box 13600, Lexington, Kentucky 40583-3600, U.S.A.
Tel: (1) 606-263-5200 Fax: (1) 606-263-5260

■ **LBX Company, LLC**
2651 Palumbo Drive, P.O. Box 14103, Lexington, Kentucky 40512-4103, U.S.A.
Tel: (1) 606-543-9303 Fax: (1) 606-263-0309

■ **SHI Machinery Service Hong Kong Ltd.**
2103A Tower 2, Lippo Centre, 89 Queensway, Central, Hong Kong
Tel: (852) 2521-8433 Fax: (852) 2840-1704

■ **SHI Designing & Manufacturing Inc.**
4th & 5th Floor Fems Tower One, 1289 Zobel Roxas Avenue Cor., South Superhighway, Manila, Philippines
Tel: (632) 525-8338 Fax: (632) 525-6577

MAJOR SUBSIDIARIES AND AFFILIATES

(As of July 1, 1999)

	Paid-in capital	Principal business
Sumitomo (S.H.I) Construction Machinery Co., Ltd.	¥9,000 million	Construction machinery
Shin Nippon Machinery Co., Ltd.	¥2,408 million	Turbines, pumps, fasteners and blowers
Nihon Spindle Mfg. Co., Ltd.	¥3,276 million	Spinning machinery and environmental protection equipment
Sumitomo Eaton Nova Corporation	¥ 600 million	Semiconductor equipment, especially ion implantation systems
Sumitomo Eaton Hydraulics Co., Ltd.	¥ 825 million	Hydraulic motors, pumps and power transmission equipment
Sumitomo Yale Co., Ltd.	¥1,000 million	Forklift trucks and logistic handling equipment
Izumi Food Machinery Co., Ltd.	¥ 120 million	Food processing machinery and related equipment
Lightwell Co., Ltd.	¥ 480 million	Software and related equipment
Sumitomo Heavy Industries Foundry & Forging Co., Ltd.	¥ 450 million	Castings and forgings
Sumitomo Heavy Industries PTC Sales Co., Ltd.	¥ 200 million	Power transmission equipment
SHI Plastics Machinery, Ltd.	¥ 300 million	Plastics machinery
Sumiju Environmental Engineering, Inc.	¥ 120 million	Maintenance and operation control for environmental systems and plants
Sumiju Machinery & Engineering Co., Ltd.	¥ 90 million	Production and installation of machinery and equipment
Marine United, Inc.	¥ 480 million	Design and construction of naval ships, merchant vessels and offshore structures
Osaka Chain & Machinery, Ltd. Inc.	¥ 800 million	Power transmission equipment
Sumitomo Heavy Industries (U.S.A.), Inc.	US$500 thousand	Sales, service and market research (for industrial machinery and ships)
Sumitomo Heavy Industries (Europe) Ltd.	STG£100 thousand	Sales, service and market research (for industrial machinery and ships)
Sumitomo Heavy Industries (South East Asia) Pte., Ltd.	S$200 thousand	Sales, service and market research (for industrial machinery and ships)
Sumitomo Machinery Corporation of America	US$7,723 thousand	Power transmission equipment
Sumitomo (SHI) Cyclo Drive Europe, Ltd.	STG£6,400 thousand	Power transmission equipment
Sumitomo (SHI) Cyclo Drive Asia Pacific Pte., Ltd.	S$3,000 thousand	Power transmission equipment
Sumitomo (SHI) Cyclo Drive Tianjin, Ltd.	RMB54,000 thousand	Power transmission equipment
SHI Plastics Machinery Inc. of America	US$7,000 thousand	Holding company of Sumitomo (SHI) Plastics Machinery Mfg. (USA), LLC and Sumitomo (SHI) Plastics Machinery (America), LLC
SHI Plastics Machinery (Europe) B.V.	NLG3,000 thousand	Plastics machinery
S.H.I. Plastics Machinery (S) Pte., Ltd.	S$2,400 thousand	Plastics machinery
SHI Plastics Machinery (TAIWAN) Inc.	NT$7,200 thousand	Plastics machinery
SHI Plastics Machinery (Hong Kong) Ltd.	HK$600 thousand	Plastics machinery
SHI Plastics Machinery (Malaysia) Sdn. Bhd.	MYR700 thousand	Plastics machinery
Link-Belt Construction Equipment Company	US$10,723 thousand	Construction equipment
SHI Machinery Service Hong Kong Ltd.	HK$2,000 thousand	Maintenance service for harbor facilities (such as cranes)
SHI Designing & Manufacturing Inc.	PHP4,250 thousand	Project implementation — from basic design through detailed design to sales

MANAGEMENT

(As of June 29, 1999)

We have implemented several measures aimed at increasing the effectiveness of SHI's corporate governance. These include separating the positions of SHI chairman of the board of directors and chief executive officer — a step we believe will allow the board to function with greater independence and objectivity, reducing the number of directors, and introducing a stronger executive officers' system.

With the chairman of the board no longer also serving as CEO, we believe that we will be able to strengthen the board's function as a supervisory body to maintain and enhance corporate values. In general, the board of directors is charged with developing long-term corporate policy, supervising management performance, and ensuring that the company discharges its duty both to society and to investors.

On the management side, final responsibility for all decisions will rest with the president, while newly appointed executive officers concentrate on strengthening the company's earning power and competitiveness. Chosen from our most talented and able employees, these new executive officers will also ensure that the company always fulfills its obligations to customers, employees and suppliers.

BOARD OF DIRECTORS

Mitoshi Ozawa
Chairman of the Board

Yoshio Hinoh
President and
Chief Executive Officer

Hiroyasu Taniguchi

Takaji Nakanishi

Noriyuki Yamasaki

Eiichi Fujita

Naoki Takahashi

Shuji Toyoda

MANAGEMENT

CORPORATE AUDITORS

Masakazu Ozaki
Standing Auditor

Tsuyoshi Saito
Standing Auditor

Tsutomu Nishimura
Auditor

Takako Yamada
Auditor

EXECUTIVE OFFICERS

Yoshio Hinoh
President and Chief Executive Officer

Hiroyasu Taniguchi
Senior Executive Vice President

Yasufumi Uenoyama
Executive Vice President

Toshisuke Kawamura
Executive Vice President

Takaji Nakanishi
Executive Vice President

Yukihito Takahashi
Executive Vice President

Noriyuki Yamasaki
Executive Vice President

Eiichi Fujita
Executive Vice President

Harumi Ikuta
Senior Vice President

Kenji Haruguchi
Senior Vice President

Shigeya Oishi
Senior Vice President

Masaaki Shiba
Senior Vice President

Takahiko Otani
Senior Vice President

Naoki Takahashi
Senior Vice President

Kensuke Shimizu
Senior Vice President

Junai Saito
Senior Vice President

Kohei Takase
Senior Vice President

CORPORATE DATA

(As of March 31, 1999)

Head office:	Sumitomo Heavy Industries, Ltd. 9-11, Kita-Shinagawa 5-chome, Shinagawa-ku, Tokyo 141-8686, Japan Tel: +81-3-5488-8335 Fax: +81-3-5488-8056 http://www.shi.co.jp	
Founded:	1888	
Incorporated:	November 1, 1934	
Paid-in Capital:	¥30,871,651,300	
Number of Employees:	14,022 (Consolidated) 5,463 (Non-consolidated)	
Transfer Agent:	The Sumitomo Trust and Banking Co., Ltd.	
Stock Exchange Listings:	Tokyo, Osaka, Nagoya, Kyoto, Hiroshima	
Shares Outstanding:	588,696,680	
Number of Shareholders:	85,285	
Major Shareholders:	Sumitomo Life Insurance Company	5.49%
	The Sumitomo Bank, Ltd.	4.55%
	The Sumitomo Trust and Banking Co., Ltd.	3.76%
	Nippon Life Insurance Company	3.28%
	The Mitsubishi Trust and Banking Co., Ltd. (trust account)	2.70%
	The Sumitomo Marine & Fire Insurance Co., Ltd.	2.50%
	The Sumitomo Trust and Banking Co., Ltd. (trust account)	2.39%
	The Industrial Bank of Japan	2.26%
	The Toyo Trust and Banking Co., Ltd. (trust account A)	1.55%
	Sumitomo Corporation	1.43%

Sumitomo Heavy Industries, ltd.

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