Annual Report 2009

For the Year Ended March 31, 2009

Sumitomo Heavy Industries

All About Smart

Sumitomo Heavy Industries, Ltd.

Contents

This is SHI

Construction Machinery

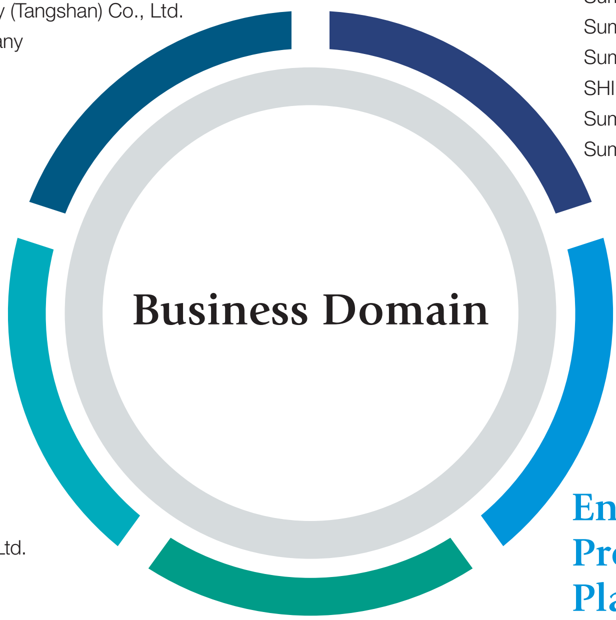
Major Units

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

Mass-Produced Machinery

Major Units

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



Industrial Machinery

Major Units

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

Environmental Protection Facilities, Plants & Others

Major Units

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

Ship, Steel Structure & Other Specialized Equipment

Major Units

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

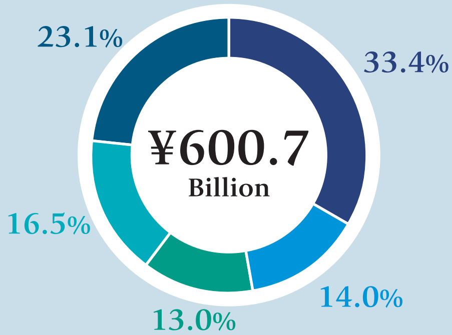
Basic Management Policy

The SHI Group is committed to garnering the trust of customers over many years by creating value for them. This trust underpins the SHI Group's sustained growth and development, and leads to greater corporate value, which in turn will help the SHI Group meet the expectations of its shareholders, employees and the public at large.

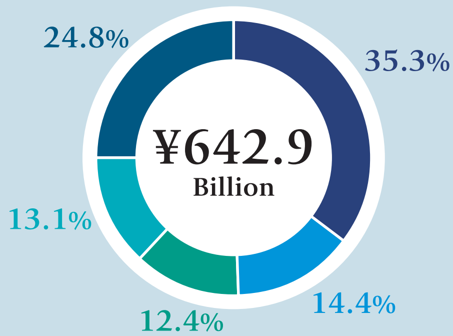
Our aim is to ensure a consistently high level of growth on the world stage. To this end, we are determined to continuously and systematically provide customers with first-class products as a knowledge-intensive company. Through stronger marketing, development and productivity, we aspire to reach the pinnacle of workmanship in manufacturing.

At a Glance

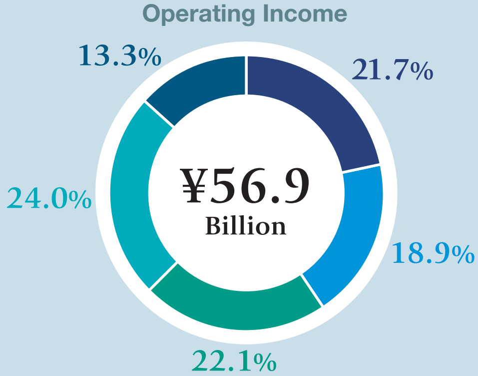
Orders



Sales



Operating Income



Segment/Main Products

Mass-Produced Machinery

- Power Transmission Equipment
- Plastic Injection Molding Machines
- Cyclotrons for Medical Use
- Ion Accelerators
- Plasma Coating System for FPDs
- Laser Processing Systems
- Cryogenic Equipment
- XY Stages
- Transfer Molding Press Machines
- Precision Forgings
- Defense Equipment

Environmental Protection Facilities, Plants & Others

- Power Generation Systems
- Industrial Wastewater Treatment Systems
- Water and Sewage Treatment Systems
- Landfill Leachate Treatment System
- Air Pollution Control Plants
- Chemical Process Equipment & Plants
- Food Machinery
- Software

Ship, Steel Structure & Other Specialized Equipment

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

Industrial Machinery

- Logistics & Handling Systems
- Automated Parking Systems
- Forging Machines
- Material Handling Systems
- Turbines
- Pumps

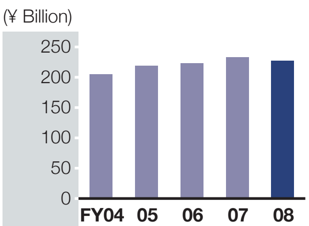
Construction Machinery

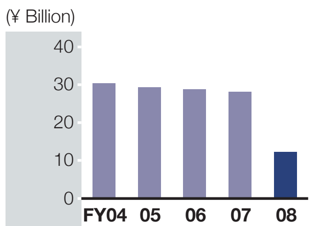
- Hydraulic Excavators
- Mobile Cranes
- Road Machinery

Net Sales

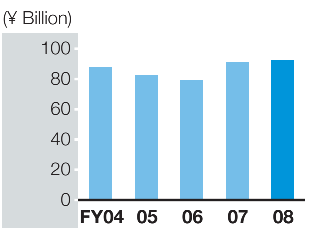
Operating Income

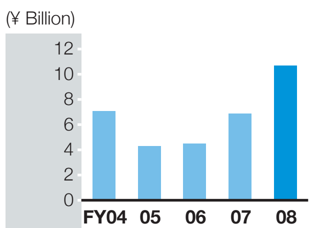
Advantages



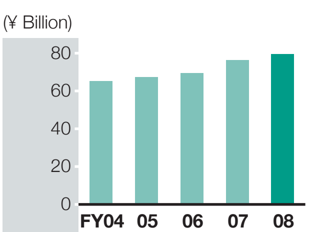


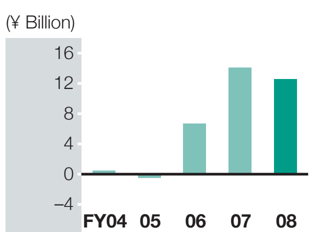
SHI power transmission and control equipment is known for performance and durability, a reputation that has earned it the top domestic and second-largest global market share. The Company's injection molding machines, meanwhile, excel at high-precision molding and boast the world's leading market share. LCD and semiconductor production equipment and cyclotrons are among the other sophisticated, cutting-edge technologies possessed by SHI.



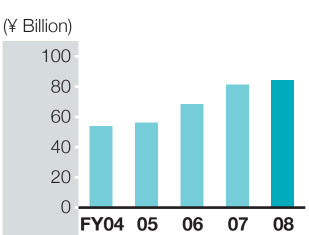


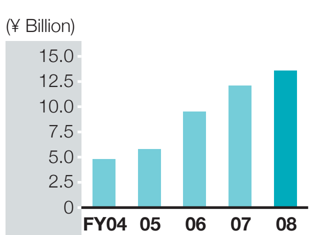
Biomass boilers for private power generation from SHI have captured the top market share in Japan, reflecting a reputation for performance and the Company's installation track record. In water treatment, SHI possesses products designated for adoption by the public sector, and is a top manufacturer of anaerobic wastewater treatment systems for the private sector.



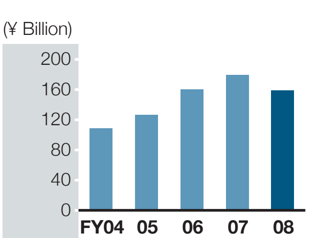


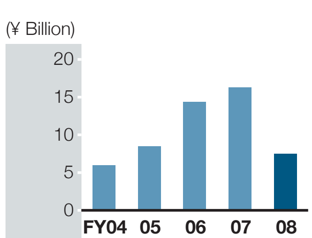
SHI boasts the world's No. 1 share of coke drums for oil refining plants. In shipping, the Company specializes in medium-sized oil tankers, concentrating development resources and improving production line efficiency to substantially reduce costs.





The reputation for performance and installation history of steam turbines for private power generation has garnered SHI the leading share among domestic manufacturers of these products. The Company has similar top shares in Japan in goliath cranes for shipyards, continuous ship unloaders for power plants, and jib cranes and other large cranes.





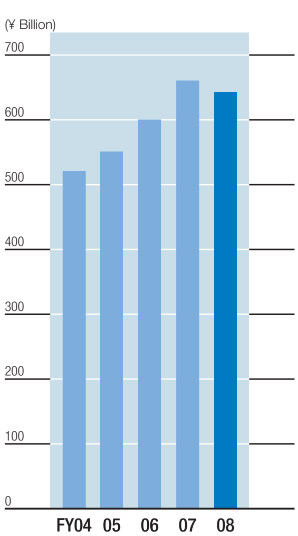
SHI hydraulic excavators boast superior economic performance derived from outstanding control technologies, along with high performance born from the pursuit of easy operability. The excellent performance and quality of SHI cranes, meanwhile, are solidifying the Link-Belt brand in North America.

Financial Highlights

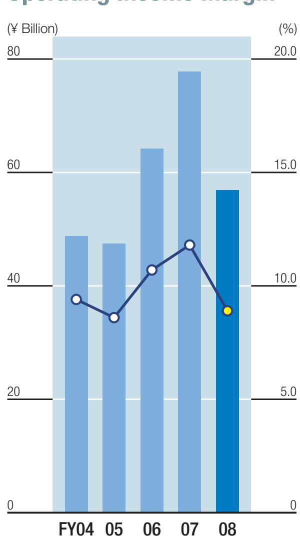
	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2004	FY2005	FY2006	FY2007	**FY2008**	**FY2008**
For the Fiscal Year:						
Net sales	¥521,310	¥551,339	¥600,256	¥660,769	**¥642,918**	**$6,560,389**
Mass-produced machinery	205,091	218,798	222,906	232,593	**227,226**	**2,318,634**
Environmental protection facilities, plants & others	87,937	82,740	79,397	91,250	**92,625**	**945,154**
Ship, steel structure & other specialized equipment	65,288	67,372	69,491	76,393	**79,602**	**812,268**
Industrial machinery	54,008	56,054	68,286	81,163	**84,310**	**860,311**
Construction machinery	108,985	126,375	160,177	179,370	**159,154**	**1,624,023**
Operating income	48,773	47,505	64,224	77,790	**56,940**	**581,018**
Mass-produced machinery	30,415	29,338	28,844	28,208	**12,334**	**125,862**
Environmental protection facilities, plants & others	7,094	4,277	4,494	6,903	**10,719**	**109,380**
Ship, steel structure & other specialized equipment	478	(479)	6,714	14,094	**12,562**	**128,181**
Industrial machinery	4,834	5,847	9,527	12,118	**13,585**	**138,620**
Construction machinery	5,961	8,533	14,396	16,286	**7,543**	**76,969**
Elimination	(9)	(10)	250	181	**197**	**2,006**
EBITDA (Note 2)	58,055	56,577	74,873	91,578	**75,260**	**767,957**
Net income	22,792	29,742	37,352	42,974	**13,649**	**139,277**
Capital expenditure	8,175	10,285	17,257	28,180	**31,753**	**324,008**
R&D	6,317	7,434	8,581	9,908	**10,047**	**102,523**
Depreciation and amortization	9,282	9,072	10,649	13,788	**18,320**	**186,939**
Cash flows from operating activities	45,451	50,023	56,789	29,096	**34,676**	**353,841**
Cash flows from investing activities	(6,087)	(7,024)	(12,461)	(41,250)	**(35,924)**	**(366,571)**
Free cash flows (Note 3)	39,364	42,999	44,328	(12,154)	**(1,248)**	**(12,729)**
Cash flows from financing activities	(46,490)	(48,812)	(41,193)	(5,238)	**15,625**	**159,442**

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥98=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2009.
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

Net Sales

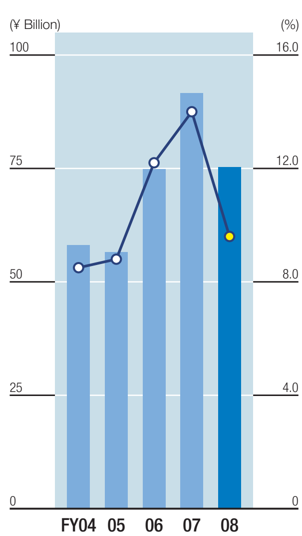


Operating Income and Operating Income Margin



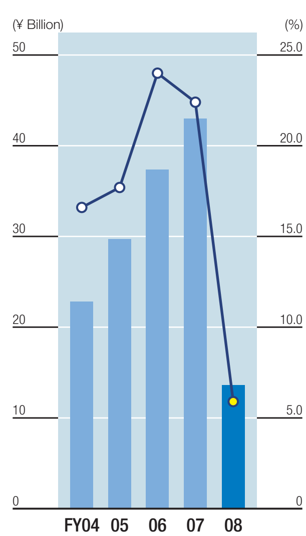
Operating Income (Left scale)
Operating Income Margin (Right scale)

EBITDA and ROIC



EBITDA (Left scale)
ROIC (Right scale)

Net Income and ROE

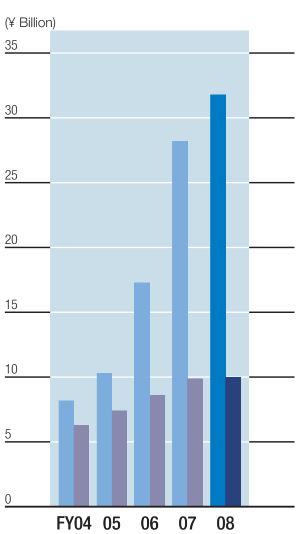


Net Income (Left scale)
ROE (Right scale)

	Millions of yen					Thousands of U.S. dollars (Note 1)
	FY2004	FY2005	FY2006	FY2007	**FY2008**	**FY2008**
Financial Position (Year-end):						
Total assets	¥569,771	¥579,233	¥600,890	¥678,634	**¥657,436**	**$6,708,529**
Interest-bearing debt	169,228	125,504	88,045	89,567	**110,339**	**1,125,904**
Stockholders' equity	137,157	167,740	—	—	**—**	**—**
Total net assets (Note 4)	—	—	206,010	246,371	**238,697**	**2,435,687**
	Yen					U.S. dollars (Note 1)
Amounts per Share:						
Net income (Note 5)	¥ 37.80	¥ 49.45	¥ 61.99	¥ 71.19	**¥ 22.62**	**$0.23**
Stockholders' equity	227.90	279.02	338.95	392.80	**378.78**	**3.87**
Cash dividends	3.00	5.00	7.00	10.00	**6.00**	**0.06**
	%					
Financial Indexes:						
ROIC (Note 6)	8.5	8.8	12.2	14.0	**9.6**	
Operating Income Margin	9.4	8.6	10.7	11.8	**8.9**	
EBITDA margin	11.1	10.3	12.5	13.9	**11.7**	
Stockholders' equity ratio	24.1	29.0	34.1	34.9	**34.8**	
ROA (Return on assets)	4.0	5.1	6.2	6.3	**2.1**	
ROE (Return on equity)	16.6	17.7	24.0	22.4	**5.9**	
Interest-bearing debt ratio	29.7	21.7	14.7	13.2	**16.8**	
	Yen					
Average Exchange Rate	¥107	¥117	¥118	¥100	**¥98**	

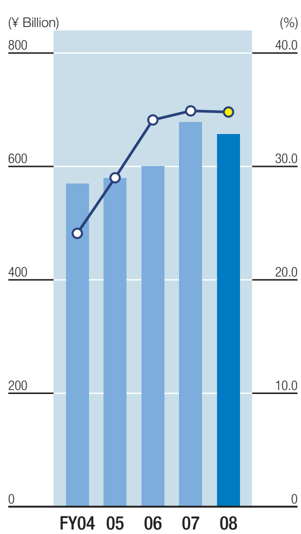
4. Net assets are presented following enforcement of the new Japanese Corporate Law in 2006. Net assets comprise stockholders' equity as previously defined, plus minority interests and share subscription rights.
5. Net income per share of common stock is based on the weighted average number of shares outstanding in each year.
6. ROIC (Return on Invested Capital) = $\dfrac{\text{(Operating income + Interest and dividend received) x 55\% (= 1 – Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$

Capital Expenditure and R&D



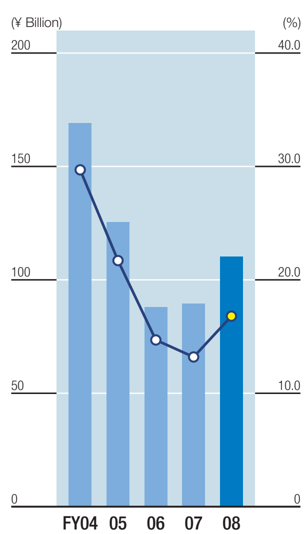
Capital expenditure (Left scale)
R&D (Right scale)

Total Assets and Stockholders' Equity Ratio



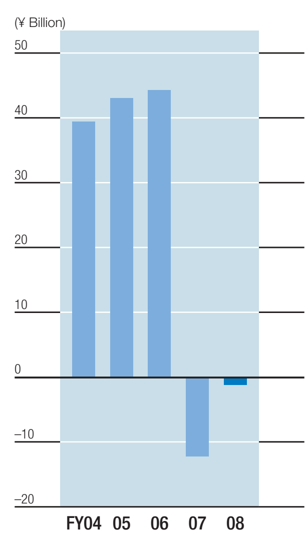
Total assets (Left scale)
Stockholders' equity ratio (Right scale)

Interest-bearing Debt and Interest-bearing Debt Ratio



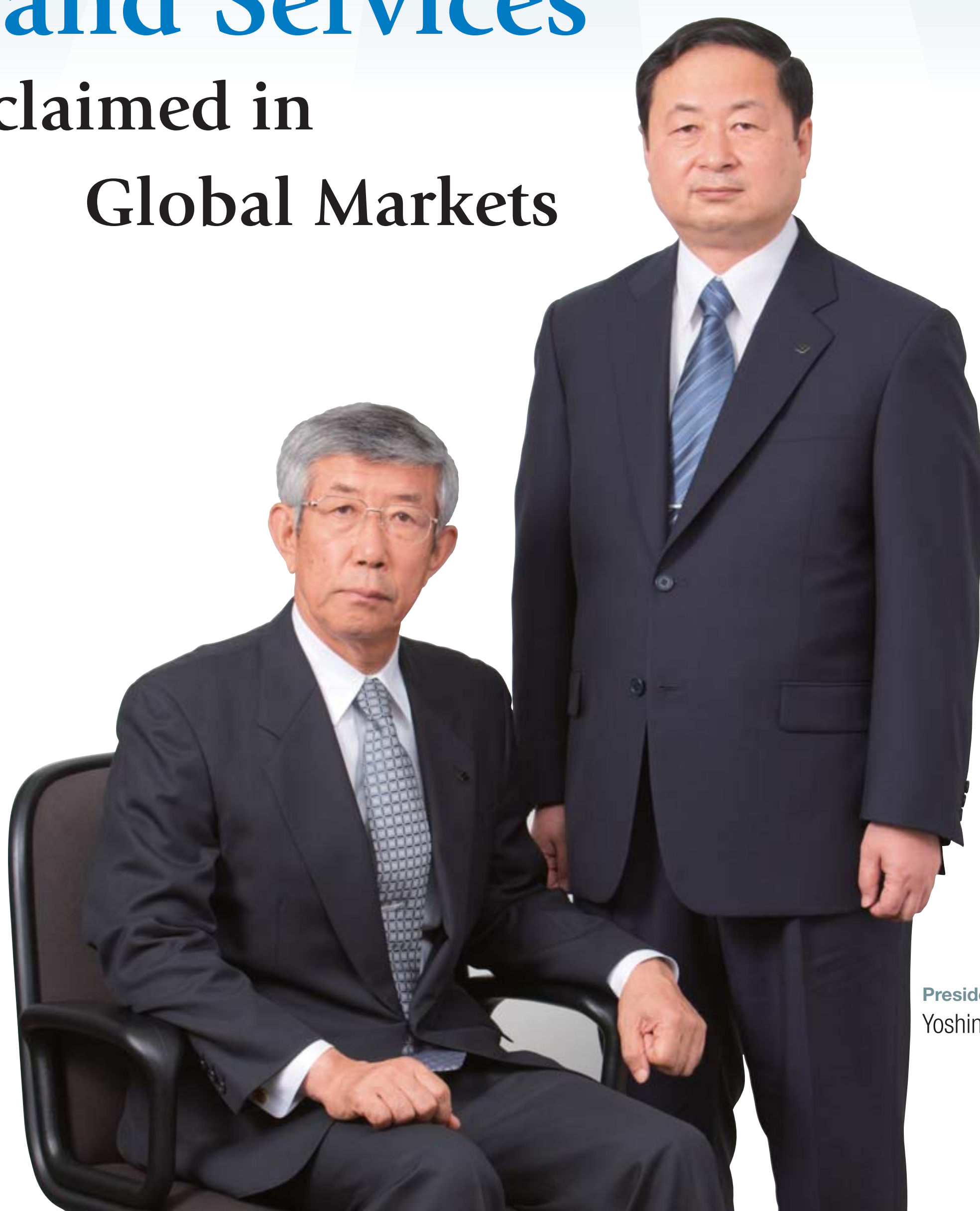
Interest-bearing debt (Left scale)
Interest-bearing debt ratio (Right scale)

Free Cash Flows



To Our Shareholders, Customers and Employees

Our Vision for SHI Is for All Businesses to Continually Provide First-Class Products and Services Acclaimed in Global Markets



Chairman
Yoshio Hinoh

President and CEO
Yoshinobu Nakamura

The global financial crisis that erupted in September 2008 led to a sharp downturn in the real economy, and a worldwide recession. Under these conditions, while the SHI Group managed strong sales growth in heavy machinery businesses during fiscal 2008 (ended March 31, 2009) due to an ample backlog of existing orders, sales were down considerably in the Mass-Produced Machinery and Construction Machinery segments.

With the economic slowdown expected to continue for some time, we have determined that it will be extremely difficult for us to achieve the performance targets of our current medium-term management plan "Global 21," which was launched in fiscal 2008 and is set to conclude in fiscal 2010. We have therefore implemented measures to ensure financial soundness that prioritize securing earnings and are cutting back on large-scale capital expenditures. However, we have not abandoned our policy of generating world-class technologies, establishing a robust cost structure, and aggressively pursuing business development focused on promising overseas markets. We will continue to move ahead with our program of globalization and pursue innovation to make SHI a world-leading brand. We will also continue with the measures to reinforce the cross-divisional value chain developed under the previous medium-term management plan "Leap to Excellence '07," as we aim to enhance our corporate value.

The SHI Group's corporate mission is to contribute to the development of society by providing customers with first-class products and services. We believe that if any of our businesses cannot gain a competitive edge, it is because the products and services are unattractive and do not fulfill our customers' requirements. We will therefore work hard to strengthen the SHI Group's key component businesses, and develop new products and pioneer markets by consolidating businesses, while striving to improve quality and reduce costs through production innovation. Creating products that make our customers happy leads to sales and earnings growth. Even though Japan's markets may have matured, first-class products are still in demand somewhere in the world. Our growth strategy is to provide first-class products where they are needed in markets worldwide.

The basic policy for the SHI Group is "creation of value for customers," a philosophy of considering things from the customer's perspective. We believe that our commitment to this principle to win the long-term trust of customers is the basis for sustainable development and enhanced enterprise value for the SHI Group, and enables us to meet the expectations of shareholders, employees and local communities. The trust gained by providing high-quality, competitive products is key to our future growth. Our vision for the SHI Group is for all businesses to continually provide first-class products and services acclaimed in global markets.

Chairman

Yoshio Hinoh

President and CEO

Y. Nakamura

Interview With the President

Establishing Strategies for a Flexible Response

to Shifts in the Business Environment and a Robust Structure Leads to Sustainable Growth

President and CEO
Yoshinobu Nakamura

Fiscal 2008 Results

Question

SHI posted declines in both sales and earnings amid the global recession. What were the reasons for this?

Answer

Oil and raw material prices rose steeply during fiscal 2008, but we performed steadily during the first half, and recorded historically high orders and sales. However, the global financial crisis that erupted in September 2008 resulted in a sharp drop-off in capital expenditures in such industries as automobiles, electronics and semiconductors. At the same time, the Japanese economy deteriorated rapidly, with a considerable decline in earnings among exporters stemming from the acute appreciation of the yen. Global markets overall faced extremely tough conditions, with the pace of growth slowing even in emerging countries such as China and India. Under these conditions, while the SHI Group managed firm sales growth year on year in the Environmental Protection Facilities, Plants & Others segment, the Ship, Steel Structure & Other Specialized Equipment segment, and the Industrial Machinery segment due to an ample backlog of existing orders, sales were down considerably in the Mass-Produced Machinery and Construction Machinery segments. Earnings were also down sharply due to the decline in sales, along with the impact from exchange rates, the rising cost of materials, and losses from write-downs of investment securities following the decline in stock prices.

Question

How are SHI's core businesses, the Mass-Produced Machinery and Construction Machinery segments, performing?

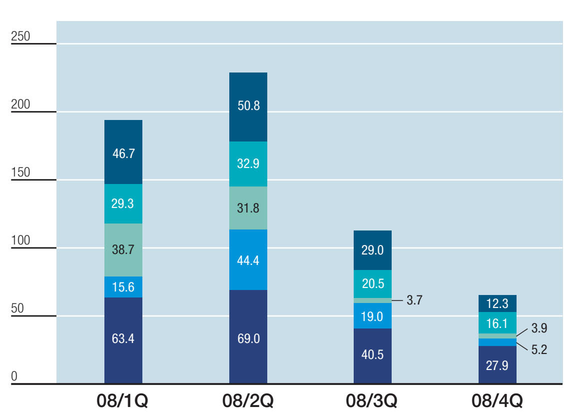
Answer

Power transmission and control equipment, the mainstay products of the Mass-Produced Machinery segment, is usually resilient to fluctuations in market conditions, because this equipment is used in a wide-range of sectors. However, due to the sudden softening of the market overall during this latest downturn, even these products were not immune. Plastic injection molding machine sales also suffered from the stagnation in the IT and electronic components, and automotive markets. In other areas of the Mass-Produced Machinery segment, precision control components faced difficulties due to the sluggish LCD and semiconductor markets,

Quarterly Results by Segment

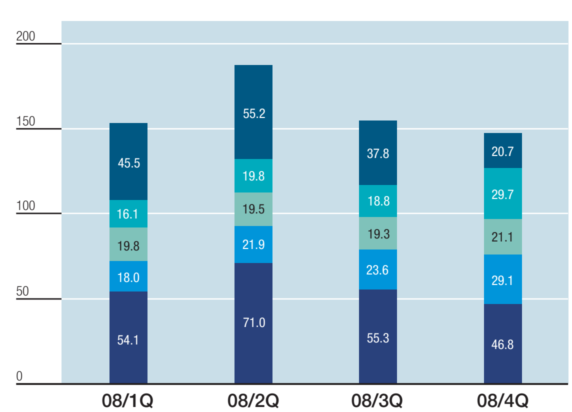
Orders

(¥ Billion)



Net Sales

(¥ Billion)



■ Mass-Produced Machinery ■ Environmental Protection Facilities, Plants & Others ■ Ship, Steel Structure & Other Specialized Equipment ■ Industrial Machinery ■ Construction Machinery

Fiscal 2008 Results

but sales of products for the medical treatment market rose on the back of a stable market.

The global market for construction machinery shrank, and SHI was forced to adjust production to maintain a proper supply-demand balance. Conditions remain slow in the United States and Europe, but there are signs of a gradual recovery in China and other regions.

Question

What measures has SHI employed in response to the current weakening of the market?

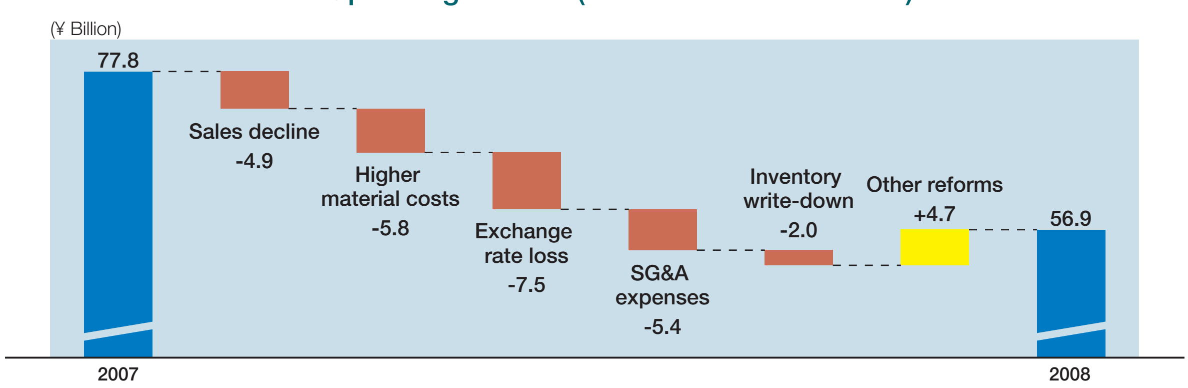
Answer

The heavy machinery businesses have an extensive backlog of existing orders that are allowing us to maintain a high capacity utilization rate, but for products with short delivery times such as those in the Mass-Produced Machinery segment, we have had to adjust operations and adopt other strategies to secure earnings. Specific measures have included:

1. Scaling back the production structure
   SHI has scaled back the production structure for injection molding machines, construction machinery and other products, lowering the break-even point.
2. Structural reforms
   The sales company for injection molding machines, and the manufacturing company for construction machinery have been integrated into the parent company in order to strengthen the organizational structure.
3. Optimization of human resources
   Personnel have been shifted to busy and priority divisions in an effort to efficiently utilize human resources. Outsourced operations have been brought in-house in order to control cost outflows.
4. Reductions in fixed expenses
   SHI has introduced such measures as curtailing capital expenditures, and lowering executive compensation.

Along with these measures, in November 2008 I declared a state of emergency for the entire company in response to the rapid deterioration in the market. I personally went around each business division in an effort to assess the current conditions in each workplace, and direct that measures be implemented to the fullest extent possible.

Breakdown of Variation in Operating Income (Fiscal 2007–Fiscal 2008)



Strategies for Fiscal 2009

Question
What are your market forecasts?

Answer
The Japanese economy weakened rapidly due to the worldwide financial crisis, with a sharp fall-off in capital expenditures, violent fluctuations in exchange rates, and deep declines in earnings among exporters. Overseas as well, the economic downturn triggered by turmoil in the financial markets of the United States and Europe has led to a serious situation. The pace of growth in emerging countries has also slowed as a result, producing extremely difficult conditions in markets worldwide. There is widespread concern that the current global recession will continue for some time.

Certain regions now seem to have reached bottom, and are beginning to show signs of recovery. We do not anticipate a swift upturn, however, and plan to continue with management measures that assume the recession will continue.

Question
What actions will you take to secure profits while market conditions remain challenging?

Answer
The basic principle for the SHI Group's management is "autonomy and collaboration." Individual business divisions and affiliated companies are responsible for their own profitability, but the value chain is strengthened through lateral ties. We do not cover the losses from unprofitable businesses with earnings from profitable ones.

As noted in the previous section, during fiscal 2008 SHI implemented a business restructuring program and other measures to counter the decline in market conditions. Businesses that saw capacity utilization fall due to market contractions have revamped their production structures in line with demand, in order to lower the break-even point, or actively utilized overseas factories to reduce costs and strengthen international competitiveness. We also increased the proportion of in-house production, and placed curbs on capital expenditures.

Fiscal 2009 Forecasts
(¥ Billion)

	FY09 1H (Est.)	FY09 2H (Est.)	FY09 (Est.)	FY08
Orders	200.0	250.0	450.0	600.7
Net sales	250.0	280.0	530.0	642.9
Operating income	0	14.0	14.0	56.9
Operating income margin	0%	5.0%	2.6%	8.9%
Ordinary income	–2.5	12.5	10.0	50.3
Ordinary income margin	–	4.5%	1.9%	7.8%
Extraordinary gains or losses	0	0	0	–16.5
Net income	–3.0	6.5	3.5	13.6
Profit margin	–	2.3%	0.7%	2.1%
Dividends undetermined (¥)	0	TBD	TBD	6
Payout ratio undetermined			–	26.5%
ROIC (after tax)	–	–	2.4%	9.6%
Exchange rate (¥/US$)			90	103

"Global 21"
Medium-term management plan

During fiscal 2009, SHI will establish a more robust organizational structure able to generate earnings even during periods of declining sales. At the same time, cuts in R&D expenditures will be kept to a minimum, with total spending planned at about the same level as fiscal 2008. Technology is the foundation of a machinery manufacturer, and ongoing development is necessary for providing first-class products that anticipate customer needs.

Question

What are the bright spots in your recovery measures?

Answer

We have completed a new factory in Tangshan, China, and will produce large-scale gear boxes and hydraulic excavators. The Chinese economy is already showing signs of recovery, and we anticipate rising demand. By producing equipment locally we are able to enhance our market competitiveness. This new plant will undoubtedly be one of the SHI Group's most important overseas factories.

The SHI Group also has competitive advantages as an integrated machinery manufacturer. Along with our extensive lineup of products for a wide range of markets, we handle products with both short- and long-term delivery periods. Currently, the ample backlog of existing orders for heavy machinery with long lead times is supporting our underlying sales and earnings. Many of SHI's business divisions have outstanding, distinctive products that boast a leading market share in their industries. I believe that difficult times such as this enhance the need for our products because of their outstanding performance and competitiveness.

Question

Market conditions have changed considerably since the plan was initially formulated. How will you adapt going forward?

Answer

The "Global 21" medium-term management plan set high growth targets, and as a result of the global recession we have determined that it will be extremely difficult

View of the Current Situation for the Medium-Term Management Plan

	Global 21	View of Current Situation
Fiscal 2010 target	Net sales ¥850 billion Operating income ¥100 billion	Achieving the numerical targets for Global 21 will be extremely difficult
Keywords	Globalization Innovation	Ongoing globalization and innovation efforts will remain unchanged
Investment policy (3 years)	Capital expenditure ¥100 billion R&D Spending ¥50 billion	Maintain financial discipline and curb large-scale capital expenditures

Fiscal 2008 Results

Results Fell Far Short of Plan

	(May Forecast)	(Actual)
Orders	¥770.0 billion	⇒ **¥600.7 billion**
Net sales	¥740.0 billion	⇒ **¥642.9 billion**
Operating income	¥ 75.0 billion	⇒ **¥ 56.9 billion**

Business Environment

- **Prolonged global recession**
- **Long-term prospects for growth in BRICs and other emerging countries**

"Global 21"
Medium-term management plan

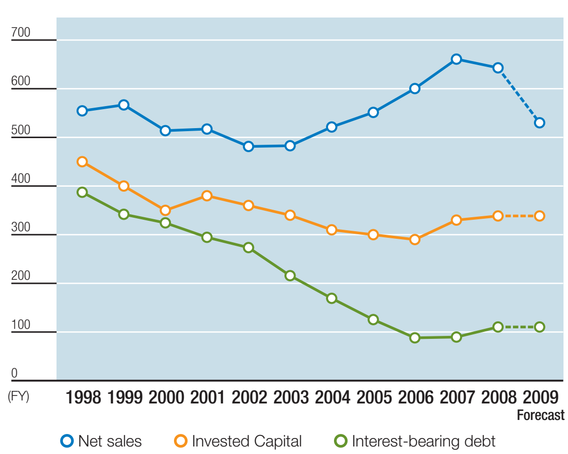
for us to achieve our final-year fiscal 2010 targets. However, the long-term growth potential for the BRICs and other emerging countries is unchanged, and we remain firm in our conviction that the SHI Group's opportunities for growth lie in overseas markets. Rather than a hindrance, the SHI Group is looking at the current recession and radical changes in the business environment as an opportunity. We will redouble our ongoing management efforts to establish a more robust organizational structure able to generate earnings even during periods of declining sales through the successful conclusion of the measures in the management plan.

We are also continuing to pursue efforts built around our keywords for growth, "globalization" and "innovation." In terms of globalization, we are reinforcing our overseas production, sales and service networks. Along with the new factory in Tangshan, China, we have acquired all shares in SEN Corporation, which manufactures and markets ion-implementation devices (a type of semiconductor production system), and are developing our own sales network around the world. The acquisition in fiscal 2007 of Demag Ergotech GmbH, a German manufacturer of plastics machinery, provided us with a structure able to cover all regions' markets of injection molding machines throughout the world. We are steadily moving forward with strategies focused on world markets.

In terms of innovation, SHI continues to expand and upgrade the structures that generate first-class products. We are also revising and strengthening the development, design, production and sales processes, and pursuing reforms that will secure our competitive advantage. The manufacturing division's adoption of the Toyota Production System is a representative example.

Net Sales, Invested Capital & Interest-bearing Debt

(¥ Billion)



Question

SHI has had an active program for capital expenditures. Will this be continued? Also, what is your plan for M&As?

Answer

The SHI Group made aggressive capital expenditures in fiscal 2007 and the first half of fiscal 2008 to reinforce the production structure at plants in Japan and overseas, and build new factories overseas. Since the latter half of fiscal 2008, however, these expenditures have been kept to a minimum as part of the program to control fixed costs.

Regarding M&As, we maintain our stance that it is an effective means of enhancing quality or realizing synergies with an existing business, or developing new businesses. However, it is just one of the options available, and we will not focus solely on M&As.

Special Feature:
Proton Therapy System

Proton therapy is a completely non-invasive treatment procedure. Today, attention in Japan and elsewhere has turned to this therapeutic treatment, which has a minimal physical burden on patients, yet is highly effective. By applying its long history of accomplishments in cyclotron technology, SHI is offering state-of-the-art therapeutic systems in the ever-growing field of cancer treatment.

What Is Proton Therapy?

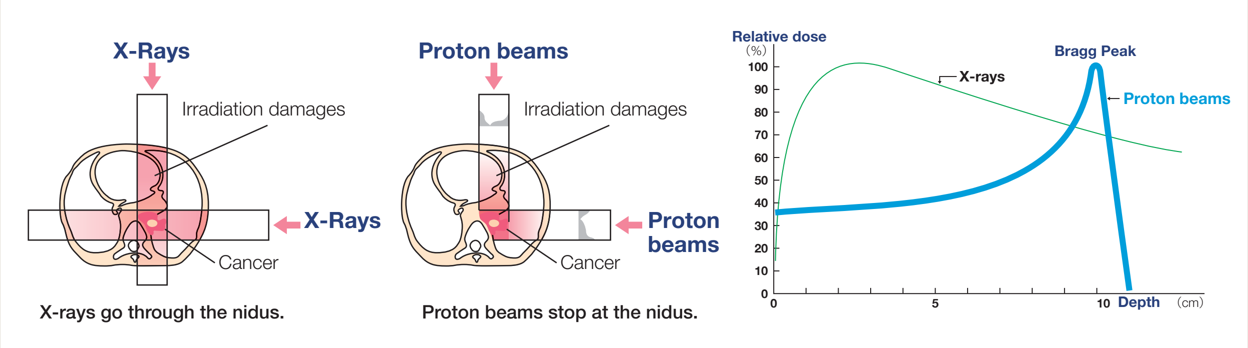
As the name suggests, proton therapy is a type of radiation therapy that destroys cancer cells by bombarding affected areas with a proton beam.

Since no surgery is required, this treatment places a much lighter burden on the human body.

Features of Proton Therapy

- Minimizes damage to normal tissue
- Capable of irradiating cancer cells close to vital organs
- Outpatient treatment enables patients to continue with work and daily life
- The therapy is gentle enough for elderly patients
- Minimal side effects, speeding patients' return to social life following treatment

Irradiation system with rotating gantry (National Cancer Center Hospital East, Japan)



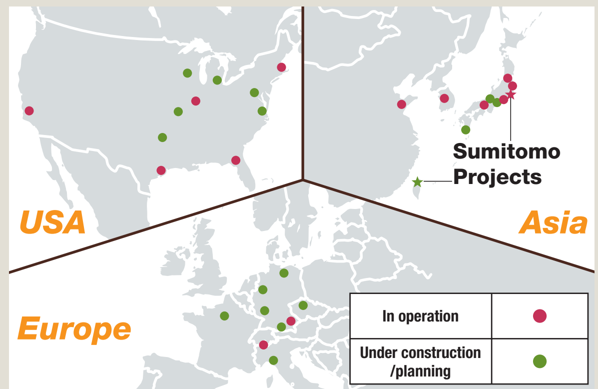
Comparison With X-ray Radiotherapy

In contrast to the X-rays used in conventional radiation therapy, proton beams can be used in a pinpoint manner to target only cancer cells. This breakthrough is possible through a special quality of proton radiation known as the Bragg peak, which allows the beam's maximum energy to be released at a specified depth. Compared to X-rays, which damage all cells exposed to them, this feature enables the proton beam to be concentrated only on the area where needed.

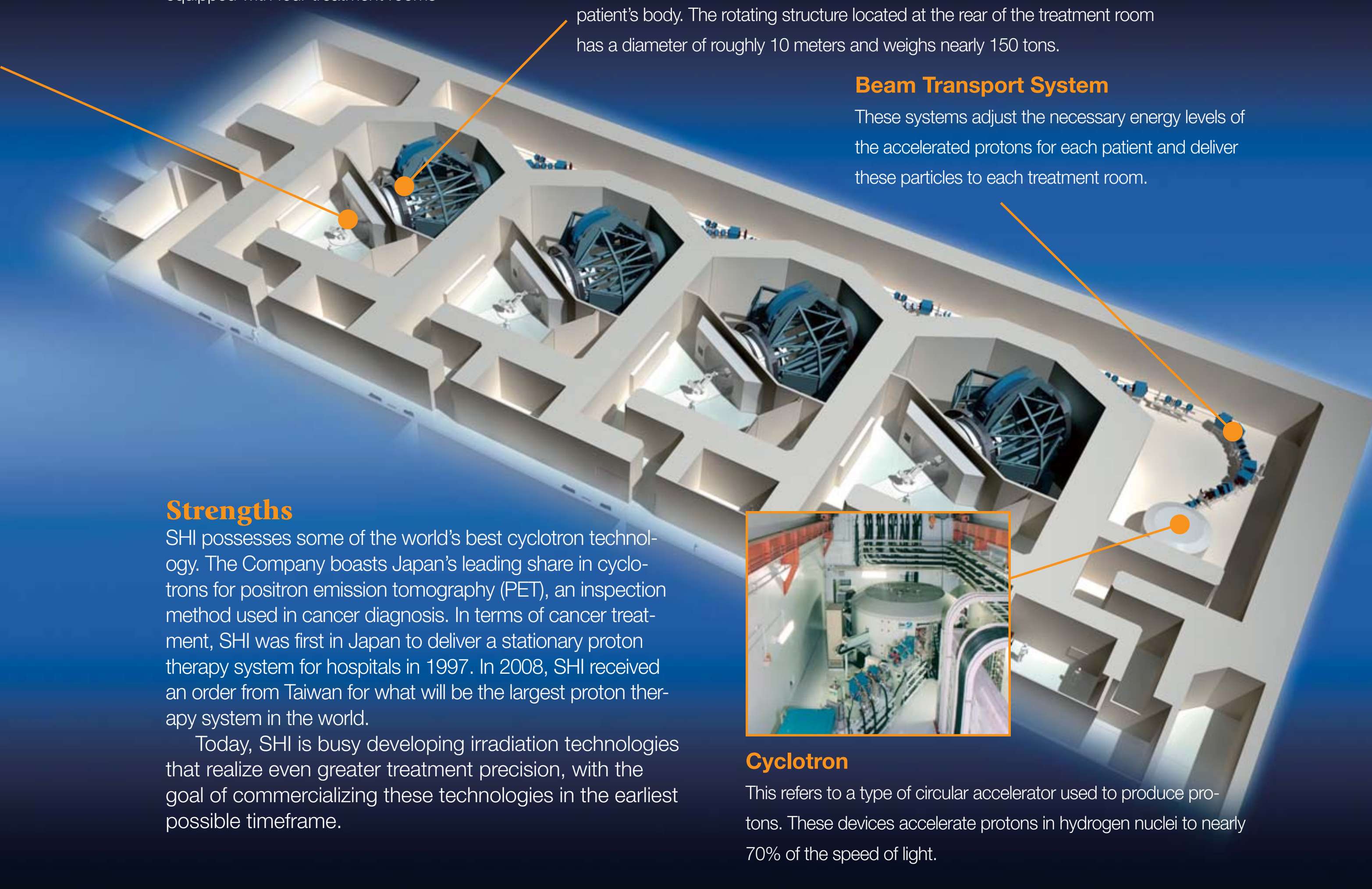
Markets

Although surgical procedures are still the primary mode of cancer treatment in Japan, radiation therapy is the norm in Europe and the United States, suggesting substantial market growth is likely going forward. Accordingly, the pace of adoption of these systems by medical facilities, which had been about 1 or 2 per year, has in recent years increased to around 5 or 6 per year, with numerous facilities planned for North America, Europe and Asia in the coming years. Going forward, SHI is committed to developing products tailored to client needs and breaking into new markets in a bid to encourage the widespread use of minimally invasive and effective treatment therapies.

Global Proton Therapy Facilities



World's largest-scale proton therapy system for Taiwan's Chang-Gung Memorial Hospital, equipped with four treatment rooms



Gantry Treatment System

These systems enable the 360° firing of proton beams to affected areas of the patient's body. The rotating structure located at the rear of the treatment room has a diameter of roughly 10 meters and weighs nearly 150 tons.

Beam Transport System

These systems adjust the necessary energy levels of the accelerated protons for each patient and deliver these particles to each treatment room.

Cyclotron

This refers to a type of circular accelerator used to produce protons. These devices accelerate protons in hydrogen nuclei to nearly 70% of the speed of light.

Strengths

SHI possesses some of the world's best cyclotron technology. The Company boasts Japan's leading share in cyclotrons for positron emission tomography (PET), an inspection method used in cancer diagnosis. In terms of cancer treatment, SHI was first in Japan to deliver a stationary proton therapy system for hospitals in 1997. In 2008, SHI received an order from Taiwan for what will be the largest proton therapy system in the world.

Today, SHI is busy developing irradiation technologies that realize even greater treatment precision, with the goal of commercializing these technologies in the earliest possible timeframe.

Review of Operations

Mass-Produced Machinery

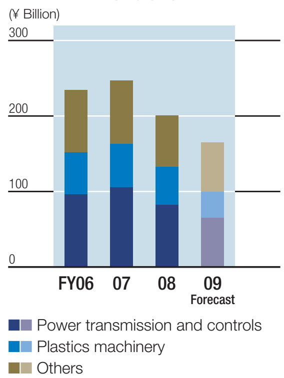
Main Products

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

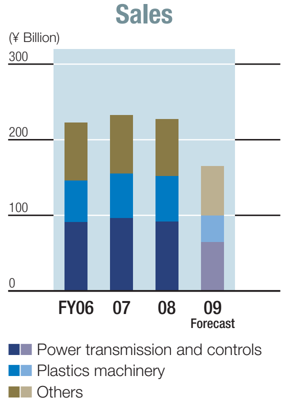
Major Units

Sumitomo Heavy Industries Mechatronics, Ltd.
SEN Corporation
Seisa Gear, Ltd.
SHI Examination & Inspection, Ltd.
Sumitomo Machinery Corporation of America
Sumitomo (SHI) Cyclo Drive Germany GmbH
Sumitomo Heavy Industries (Tangshan), Ltd.
SHI Plastics Machinery, Inc. of America
Sumitomo (SHI) Demag Plastics Machinery GmbH
Sumitomo (SHI) Cryogenics of America, Inc.

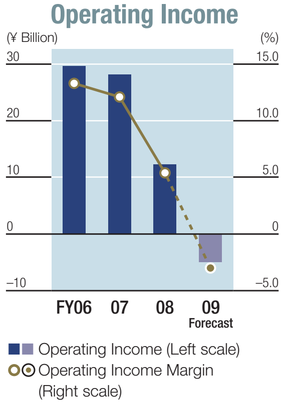
Orders



Sales



Operating Income



Business Environment

Power transmission and controls claims customers in a wide range of industry sectors, making it relatively resistant to abrupt market changes. This strength notwithstanding, the current deterioration in overall market conditions has led to a rapid cooling of demand for this equipment to unprecedented levels. Regarding plastic injection molding machines, while these products face adverse conditions due to stagnation in IT, electronics-related, and automotive markets, gradual signs of recovery have started to emerge, particularly in China and other parts of Asia. Sluggishness persists, however, in the liquid crystal and semiconductor markets. Amid this climate, sales of products to markets such as food and medical equipment, which remain stable, continue to be robust.

Review and Analysis of Results for Fiscal 2008

With the exception of large-scale gear boxes, both orders and sales for nearly all other machines in power transmission and controls were lower for the year. Sales in plastics machinery, however, were higher despite a sharp decline in orders due to deteriorating market conditions for electronic devices and other products. This outcome reflected the contribution of Sumitomo (SHI) Demag Plastics Machinery GmbH, which we acquired in the previous fiscal year. Results for other businesses in this segment trended lower than usual due to rapid and drastic deterioration in the electronic device and semiconductor markets. This came despite large-scale orders received for proton therapy system used in cancer treatment. As a result, total segment orders declined 19% year on year to ¥200.8 billion, and sales dipped 2% to ¥227.2 billion. Operating income declined 56% to ¥12.3 billion.

Outlook for Fiscal 2009

Economic weakness appears likely to bottom out, with modest recovery undertones expected from the second half of the fiscal year. In power transmission and controls, which covers a broad range of markets, a focus on the first markets to recover is expected to yield growth. In plastic injection molding machines, efforts to improve the business structure of Sumitomo (SHI) Demag Plastics Machinery GmbH are moving apace, as we work to enhance the overall earnings power of this business. In medical equipment, demand is likely to grow in the emerging economies of Asia.

Power Transmission and Controls

Business Environment and Topics in Fiscal 2008

In contrast to lackluster market conditions in Japan surrounding small- to medium-sized gear motors and precision speed reducer units, performance in steel and crane-related products was robust for the year. Similarly, gearboxes for resource-related applications turned in a healthy performance overseas, contrasting with weakness in small- to medium-sized gear motors.

Strategies and Initiatives in Fiscal 2009

In Japan, SHI will expand sales of speed reducers, which are highly effective in terms of energy efficiency, and respond more dynamically to the after-sales service market. Outside of Japan, the Company will bolster its sales capabilities particularly in emerging economies and resource-rich countries, where environment and infrastructure investment remains relatively firm. In parallel, SHI will upgrade the production capabilities at its plants in Hanoi (Vietnam), Tangshan (China), and other sites for the creation of value for customers on a global scale.

Gear box for conveyer

Plastic Injection Molding Machines

Business Environment and Topics in Fiscal 2008

Orders increased year on year as the contribution of a foreign subsidiary acquired in 2008 and other factors outweighed a decline in orders from deteriorating automobile and electronic device markets. In addition to model changes for small and medium-sized full-electric injection molding machine series, including the SE-DUZ, SE-HDZ, and SE-HSZ models, SHI launched the CL7000, a large full-electric injection molding machine.

Strategies and Initiatives in Fiscal 2009

Underpinned by full-electric injection molding machines, SHI will look to enhance its lineup of products optimally suited to customer needs in each product sector. The Company will also pursue global market development, with the goal of becoming the world's top manufacturer in the plastics machinery industry in terms of product and sales capabilities.

Full-electric injection molding machine "SE75DUZ"

Precision Positioning Equipment and Others

Business Environment and Topics in Fiscal 2008

In medical equipment, SHI received an order from Taiwan for the world's largest-scale proton therapy system for cancer treatment. In semiconductor production equipment, the Company laid the groundwork for global advancement, converting an ion-implantation device manufacturer in which it previously held a 50% stake into a wholly owned subsidiary, and establishing a sales base for cryocoolers in South Korea.

Strategies and Initiatives in Fiscal 2009

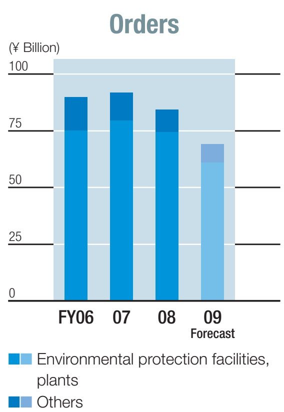
SHI will focus on medical equipment and other strong markets, while raising its product development capability in photovoltaic products and other promising areas, in a bid to sharpen its competitiveness in growth markets. In tandem, the Company will review its production framework with the goals of lowering product costs and raising production efficiency.

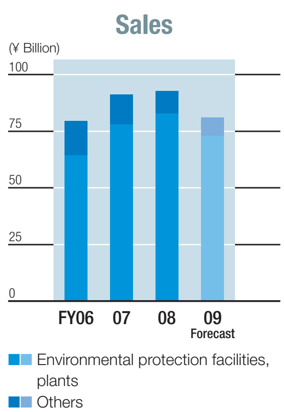
Ion-implantation devices "SHX-II"

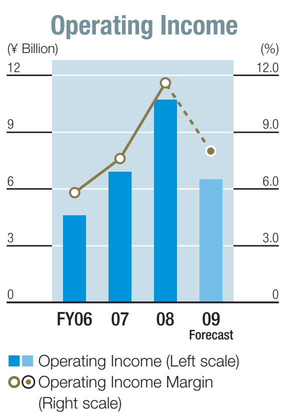
Environmental Protection Facilities, Plants & Others

Main Products
- Power Generation Systems
- Industrial Wastewater Treatment Systems
- Water and Sewage Treatment Systems
- Landfill Leachate Treatment System
- Air Pollution Control Plants
- Chemical Process Equipment & Plants
- Food Machinery
- Software

Major Units
- Sumitomo Heavy Industries Environment Co., Ltd.
- Sumiju Environmental Engineering, Inc.
- Sumiju Plant Engineering Co., Ltd.
- Nihon Spindle Mfg. Co., Ltd.
- Izumi Food Machinery Co., Ltd.
- Lightwell Co., Ltd.







Business Environment

This segment serves customers in both the public and private sectors. As public-sector demand continues to contract, we are transforming the structure of this business to focus on the private sector. Biomass boilers are sparking keen interest in Japan and overseas as environmental conservation activities gain momentum. Accordingly, a market recovery is widely anticipated despite subdued investment in large-scale projects. In the water-treatment business, while the private-sector market has stagnated, capital investment is expected to increase in food and other strong markets. Demand in the public sector, specifically for water and sewage treatment systems, remains stable.

Review and Analysis of Results for Fiscal 2008

Orders received in the energy plant business were relatively unchanged from the previous fiscal year, with orders primarily for biomass boilers and air pollution control equipment. Sales, however, declined for the year. In water-treatment business, while orders were lower mainly due to a decline in private-sector demand, sales rose on the back of brisk orders received in the previous fiscal year. As a result, orders received by this segment as a whole decreased 8% year on year to ¥84.2 billion, while sales rose 2% to ¥92.6 billion. Operating income climbed 55% to ¥10.7 billion.

Outlook for Fiscal 2009

Rising concern over the need to protect the global environment is causing constant growth in the market for biomass-related products, with interest in biomass boilers surging most notably in Southeast Asia. If recovery undertones indeed emerge in the second half of the fiscal year, this trend is expected to prompt customers to finalize project plans. In the water-related environmental sector, we are steadily advancing business restructuring to enhance our focus on the private sector, with the aim of stabilizing and reinforcing our earnings power.

Energy-Related Plants

Business Environment and Topics in Fiscal 2008

In fiscal 2008, SHI received an order from an Independent Power Producer in Japan for a Circulating Fluidized-Bed (CFB) boiler-based power plant that uses biomass for 100% of its fuel. Overseas, the Company won an order from a steel manufacturer in China for a dry-desulphurization plant. Meanwhile in Southeast Asia, inquiries regarding CFB boilers fueled by biomass derived from agricultural waste or low-grade coal are increasing. In response, SHI worked to identify new projects, and aggressively promoted reforming technologies targeting low-grade fuels, as well as the development of modularized boilers suitable for small-scale applications.

Strategies and Initiatives for Fiscal 2009

The market environment is expected to be adverse again in fiscal 2009. In this climate, SHI will focus in Japan on those segments most resilient to this economic impact. At the same time, the Company will take vigorous steps to expand its services business by seeking to increase the number of projects for extending facility useful life through more robust support activities, as well as repairs and modifications. Overseas, in addition to anticipated latent demand for electric power infrastructure, SHI will take aggressive steps to expand sales of CFB boilers particularly in Southeast Asia, where the need for small-scale biomass power generation facilities that utilize agricultural waste for fuel is growing.


CFB boiler

Water Treatment Plants

Sumitomo Heavy Industries Environment Co., Ltd.

Business Environment and Topics in Fiscal 2008

Despite an adverse market climate, orders from new customers in the private sector increased steadily. Order growth was also apparent in the public sector, where SHI accurately met market needs through sales activities centered on component equipment, one of the Company's unique strengths, amid growing remodeling and renovation demand in recent years.

Strategies and Initiatives in Fiscal 2009

SHI will continue to pursue a range of initiatives that promote the development of a highly profitable earnings structure prefaced on business stability. For the private sector, the Company will promote sales activities particularly in the food industry, a sector where SHI now enjoys advantages, to offer high-value-added products. Amid increased investment related to facility aging and renovation, as well as measures to enhance energy efficiency, SHI will step up its services business to help improve the functionality of existing facilities. In the public sector, as the uptake of energy-saving equipment gains momentum, the Company will move forward with application development and sales activities for the Sumirator vertical aerator, MICRUS® superfine-bubble membrane tube diffuser and other products created with market differentiation specifically in mind.

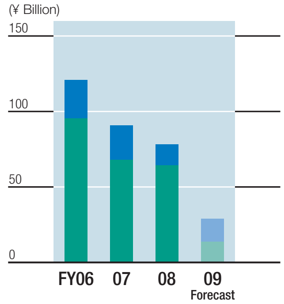

Coagulation Sedimentation System Smi-thickener

Ship, Steel Structure & Other Specialized Equipment

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

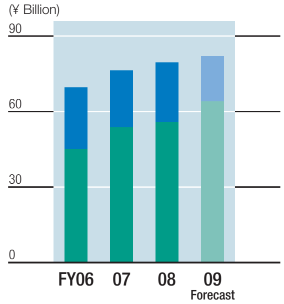
Major Units
Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
SHI Mechanical & Equipment Inc.

Orders



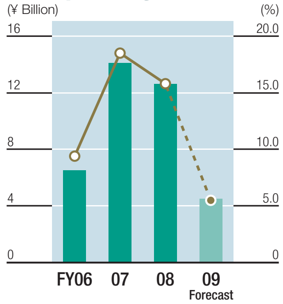
Ship & marine
Steel structure & other specialized equipment

Sales



Ship & marine
Steel structure & other specialized equipment

Operating Income



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

Business Environment

Although plans to build new refineries have diminished as the escalation in demand for oil has receded, there is a vigorous push to enhance profitability by making existing facilities more efficient. Meanwhile, the market for new shipbuilding is undergoing adjustment, with market performance lackluster since the second half of 2008. This period of adjustment, which preceded the construction of new shipbuilding yards that have sprung up in China and elsewhere, was well timed in terms of the supply-demand balance in this sector going forward.

Review and Analysis of Results for Fiscal 2008

We recorded 7 ship orders in the first half of the past fiscal year. With respect to sales, however, we strove to boost productivity, delivering 8 medium-sized tankers, or 1 more than in the previous fiscal year. In steel structure and other specialized equipment, sales rose atop ample orders received in the previous fiscal year, which offset the effects of lower orders in the fiscal year under review due to adverse conditions in petrochemical-related markets. As a result, total orders for this segment declined 14% year on year to ¥78.1 billion, while sales increased 4% to ¥79.6 billion. Operating income was down 11% to ¥12.6 billion.

Outlook for Fiscal 2009

Despite the challenging conditions at hand, the SHI Group retains a healthy order backlog that should minimize the impact of these conditions on business performance. Where oil refining facilities are concerned, we anticipate demand for coke drums, equipment for extracting high-value-added light oil from heavy oil, since these products will make refining facilities more profitable. In ships, we are already seeing signs of a recovery in bulker and certain other ship types, with overall market conditions set to gradually improve going forward.

Reactor Vessels

Business Environment and Topics in Fiscal 2008

Orders were robust at the outset of fiscal 2008, buttressed by a favorable market environment that included the continuation of high crude oil prices from the previous fiscal year. Furthermore, an order from Saudi Arabia for the Company's largest-ever coke drum, with an internal diameter of 9.8m, was an acknowledgement of the Company's outstanding quality, backed by its world-leading track record in the delivery of this equipment. In contrast, the second half of the year brought with it a global economic crisis and falling crude oil prices, which led to plans being cancelled or postponed. The yen's appreciation, moreover, exacerbated this adverse order environment. This climate prompted SHI to take action aimed at identifying replacement demand and raising its name recognition among new customers.

Strategies and Initiatives in Fiscal 2009

Previously vigorous investment particularly in new facilities and facility expansion at oil refineries is expected to be somewhat subdued in fiscal 2009. At the same time, some customers have begun announcing facility augmentation plans to forward efforts to bring greater selectivity and focus to their operations. SHI, for its part, is enacting more extensive reforms of its sales and manufacturing processes to offer products and services better matched to customer requirements. In tandem, the Company will raise QCD (Quality, Cost, Delivery) to a higher level than before. In this way, SHI will build an overwhelming degree of competitiveness that will enable it to definitively capture orders for the limited projects available.


Coke drums

Ships

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Business Environment and Topics in Fiscal 2008

SHI received orders for 6 Aframax tankers and 1 of its newly developed Suezmax tankers, for a total order of 7 ships in fiscal 2008. These orders resulted from promotion of a strategy focused on achieving greater differentiation for medium-sized tankers. SHI also won plaudits from customers for its delivery of 8 Aframax tankers during the year.

Strategies and Initiatives in Fiscal 2009

While challenging conditions in the shipbuilding market will likely persist, SHI currently has adequate construction volume on hand. In advance of a market recovery, the Company will continue to develop and improve the quality of distinctive products with an emphasis on customer value, including improved fuel efficiency. Production reforms will complement these efforts in a drive to achieve ongoing improvements in business performance.

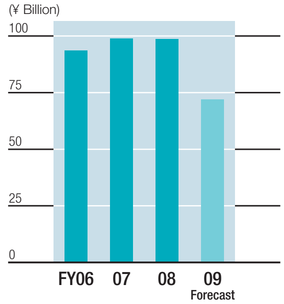
105,000MTDW oil tanker

Industrial Machinery

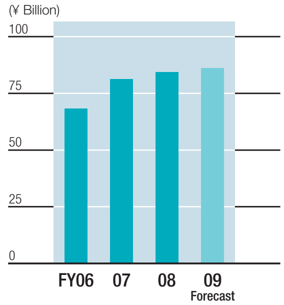
Main Products
Logistics & Handling Systems
Automated Parking Systems
Forging Machines
Material Handling Systems
Turbines
Pumps

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

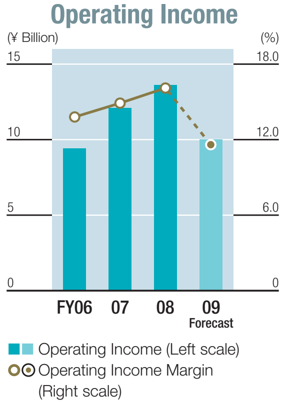
Orders



Sales



Operating Income



Business Environment

Infrastructure-related investment overseas remains firm, especially in emerging economies. In Japan, although new large-scale capital investment has been somewhat curtailed, investments designed to enhance productivity remain robust. Furthermore, the increased attention being given to energy-efficient facilities is raising expectations with respect to products with low running costs.

Review and Analysis of Results for Fiscal 2008

While orders of material handling systems for steel mills increased, overall orders were lower year on year due to a drop in orders of large-scale cranes for shipbuilding companies. In contrast, sales increased thanks to our healthy order backlog. In steam turbines and pumps, orders were on a par with the previous fiscal year and sales increased. This outcome came as favorable sales of turbines for biomass power generation facilities for addressing tight supply and demand for electric power in emerging economies offset a slowdown in the second half of the fiscal year. As a result, orders for this segment totaled ¥98.8 billion, virtually unchanged from the previous fiscal year, while sales rose 4% to ¥84.3 billion. Operating income increased 12% to ¥13.6 billion.

Outlook for Fiscal 2009

Despite the difficult underlying conditions, the SHI Group retains a healthy order book that should minimize the impact of these conditions on business performance. In Japan, investments to boost productivity are likely to remain vigorous, with movement expected in markets pertaining to maintenance services and energy-efficient equipment. Overseas, the willingness of emerging economies to invest remains high and if funds can be raised, a market recovery should follow.

Material Handling Systems

Sumitomo Heavy Industries Engineering & Services Co., Ltd.

Business Environment and Topics in Fiscal 2008

SHI secured orders during the year from a variety of sources, including from its services targeting the partial upgrade of continuous ship unloaders for the electric power industry, and the sale of new products that enhance energy efficiency and hybrid power supply equipment for transfer cranes.

Strategies and Initiatives in Fiscal 2009

While focusing on sales expansion for new overhead traveling crane models, as well as renovation of aging factory facilities, preventive maintenance, and other services, SHI will take steps to conduct sales activities that create value for customers throughout East Asia, particularly in Japan, as it moves to steadily win product and service orders.


Overhead traveling crane

Turbines and Pumps

Shin Nippon Machinery Co., Ltd.

Business Environment and Topics in Fiscal 2008

SHI recorded steady growth in orders for both turbines and pumps in the first half of the year, reflecting expansion in power generation businesses based on renewable energy sources, coupled with robust market conditions for heavy oil upgrades in line with rising oil prices. However, orders slowed in the second half of the year as investment plans were postponed due to the global financial crisis.

Strategies and Initiatives in Fiscal 2009

While customer investment plans, as in the previous fiscal year, continue to stay on hold, inquiries remain unchanged. SHI will maintain order volume by enhancing cost competitiveness and caravan customer support for maintenance services. These efforts will target the sugar market in India and Southeast Asia and the power generation market in North America with respect to turbines, and the market for heavy oil upgraders in the Middle East for pumps.


Multistage steam turbine rotor assembly

Forging Presses and Industrial Machinery

Sumitomo Heavy Industries Techno-Fort Co., Ltd.

Business Environment and Topics in Fiscal 2008

Orders for major projects, including large forging presses to be used in the energy industry abroad and modifications to continuous casters, remained healthy in certain respects. Nevertheless, business operations were impacted by a slump in the automotive industry, STF's main customer base in this sector, during the second half of the fiscal year.

Strategies and Initiatives in Fiscal 2009

In forging presses, STF will aggressively promote services, among them the modification, repair, and upgrade of existing facilities, alongside its distinctive large forging presses. In industrial machinery, the Company will leverage its engineering and technological capabilities to meet customer requests for large-scale modification and expansion of existing facilities. STF's goal in this adverse economic climate will be to offer the best solutions in response to market needs.

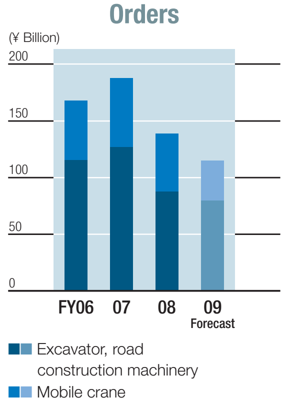

Forging press

Construction Machinery

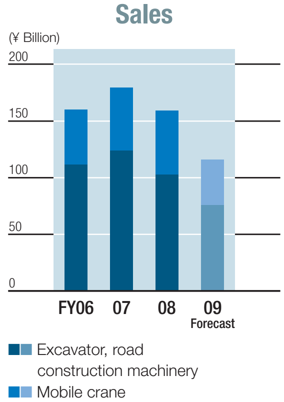
Main Products
Hydraulic Excavators
Mobile Cranes
Road Machinery

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

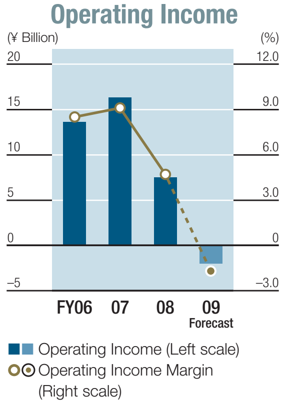
Orders



Sales



Operating Income



Business Environment

Global demand for construction machinery has contracted since the second half of 2008. Despite a slight recovery in the Chinese market, this situation suggests that some adjustment in the supply-demand balance is necessary for the market as a whole. Similarly, the mobile crane market in North America has grown weaker due to restrained infrastructure investment.

Review and Analysis of Results for Fiscal 2008

In hydraulic excavators, firm performance in the first half of the fiscal year was countered by sharply lower demand in the second half, causing orders to decline. Tracking the decline in orders, sales fell substantially in the second half of the fiscal year, leading to decreased sales for the full year. In mobile cranes for construction, we held sales on a par with the previous fiscal year despite decreased orders caused mainly by a drop in infrastructure demand in the North American market. As a result, orders for this segment totaled ¥138.8 billion, down 26% year on year, with sales declining 11% to ¥159.2 billion. Operating income decreased 54% to ¥7.5 billion.

Outlook for Fiscal 2009

A recovery in the overall market for hydraulic excavators is unlikely for the foreseeable future. With that said, a localized increase in demand has begun to appear in the Chinese market and other emerging economies. In the North American mobile crane market, stable demand is expected despite subdued infrastructure investment and decreased volume.

Hydraulic Excavators and Road Machinery

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

Business Environment and Topics in Fiscal 2008

Global demand for hydraulic excavators reached record levels in the first half of the fiscal year, spurred by increased demand from China and other emerging economies. The global recession in the second half, however, caused demand to plummet, resulting in a more than 20% decline in demand for the full year. In this climate, SHI cut production in a bid to reduce inventories and fixed costs, with a focus on building a structure able to cope with declining demand.

In terms of products, SHI launched a large asphalt paver that can pave a road 9 meters wide in a single pass in the world's largest market, China. In Japan, the Company drew wide attention when it announced development of the world's first hybrid powered hydraulic excavator magnetic specification.

LEGEST® HIBRID

Strategies and Initiatives in Fiscal 2009

In April 2009, Sumitomo (S.H.I.) Construction Machinery Co., Ltd. absorbed Sumitomo (S.H.I.) Construction Machinery Manufacturing Co., Ltd. via merger, integrating the management planning functions of both companies and creating a system for responding swiftly to changes in the business environment.

SHI commenced operations at its first overseas production plant for hydraulic excavators in June 2009 in Tangshan, China. Going forward, the Company will develop a structure for the timely production of high-quality products close to the site of demand. Another focus for SHI is the development of new markets. Among other efforts, this will include development of the market for asphalt pavers in China and Europe, and the start of sales in Japan of the Company's hybrid powered hydraulic excavator magnetic specification.

Crane Business

Link-Belt Construction Equipment Company

Business Environment and Topics in Fiscal 2008

The North American mobile telescopic and crawler crane markets continued to grow at a double-digit rate in fiscal 2008, although demand weakened during the second half. The mobile crane business benefited from this strong demand, achieving record sales and earnings for fiscal 2008. The Link-Belt Construction Equipment Company ("Link-Belt") also had success raising its presence in the global marketplace by stepping up sales promotion outside North America; strengthening its North American distributor network; and improving production efficiency through its Lean Sigma® program.

Strategies and Initiatives in Fiscal 2009

Given prevailing market conditions, Link-Belt has implemented strategic initiatives to align production with demand and reduce inventory. In this challenging economic environment, Link-Belt will pursue cost-reduction activities, while retaining its focus on long-term strategic objectives: new product development, continued elevation of its presence in the global market, and improving manufacturing through Lean Sigma®.

Truck Terrain Crane HTT-8675

Research and Development

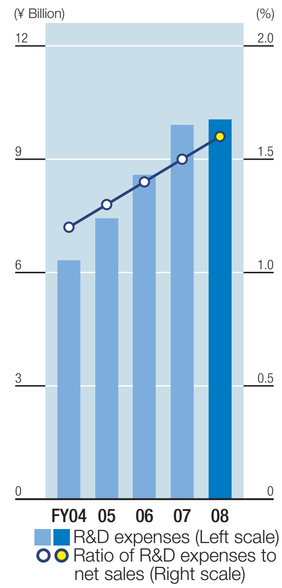
R&D Strategy

The SHI Group adheres to a basic R&D policy of developing first-class products that provide value to its customers and delivering them to markets. The Group is concentrating investments in growth business fields, and strengthening R&D activities in the environment and energy fields to realize a low-carbon society.

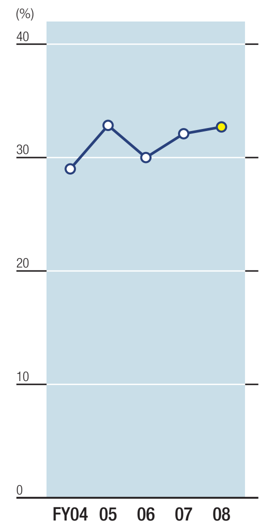
Our leading-edge R&D Center is focused on transforming all products into first-class products, developing basic technologies for maintaining the Group's competitive edge, and constituent technologies required for future innovative products. We are committed to a vertically integrated style of development that creates synergistic value chains by taking full advantage of the strengths of both the R&D Center and our business divisions.

The Group plans to invest approximately ¥35.0 billion in R&D over the 3-year period from fiscal 2008 through fiscal 2010. Sales of new products accounted for approximately 30% of total sales on a non-consolidated basis, and we will continue to create new products to further improve efficiency.

R&D Expenses



Proportion of New Products in Total Sales



Major R&D Results by Business Segment

Mass-Produced Machinery

In power transmission equipment, we launched the "F1C-E" series of CYCLO® speed reducers which allow slimmer robot joint components, in the area of precision gear reducers. In speed reducers for wind power generators, we developed a new product series well suited for pitch and yaw drive control.

In plastics machinery, we conducted model changes for all small and medium-sized electric injection molding machines, incorporating new functions that include natural filling controls, controls for avoiding excessive clamping force on molds, and easy operation. We also developed the "CL7000" large-sized electric injection molding machine. A new plasticizing system has dramatically reduced total machine length and expanded clearance between tie bars enabled to set larger molds.

In quantum equipment, we enacted a model change for the "HM-18" positron emission tomography (PET) system for cancer diagnosis, striving for higher throughput and a more space-saving footprint. In coating machines, we launched the high-performance ZnO (Zinc Oxide) coating system for the photovoltaic cell market.

Cyclo® Drive "F1C-E"

ZnO Coating System

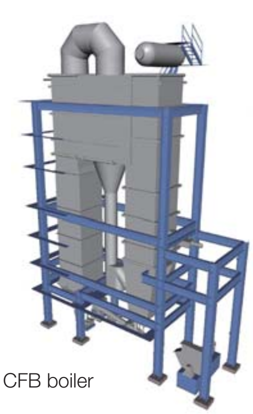
In precision positioning equipment, we launched a stack type model with a linear motor drive for small-sized stages, and also for large-sized stages, unveiled gantry moving-type and table moving-type models for 10th generation glass substrates.

Linear ball guided gantry moving type stage

Environmental Protection Facilities, Plants & Others

In water treatment plants, we developed new products in the water treatment business compliant with stricter environmental regulations, and in the water and sewerage business developed readily upgradable unit type products that can help saving energy.

In energy and environmental plants, we successively initiated the operation of circulating fluidized-bed (CFB) boilers that use biomass and recycled fuels, helping customers to reduce CO_2 emissions and aiding in their shift away from the use of heavy oil for fuel. In Southeast Asia, we got a lot of inquiries regarding our CFB boilers, which allow the use of widely available biomass resources and low-grade coal. We also developed the modular type boiler exclusively for small-sized biomass power generation.



Modular type CFB boiler

Ship, Steel Structure & Other Specialized Equipment

In ships, we conducted ongoing basic research into energy-saving technologies and continue to develop and build ships offering outstanding customer value, making these vessels compliant with anticipated environmental regulations. We also focused on developing production technologies, adopting the very latest in data processing and measurement technologies to enhance product quality and shorten shipbuilding lead times.

Industrial Machinery

In material handling systems, we brought to market new models of small and medium-sized (5 to 50 t) overhead traveling cranes. Along with improved inverter controls, these new models allow users to select the optimal operation pattern for the usage environment. In addition to being lighter and more compact, these products are structurally designed to dramatically reduce production lead times.

In turbines, we worked to develop constituent technologies for optimizing medium- and high-pressure blade configurations, and reducing output loss, through the use of three-dimensional heat flow analysis, to improve internal efficiency.

In forging presses, we expanded our lineup of new presses developed in collaboration with customers, with an emphasis on making more compact products.

Construction Machinery

In hydraulic excavators, we worked to develop a model with an engine compliant with interim Tier 4 emissions requirements, in what is set to become a core machine in our lineup. We also began selling new additions to our existing LEGEST® series of hydraulic excavators, which are equipped with engines that meet Tier 3 emissions requirements. And also we developed the LEGEST® HYBRID, the world's first hybrid excavator with an attached magnet lifting device.

Intellectual Property

The Sumitomo Heavy Industries 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 energies throughout Sumitomo Heavy Industries to the active creation, management, and protection of this Group's "property."

Promotion Structure

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

Main Activities and Results

Intellectual Property Inspection Activities

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

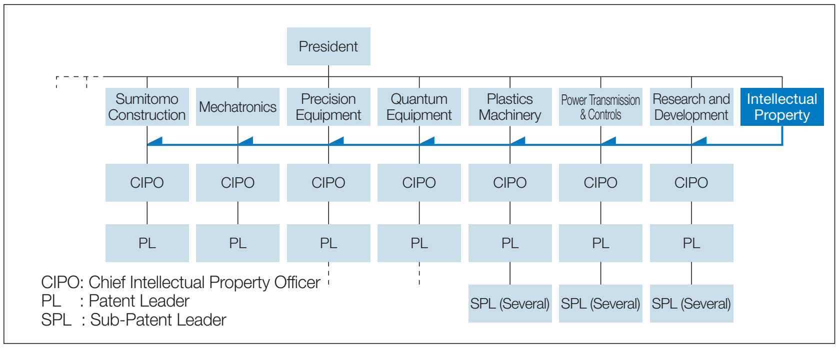
Strength of Intellectual Property Evaluation Activities

At present, we are evaluating the strength of patents held by SHI and the processes for improving this strength. In addition to enhancing its quality, this reassessment will enable the products derived from intellectual property to secure a competitive advantage.

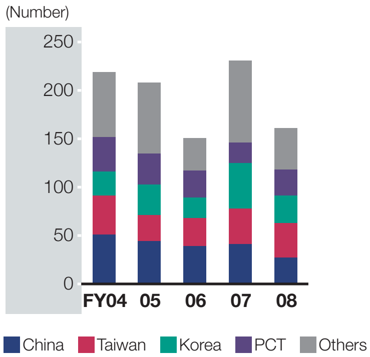
Emphasis on Overseas Patent Applications

In tandem with the internationalization of the business activities of the SHI Group, we have been calling on all operating divisions and other relevant divisions to take active steps to file patent applications overseas. As a result, as of April 2009 as many as 1,231, or 35.3%, of the total of 3,483 patents held by the Group were held overseas. Notably during the past five years, we have increased the number of overseas patent applications under the Patent Cooperation Treaty (PCT). We have been stepping up the use of these PCT applications because of the advantages they offer. For example, they eliminate certain duplications in the examination procedures that are conducted by each individual country. Further, the date of filing within Japan is also deemed to be the date of filing in other designated countries if certain conditions are satisfied.

CIPO System



Overseas Patent Applications by SHI



Corporate Governance

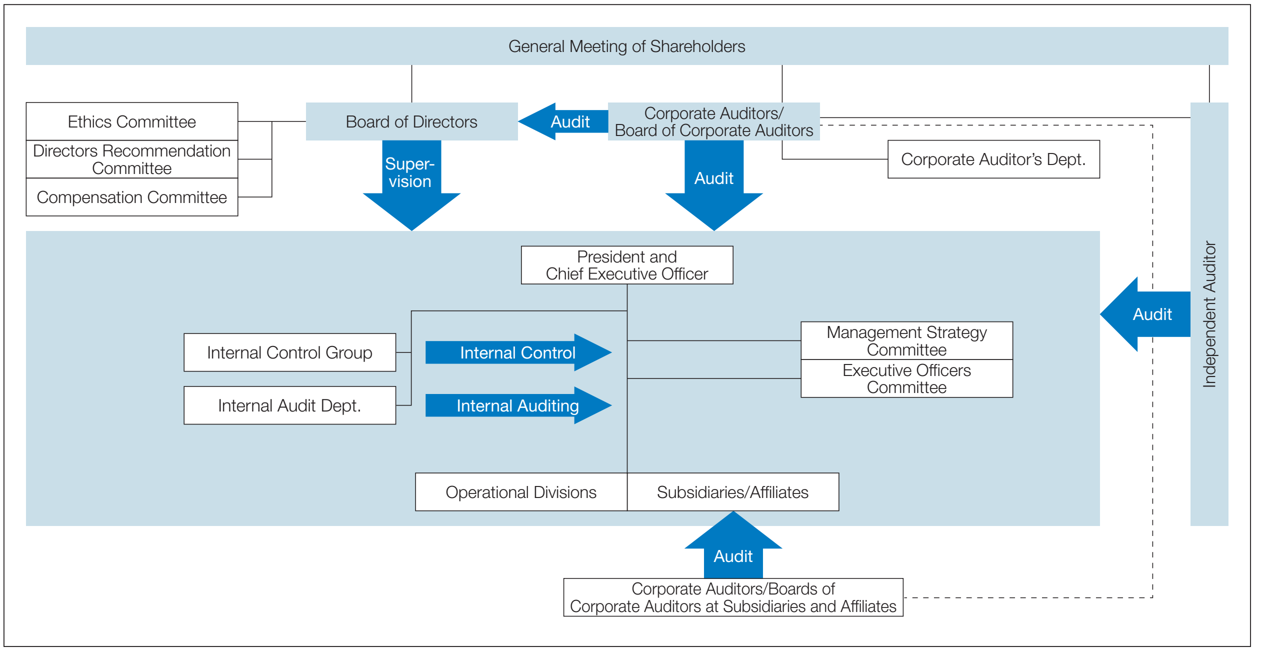
The SHI Group believes that the essence of corporate governance lies in the establishment of a system that enables efficient and transparent management. Sound corporate governance helps the Company achieve higher enterprise value and win the trust of all its stakeholders, including shareholders, customers,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

Corporate Governance System

The SHI Group 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 small Board of Directors comprising 10 directors, including one external director, to ensure full deliberation and reinforce management transparency and management supervision. The Executive Officers Committee comprises 15 executive officers, who execute the Company's business, including 7 who concurrently serve as directors of the Company. The Committee manages consolidated business results and ensures the implementation of management policies. The Company has also established the Management Strategy Committee, comprising executive officers assigned to the Company's Head Office, as an advisory body to the president. The Board of Corporate Auditors comprises four corporate auditors, including two external corporate auditors. The Board audits the execution of duties by the Company's directors and executive officers and reinforces the auditing function by periodically convening meetings of the corporate auditors of the Company and its subsidiaries and affiliates. The Company appoints lawyers and certified public accountants as external corporate auditors to reinforce the overall system for checking compliance and corporate accounting.

SHI's Corporate Governance System



Internal Auditing, Auditing by Corporate Auditors, Independent Audits

Current State of Corporate Audits

The Company has established the Internal Audit Department (having a full-time staff of 10) 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 by the operational divisions. The Company has appointed KMPG AZSA & Co. as its independent auditor, has entered into an audit contract, and undergoes rigorous audits. The corporate auditors, internal auditing organization, and independent auditor closely collaborate from the audit planning stage and exchange information about audit results, to develop and implement an efficient audit system.

The Corporate Auditor Audit System

The Company has established the Corporate Auditor's Department as a staff organization to support the Board of Corporate Auditors. The corporate auditors discuss in advance with the directors and executive officers personnel transfers and performance evaluation of members of the Corporate Auditor's Department. To audit the execution of duties by the Company's directors and executive officers, the corporate auditors attend meetings of the Board of Directors and the Executive Officers Committee as well as other important meetings and can examine important approval requests and other important documents concerning the conduct of business. The directors and executive officers promptly report to the corporate auditors any matter within the Company or Group companies that violates or may violate laws, ordinances, or the Articles of Incorporation, any matter that causes or may cause significant damage to the Company, or any materially improper matter. The directors and executive officers cooperate to enable the corporate auditors to perform effective audits in coordination with internal auditing organizations, the Internal Control Group, the corporate auditors of Group companies, and the independent auditor. The board of corporate auditors of a Group company immediately reports to the Company's corporate auditors if it has discovered any matter that violates or may violate laws, ordinances, or the Articles of Incorporation, any matter that causes or may cause significant damage to a Group company or the Group as a whole, or any materially improper matter.

Internal Control System

The SHI Group considers the internal control system to be an important management foundation for increasing the enterprise value and ensuring the sustained development of the Group. The Board of Directors decides the basic policy for the development of the internal control system, which is the foundation of corporate governance. The Board appropriately verifies the effectiveness of the internal control system and undertakes constant enhancement and improvement. The Company appoints external directors to bring an outside perspective to the decisions of the Board of Directors. The corporate auditors conduct audits to ensure the appropriate execution of duties by the Company's directors with respect to the development and operation of the internal control system.

Risk Management

The Company engages in risk management using the group-wide internal control system. The Company takes a specialized approach to risk management under which regulations governing individual risks, such as environmental, legal, disaster, IT, and export control risk, are prepared and education and guidance are provided by the business units in charge. In the event of emergency, in accordance with the Company's Emergency Reporting Procedures, the involved employees immediately report to executive management and take appropriate measures.

Takeover Defense Measures

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

Reinforcement of Corporate Governance

The SHI Group has long undertaken reinforcement of corporate governance. Specifically, the Company has undertaken to vitalize the Board of Directors and ensure transparency in management by means that include the introduction of the executive officer system in 1999, the appointment of external directors since 2002, and the reduction of the term of office of directors from two years to one year in 2007.

Compliance Activities

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

Message From an External Director

Toshiaki Kakimoto

For more than half of my forty years as a businessman I have been involved with macroeconomic studies. In my capacity as a member of the Japan Association of Corporate Executives and the Kansai Association of Corporate Executives, I have continuously engaged in research into and made proposals on various corporate management issues. I intend to utilize this experience and apply a broad perspective and objective point of view to increase the enterprise value of Sumitomo Heavy Industries, Ltd.

Management

As of June 26, 2009

Board of Directors

Yoshio Hinoh*
Chairman

Yoshinobu Nakamura*
President and CEO

Yukio Kinoshita*
Senior Executive Vice President and CFO

Shinji Nishimura*
Senior Executive Vice President

Katsuhiko Taniguchi
Executive Vice President

Yuji Takaishi
Senior Vice President

Shunsuke Betsukawa
Senior Vice President

Kensuke Shimizu
Director

Mikio Ide
Vice President

Toshiaki Kakimoto
Director

Corporate Auditors

Eiichi Fujita
Standing Auditor

Nobuo Kadota
Standing Auditor

Yoshio Kohra
Auditor

Seishiro Tsukada
Auditor

Executive Officers

Yoshio Hinoh
Chairman

Yoshinobu Nakamura
President and CEO

Yukio Kinoshita
Senior Executive Vice President
and CFO

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

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

Yuji Takaishi
Senior Vice President
General Manager, Personnel Group

Shunsuke Betsukawa
Senior Vice President
General Manager, Corporate Finance, Accounting & Administration Group
General Manager, Corporate Planning & Development Dept.

Kensuke Shimizu
President and CEO, Sumitomo (S.H.I) Construction Machinery Co., Ltd.

Mikio Ide
Vice President

Toshiaki Kakimoto

Yasuhiko Seike
Executive Vice President
Regional General Manager, Kansai Office
General Manager, Corporate Marketing Dept.

Akihiko Yoshii
Executive Vice President
General Manager, Corporate Technology Operation Group
General Manager, Intellectual Property Dept.

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

Osamu Sekiya
Senior Vice President
General Manager, Precision Equipment Group

Shigeru Toyosumi
Senior Vice President
General Manager, Internal Control Group

Shigeharu Yasunaga
Vice President
President and CEO, Shin Nippon Machinery Co., Ltd.

Hitoshi Kashimoto
Vice President
President and CEO, Sumitomo Heavy Industries Marine & Engineering Co., Ltd.

Chuck Martz
Vice President
Chairman and CEO, Link-Belt Construction Equipment Company

*Director with Representative Rights

Measures for Environmental Preservation

In 1997, SHI established the "SHI Environmental Policy" to guide activities that are social responsibilities of the SHI Group for protecting the global environment, for preserving the local environment, and for engaging in recycling-based economic activities. In addition, in 1999, the SHI Group established "Sumitomo Heavy Industries Group Environmental Policy." All of the SHI Group Companies have been promoting environmental activities and environmental management.

SHI Group Environmental Policy

- Consider the impact on the environment around the facilities.
- Prevent environmental pollution
- Reduce waste
- Save energy, Save resources, Promote recycling

Reducing Environmental Load

The SHI Group is working to mitigate the environmental load from its products and production activities, and is contributing to environmental preservation efforts by making its products lighter, more compact, and more energy efficient. In tandem, the SHI Group is seeking greater energy savings through production innovations.

In fiscal 2008, the Niihama Factory within SHI Ehime Works was recognized for its outstanding energy management by Ministry of Economy, Trade and Industry, ultimately receiving the "Shikoku Bureau of Economy, Trade and Industry Award." Similarly, the Yokosuka Works was presented by Kanagawa Prefecture with the "Kanagawa New Energy Award." Among products, the Group's hybrid power supply unit for transfer cranes used in harbor container yards was awarded "The Japan Machinery Federation President's Award" for excellence in energy efficiency.

"SYBRID SYSTEM" hybrid power supply unit

Transfer cranes are self-propelled cranes used to load and unload containers at container terminals located at harbors and elsewhere. SHI's system supports the crane's engine-generator, enabling electricity generated during lowering and deceleration to be stored and used again for hoisting. This process reduces fuel consumption versus conventional cranes by nearly 60%, while also curbing exhaust and black smoke emissions. The end-result is a major contribution to environmental measures for container terminals.

Efforts to Prevent Global Warming

The SHI Group takes steps to curb CO_2 emissions, reduce paper usage, and promote “green logistics” (reduce CO_2 emissions from transportation) as part of activities aimed at preventing global warming. The Group gives greatest emphasis to eliminating wasteful practices and improving operations by pursuing initiatives in which every employee can take part and visualize the results. We met our targets in all categories in this area in fiscal 2008.

	FY2008 Target	Achievement	Final Target
Reduce CO_2 emissions:	11% reduction vs. FY2004	11% reduction	15% reduction vs. FY2004 in FY2010
Reduce paper usage:	30% reduction vs. FY2005	33% reduction	40% reduction vs. FY2005 in FY2010
Green logistics (reduce CO_2 emissions transportation):	6% reduction vs. FY2006	6.8% reduction	10% reduction vs. FY2006 in FY2009

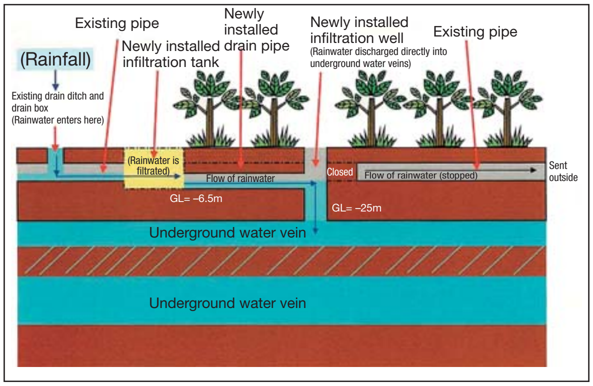
Social Contribution Activities

The SHI Group conducts work experience programs for students, local cleanup activities, disaster prevention measures, and other social contribution activities in the community, with the goal of being a company with an embedded presence there.

For example, since 1995, about 4,600 square meters plot of factory property at the Tanashi Works has been named the “Forest of Inspiration” and opened to the public. Management of the land is entrusted to a local social welfare institution, with proceeds from the sale of compost made from fallen leaves and vending machines going to the facility for the park’s upkeep.

We have installed rainwater infiltration pipes in the “Forest of Inspiration.” Utilizing existing drain pipes, these infiltration pipes allow rainwater released into local rivers to penetrate deeper into the ground, helping to replenish groundwater and mitigate the risk of ground subsidence. The pipes also aid in preventing flood damage to surrounding areas caused by localized torrential rains attributed to global warming.

Forest of Inspiration



Rainwater infiltration pipes

Financial Section

Contents

Eleven-Year Summary

Sumitomo Heavy Industries, Ltd. and Consolidated Subsidiaries

	FY1998	FY1999	FY2000	FY2001
Summary of Income (for the year):				
Net sales	¥554,488	¥566,668	¥513,753	¥517,138
Cost of sales	464,286	473,798	434,544	430,399
Selling, general and administrative expenses	80,572	80,162	71,724	72,564
Research and development expenses	8,983	12,206	8,688	6,777
Operating income	9,630	12,709	7,485	14,175
EBITDA (Note 2)	23,800	26,910	20,402	26,078
Net income (loss)	(12,298)	(6,328)	(28,612)	1,650
Cash Flows (for the year):				
Cash flows from operating activities	¥ 11,348	¥ 39,117	¥ (16,957)	¥ 38,808
Cash flows from investing activities	(9,050)	(1,969)	29,560	(3,343)
Free cash flows (Note 3)	2,298	37,148	12,603	35,465
Cash flows from financing activities	19,709	(48,765)	(21,403)	(32,785)
Cash and cash equivalents at the end of year	57,410	45,173	36,496	40,846
Financial Position (at year-end):				
Total assets	¥723,673	¥657,149	¥579,772	¥634,904
Total current assets	542,689	474,059	394,252	371,049
Property, plant and equipment	124,757	128,784	119,135	199,758
Interest-bearing debt	387,199	341,912	324,324	294,552
Net interest-bearing debt	329,789	298,617	287,609	254,402
Stockholders' equity	72,975	64,829	30,049	87,494
Total net assets (Note 4)	—	—	—	—
Amounts per Share of Common Stock:				
Net income (loss) (Note 5)	¥ (20.88)	¥ (10.74)	¥ (48.60)	¥ 2.80
Stockholders' equity	123.96	110.12	51.04	148.63
Cash dividends	—	3.00	—	—
Financial Indexes:				
Operating income margin	1.7	2.2	1.5	2.7
EBITDA margin	4.3	4.7	4.0	5.0
R&D expenses ratio to net sales	1.6	2.2	1.7	1.3
Return on assets (ROA)	(1.7)	(1.0)	(4.9)	0.3
Return on equity (ROE)	(16.9)	(9.8)	(95.2)	1.9
Stockholders' equity ratio	10.1	9.9	5.2	13.8
Interest-bearing debt ratio	53.5	52.0	55.9	46.4
D/E ratio (Times)	5.3	5.3	10.8	3.4
ROIC (Note 6)	1.6	1.9	1.3	2.3
Investment in Plant and Equipment, and Others:				
Capital expenditures	¥ 14,763	¥ 12,606	¥ 14,305	¥ 15,549
Depreciation and amortization	14,170	14,201	12,916	11,902
Number of employees	13,840	13,748	12,411	12,457

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at ¥98=$1, the prevailing exchange rate on the Tokyo Foreign Exchange Market as of March 31, 2009.
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. $$\text{ROIC (Return on Invested Capital)} = \frac{\text{(Operating income + Interest and dividend received) x 55\% (= 1 – Effective tax rate)}}{\text{(Average of stockholders' equity + Average of interest-bearing debt)}}$$

	Millions of yen							Thousands of U.S. dollars (Note 1)
	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	**FY2008**	**FY2008**
	¥481,289	¥482,765	¥521,310	¥551,339	¥600,256	¥660,769	**¥642,918**	**$6,560,389**
	400,460	378,422	407,512	434,904	464,071	505,366	**503,072**	**5,133,383**
	63,616	64,112	65,025	68,930	71,961	77,613	**82,907**	**845,987**
	5,800	6,263	6,317	7,434	8,581	9,908	**10,047**	**102,523**
	17,213	40,231	48,773	47,505	64,224	77,790	**56,940**	**581,018**
	29,322	50,344	58,055	56,577	74,873	91,578	**75,260**	**767,957**
	2,688	16,262	22,792	29,742	37,352	42,974	**13,649**	**139,277**
	¥ 29,499	¥ 75,775	¥ 45,451	¥ 50,023	¥ 56,789	¥ 29,096	**¥ 34,676**	**$ 353,841**
	(1,074)	(7,929)	(6,087)	(7,024)	(12,461)	(41,250)	**(35,924)**	**(366,571)**
	28,425	67,846	39,364	42,999	44,328	(12,154)	**(1,247)**	**(12,730)**
	(22,116)	(56,666)	(46,490)	(48,812)	(41,193)	(5,238)	**15,625**	**159,442**
	47,661	57,678	49,108	43,644	47,523	29,879	**42,414**	**432,798**
	¥588,010	¥580,291	¥569,771	¥579,233	¥600,890	¥678,634	**¥657,436**	**$6,708,529**
	329,231	321,400	316,166	317,813	332,509	381,946	**380,293**	**3,880,542**
	196,104	258,891	253,605	261,421	268,381	296,688	**277,143**	**2,827,987**
	273,544	215,807	169,228	125,504	88,045	89,567	**110,339**	**1,125,904**
	225,571	157,353	119,592	81,587	39,890	59,311	**65,654**	**669,937**
	89,331	114,526	137,157	167,740	—	—	**—**	**—**
	—	—	—	—	206,010	246,371	**238,697**	**2,435,687**
	Yen							U.S. dollars (Note 1)
	¥ 4.57	¥ 27.01	¥ 37.80	¥ 49.45	¥ 61.99	¥ 71.19	**¥ 22.62**	**$ 0.23**
	151.86	190.25	227.90	279.02	338.95	392.80	**378.78**	**3.87**
	—	—	3.00	5.00	7.00	10.00	**6.00**	**0.06**
	%							
	3.6	8.3	9.4	8.6	10.7	11.8	**8.9**	
	6.1	10.4	11.1	10.3	12.5	13.9	**11.7**	
	1.2	1.3	1.2	1.3	1.4	1.5	**1.6**	
	0.5	2.8	4.0	5.1	6.2	6.3	**2.1**	
	3.0	14.2	16.6	17.7	24.0	22.4	**5.9**	
	15.2	19.7	24.1	29.0	34.1	34.9	**34.8**	
	46.5	37.2	29.7	21.7	14.7	13.2	**16.8**	
	3.1	1.9	1.2	0.7	0.4	0.4	**0.4**	
	2.6	6.5	8.5	8.8	12.2	14.0	**9.6**	
	Millions of yen							Thousands of U.S. dollars (Note 1)
	¥ 14,406	¥ 10,562	¥ 8,175	¥ 10,285	¥ 17,257	¥ 28,180	**¥ 31,753**	**$ 324,008**
	12,118	10,112	9,282	9,072	10,649	13,788	**18,320**	**186,939**
	11,777	11,282	11,149	11,319	12,561	14,408	**14,984**	

Management Discussion and Analysis of Financial Conditions and Operating Results

(1) Discussion and Analysis of Operating Results for Fiscal 2008

1. Orders

Orders for the year totaled ¥600.7 billion, a decline of ¥115.7 billion from the previous fiscal year. This outcome was the result of lower orders year on year across all business segments. The construction machinery segment was particularly hard hit, with orders down ¥48.9 billion to ¥138.8 billion. Similarly, orders in the mass-produced machinery segment decreased by ¥46.5 billion year on year to ¥200.8 billion.

2. Sales

Sales were down ¥17.9 billion year on year to ¥642.9 billion. Sales fell as a result of sharply lower sales in the mass-produced machinery and construction machinery segments compared to the previous year.

By region, domestic sales declined by ¥15.2 billion to ¥313.8 billion on lower sales from the hydraulic excavators business in the construction machinery segment. In North America, sales decreased by ¥18.0 billion to ¥102.3 billion due to lower sales in the construction machinery and the ship, steel structure & other specialized equipment segments. Sales in Asia increased by ¥1.4 billion to ¥109.8 billion, with sales growth in the industrial machinery segment partially offset by lower sales in the mass-produced machinery segment. In other regions, sales were up ¥14.0 billion year on year to ¥117.0 billion, reflecting an increase in new shipbuilding sales in Central and South America in the ship, steel structure & other specialized equipment segment.

3. Cost of sales

Tracking the decline in sales, cost of sales was ¥503.1 billion, down ¥2.3 billion from the previous fiscal year. The cost of sales ratio was 78.2%, a worsening of 1.8 points from the previous fiscal year due to deterioration in the ratios of construction machinery and mass-produced machinery segments.

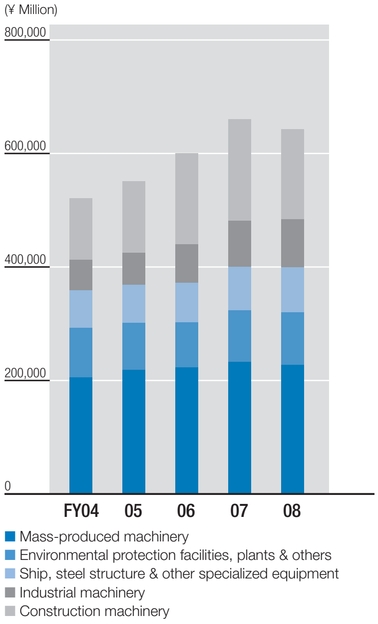
4. Selling, general and administrative expenses

Selling, general and administrative expenses were ¥82.9 billion, up ¥5.3 billion from the previous fiscal year. The main increases were recorded under the items of labor costs and goodwill amortization.

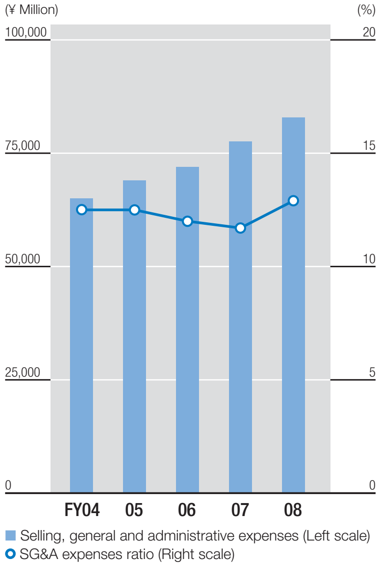
5. Non-operating profit and loss

Non-operating profit and loss recorded a loss of ¥6.7 billion, ¥4.3 billion more than the previous fiscal year. Non-operating income decreased by ¥2.7 billion from

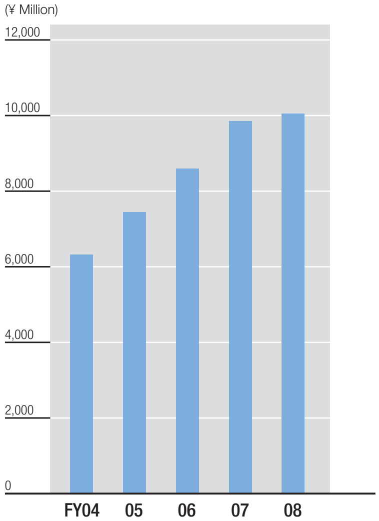
Net Sales



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



R&D Expenses



the previous fiscal year due mainly to a ¥1.7 billion decrease in equity in earnings of unconsolidated subsidiaries and affiliated companies to ¥0.8 billion. On the other hand, non-operating expenses increased by ¥1.6 billion from the previous fiscal year due to an increase in exchange loss and other factors.

6. Special gains and losses

Special gains and losses recorded a loss of ¥16.5 billion, ¥13.6 billion more than the previous fiscal year. Special gains were down ¥0.7 billion due to the absence of such items during the year. Special losses were ¥16.5 billion, an increase of ¥12.9 billion from the previous fiscal year due to a loss from write-down of investment securities of ¥6.0 billion, and ¥4.9 billion for the amortization of goodwill.

7. Income taxes (the total of income tax, local inhabitant tax, business tax and deferred income tax)

Income taxes were ¥18.7 billion, down ¥10.1 billion from the previous fiscal year due to a decrease in income before income taxes of each consolidated company.

8. Minority interests

Minority interests were ¥1.4 billion, up ¥0.7 billion from the previous fiscal year, reflecting the favorable operational results of each consolidated company.

9. Net income

Net income was ¥13.6 billion, down ¥29.3 billion from the previous fiscal year.

(2) Discussion and Analysis of Financial Conditions for Fiscal 2008

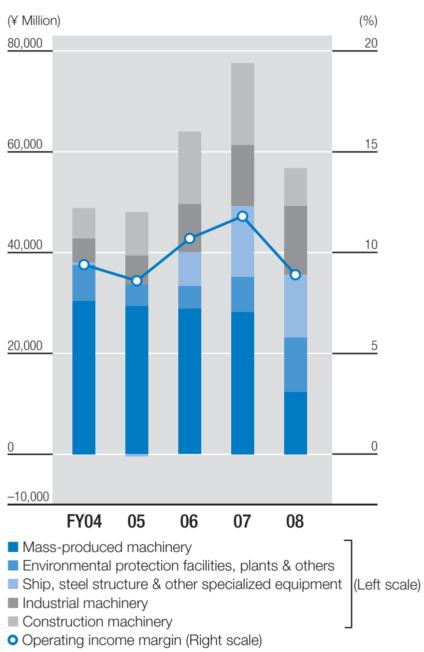
1. Cash flows and interest-bearing debt

The SHI Group has allocated funds through debt and internal financing for working capital and capital spending.

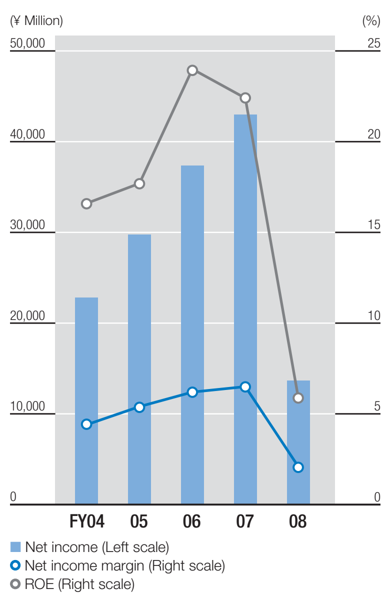
Net cash provided by operating activities was ¥34.7 billion. Although income before income taxes and minority interests decreased by ¥38.8 billion year on year, efforts to reduce accounts receivable and large non-cash losses from write-down of investment securities and amortization of goodwill led to a ¥5.6 billion increase year on year.

Net cash used in investing activities was ¥35.9 billion, down ¥5.3 billion from the previous year. Cash outflows increased due to payments for purchases of property, plant and equipment resulting from aggressive capital spending largely to align overseas bases in the

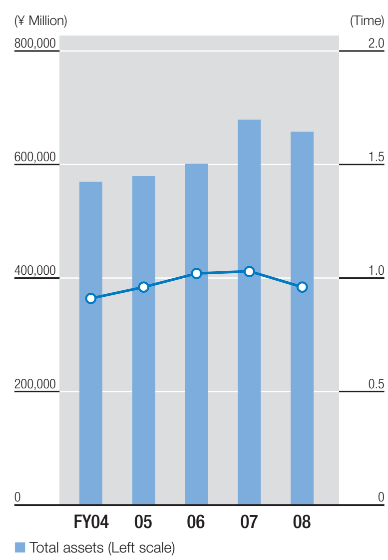
Operating Income, Operation Income Margin



Net Income, Net Income Margin, ROE



Total Assets, Total Assets Turnover



mass-produced machinery and construction machinery segments. Partially offsetting this increase was a decline in cash used as payments for securities and as payment for purchase of consolidated subsidiaries with change in scope of consolidation.

Net cash provided by financing activities was ¥15.6 billion. The Company has entered into commitment line agreements totaling ¥41.5 billion (unused balance) with multiple financial institutions, including domestic and overseas institutions, and thereby has secured very ample liquidity. Cash inflows increased, however, from a ¥25.4 billion net increase in short-term loans taken to ensure a proper level of liquidity amid concerns that the environment for raising funds may worsen, particularly the market for the issue of commercial paper and bonds.

Interest-bearing debt as of March 31, 2009 totaled ¥110.3 billion, an increase of ¥20.8 billion from the previous fiscal year-end. Cash and deposits at the end of year increased ¥14.4 billion year on year to ¥44.7 billion. As a result, net interest-bearing debt increased by ¥6.3 billion year on year to ¥65.7 billion. The ratio of net interest-bearing debt to total assets deteriorated 1.2 points to 10.0%.

2. Assets, liabilities and net assets

Total assets were ¥657.4 billion, down ¥21.2 billion from the previous fiscal year-end due to declines in accounts receivable accompanying collections, as well as losses on write-down of investment securities and goodwill. On the other hand, there was an increase in inventories, an increase in property, plant and equipment in line with capital investments, and an increase in assets due to the new consolidation of SEN Corporation, among other factors. Cash and deposits were ¥44.7 billion, up ¥14.4 billion from the previous fiscal year-end, the result of promoting the collection of receivables. Reflecting progress in the collection of receivables, trade receivables were ¥155.7 billion, down ¥30.2 billion from the previous fiscal year-end. Property, plant and equipment rose ¥9.6 billion year on year to ¥214.0 billion, the result of capital spending. Investment securities declined by ¥25.7 billion to ¥28.2 billion, reflecting a decrease in the market value of these securities.

Notes and accounts payable declined by ¥30.9 billion year on year to ¥136.1 billion. Interest-bearing debt was ¥110.3 billion, up ¥20.8 billion from the previous fiscal year, the result of substantial capital spending despite efforts to repay interest-bearing debt to improve financial strength. Advance payments received on contracts were ¥50.0 billion, up ¥1.4 billion from the previous fiscal year due to an increase in such items recorded for the energy and environmental plant and ships businesses, among other increases.

Net assets were ¥238.7 billion, down ¥7.7 billion from the previous fiscal year-end due mainly to an increase in foreign currency translation adjustments, which outweighed an increase in shareholders' equity reflecting net income for the fiscal year under review. As a result, the shareholders' equity ratio as of the end of March 31, 2009 was 34.8%, down 0.2 of a point from the previous fiscal year-end.

(3) Group Policy on Distribution of Profits

The Group policy on the distribution of profits is to pay a dividend commensurate to the net income earned during the period, and to increase this amount ensuring that sufficient earnings are retained to sustain business development over the long term.

With respect to dividends for the consolidated fiscal year under review, consideration was given to the fact that Group net income had declined, a loss was recorded on a non-consolidated basis, and the business climate for the fiscal year ending March 31, 2010 is expected to remain challenging. With these considerations in mind, full-year dividends were reduced by ¥4 from the previous year to ¥6 per share. This dividend consists solely of an interim dividend of ¥6 per share, with no distribution of dividends at the end of the consolidated fiscal year.

Business Risks

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

All statements below regarding future events represent judgments made by the management of the Group as of March 31, 2009.

1. Macroeconomic Factors

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

2. Exchange-Rate Fluctuations

The Group's business includes the production and marketing of products in countries all around the world. Yen translations are applied in the consolidated financial statements for transactions (involving overseas sales, expenses, assets and liabilities) undertaken in local currencies. Due to exchange rate effects, the Group may be adversely impacted by transaction values after yen translation even if there is no such change in local currency terms. As of March 31, 2009, the Group had an order backlog, chiefly in its shipbuilding business, of US$0.8 billion. To minimize the impact of exchange-rate fluctuations on our business performance, the Company uses forward exchange contracts to hedge against risk. However, it is not possible to eliminate all risk using this method. For this reason, the Company could suffer an adverse impact on its business performance from exchange-rate fluctuations.

3. New Influenza Strain

The Group has established a "New Influenza Strain Countermeasures Committee" to prepare for the possible spread of infections in Japan and overseas from the latest influenza strain (A/H1N1), as well as the emergence of victims infected with highly virulent forms of this disease. The Group has also devised measures to prevent the internal outbreak of infections and response measures in the event that influenza victims do emerge. Nevertheless, the spread of infections from this new influenza strain in Japan and overseas could take a human toll and result in a breakdown in social infrastructure. These events could potentially impact the Group's activities and adversely affect its business performance.

4. Overseas Businesses

The Group conducts its business on a global scale, with a focus on mass-produced machinery and construction machinery for markets in North America, Asia and Europe.

To meet expanding overseas demand, the Company 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 business performance of our overseas units.

5. 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.

6. 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, 2009 was ¥19.2 billion, a decline of 19%. If land values continue to fall, we may have to recognize impairment losses on fixed assets, which could adversely affect the business performance and financial position of the Group.

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 Company 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 disasters such as fires, earthquakes, typhoons and other wind and flood damage. However, the Group's business activities could be adversely affected if such disasters cause material damage to our operations or injury to our staff. We cannot guarantee that casualty insurance would be sufficient to cover all damages from such events.

Consolidated Balance Sheets

March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2009**	2008	**2009**
Current assets:			
Cash and deposits (Notes 2 and 5)	**¥ 44,685**	¥ 30,256	**$ 455,968**
Trade receivables:			
Notes receivable	**14,303**	15,588	**145,951**
Accounts receivable	**141,361**	170,324	**1,442,455**
Allowance for doubtful accounts	**(1,012)**	(836)	**(10,328)**
Inventories (Note 3)	**149,380**	130,450	**1,524,290**
Deferred tax assets (Note 6)	**7,631**	8,501	**77,867**
Prepaid expenses and other current assets (Note 2)	**23,945**	27,663	**244,339**
Total current assets	**380,293**	381,946	**3,880,542**
Property, plant and equipment:			
Land (Note 5)	**115,909**	116,536	**1,182,750**
Buildings and structure (Note 5)	**133,721**	125,272	**1,364,502**
Machinery and other tangible fixed assets (Note 5)	**138,063**	126,042	**1,408,803**
Construction in progress	**3,864**	5,407	**39,428**
	391,557	373,257	**3,995,483**
Accumulated depreciation	**(177,529)**	(168,803)	**(1,811,519)**
Net property, plant and equipment	**214,028**	204,454	**2,183,964**
Investments, long-term loans and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	**14,790**	27,297	**150,917**
Long-term loans receivable and investment securities (Note 11)	**13,582**	26,706	**138,592**
Deferred tax assets (Note 6)	**11,940**	10,346	**121,834**
Other assets	**24,267**	29,445	**247,623**
Allowance for doubtful accounts	**(1,464)**	(1,560)	**(14,943)**
Total investments, long-term loans and other assets	**63,115**	92,234	**644,023**
Total assets	**¥ 657,436**	¥ 678,634	**$ 6,708,529**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2009	2007	Thousands of U.S. dollars (Note 1) 2009
Current liabilities:			
Short-term bank loans (Note 5)	**¥ 34,176**	¥ 16,932	**$ 348,735**
Long-term debt due within one year (Note 5)	**1,136**	2,724	**11,589**
Current portion of bonds (Note 5)	**10,000**	—	**102,041**
Commercial paper (Note 5)	**24,000**	18,000	**244,898**
Trade payable:			
Notes payable	**37,652**	49,297	**384,205**
Accounts payable	**98,438**	117,711	**1,004,471**
Advance payments received on contracts	**49,977**	48,600	**509,972**
Accrued income taxes	**4,810**	14,523	**49,077**
Allowance for warranty	**5,661**	6,360	**57,765**
Allowance for losses on construction contracts	**274**	29	**2,795**
Allowance for losses on business restructuring	**1,842**	—	**18,797**
Accrued expenses and other current liabilities (Notes 5 and 6)	**34,420**	36,005	**351,220**
Total current liabilities	**302,386**	310,181	**3,085,565**
Long-term liabilities:			
Long-term debt (Note 5)	**41,027**	51,911	**418,641**
Employees' severance and retirement benefits (Note 13)	**34,808**	32,748	**355,184**
Allowance for losses from product liabilities	**237**	285	**2,415**
Deferred tax liabilities on revaluation difference on land	**32,211**	32,306	**328,680**
Other long-term liabilities (Note 5)	**8,070**	4,832	**82,357**
Total long-term liabilities	**116,353**	122,082	**1,187,277**
Contingent liabilities (Note 8)			
Net assets (Note 7)**:**			
Common stock:	**30,872**	30,872	**315,017**
Number of shares authorized 1,200,000 thousand shares			
Number of shares issued 605,726 thousand shares			
Capital surplus	**20,503**	20,524	**209,210**
Retained earnings	**148,725**	142,053	**1,517,606**
Treasury stock at cost, 2,259,483 shares in 2009 and 2,144,702 shares in 2008	**(1,471)**	(1,425)	**(15,006)**
Total owners' equity	**198,629**	192,024	**2,026,827**
Unrealized gains (losses) on securities, net of income taxes	**(547)**	4,224	**(5,578)**
Unrealized gains (losses) on hedging derivatives, net of income taxes	**1,945**	2,459	**19,843**
Adjustment regarding pension obligations of consolidated overseas subsidiaries	**(3,008)**	(999)	**(30,692)**
Revaluation difference on land	**40,360**	40,477	**411,832**
Foreign currency translation adjustments	**(8,798)**	(1,101)	**(89,771)**
Total valuation and translation adjustments	**29,952**	45,060	**305,634**
Minority interests	**10,116**	9,287	**103,226**
Total net assets	**238,697**	246,371	**2,435,687**
Total liabilities and net assets	**¥657,436**	¥678,634	**$6,708,529**

Consolidated Statements of Income

Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Net sales (Note 9)	**¥642,918**	¥660,769	**$6,560,389**
Costs and expenses (Note 9)**:**			
Cost of sales	**503,072**	505,366	**5,133,384**
Selling, general and administrative expenses	**82,906**	77,613	**845,987**
	585,978	582,979	**5,979,371**
Operating income (Note 9)	**56,940**	77,790	**581,018**
Other income (expenses):			
Income			
Interest and dividend income	**1,179**	1,190	**12,034**
Equity in net income of unconsolidated subsidiaries and affiliated companies	**755**	2,436	**7,701**
Other—net	**1,872**	2,920	**19,107**
Expenses			
Interest expense	**(1,611)**	(1,194)	**(16,440)**
Foreign exchange losses	**(1,941)**	(1,632)	**(19,804)**
Other—net	**(6,919)**	(6,041)	**(70,607)**
Special gains (losses):			
Gains			
Gain on sale of securities	**—**	689	**—**
Losses			
Loss on valuation of investment securities	**(6,043)**	—	**(61,667)**
Amortization of goodwill	**(4,932)**	—	**(50,324)**
Business restructuring costs	**(2,019)**	—	**(20,600)**
Impairment losses of fixed assets (Note 4)	**(1,904)**	(700)	**(19,431)**
Loss on breach of antimonopoly law	**(1,638)**	—	**(16,710)**
Settlement expense	**—**	(1,204)	**—**
Amortization of unrecognized net transition obligation of severance and retirement benefit of newly consolidated subsidiary	**—**	(980)	**—**
Head office relocation expenses	**—**	(759)	**—**
Income before income taxes and minority interests	**33,739**	72,515	**344,277**
Income taxes (Note 6)**:**			
Current	**17,711**	28,870	**180,727**
Deferred	**979**	(58)	**9,989**
Total	**18,690**	28,812	**190,716**
Minority interests in net income	**(1,400)**	(729)	**(14,284)**
Net income	**¥ 13,649**	¥ 42,974	**$ 139,277**

	Yen		U.S. dollars (Note1)
	2009	2008	**2009**
Amounts per share of common stock:			
Net income	**¥22.62**	¥71.19	**$0.23**
Diluted net income	**—**	—	**—**
Cash dividends applicable to the year	**¥ 6.00**	¥10.00	**$0.06**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Year ended March 31, 2008

	Millions of yen					
		Owners' Equity				
	Number of shares of common stock (Thousand)	Common stock	Capital Surplus	Retained earnings	Treasury stock	Sub-total
Net assets at March 31, 2007	605,726	¥30,872	¥20,518	¥104,950	¥ (996)	¥155,344
Dividends				(5,132)		(5,132)
Net income				42,974		42,974
Acquisition of treasury stock					(442)	(442)
Disposal of treasury stock			6		13	19
Decrease due to transfer of revaluation difference on land				(66)		(66)
Cumulative effect of application of FIN No. 48 to U.S. subsidiaries (*Note)				(202)		(202)
Increase from increase of consolidated subsidiaries with change in scope of consolidation				67		67
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation				(449)		(449)
Decrease due to exclusion of equity method affiliates from the scope of consolidation				(90)		(90)
Increase due to merger				1		1
Changes in items other than owners' equity in the period (net)						
Total changes in the period	—	—	6	37,103	(429)	36,680
Balance at March 31, 2008	605,726	¥30,872	¥20,524	¥142,053	¥(1,425)	¥192,024

	Millions of yen							
	Valuation and translation adjustments							
	Unrealized gains (losses) on securities, net of income taxes	Unrealized gains (losses) on hedging derivatives, net of income taxes	Adjustment regarding pension obligations of consolidated overseas subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
Net assets at March 31, 2007	¥11,195	¥(1,652)	¥(772)	¥40,411	¥ 166	¥49,348	¥1,318	¥206,010
Dividends								(5,132)
Net income								42,974
Acquisition of treasury stock								(442)
Disposal of treasury stock								19
Decrease due to transfer of revaluation difference on land								(66)
Cumulative effect of application of FIN No. 48 to U.S. subsidiaries (*Note)								(202)
Increase from increase of consolidated subsidiaries with change in scope of consolidation								67
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation								(449)
Decrease due to exclusion of equity method affiliates from the scope of consolidation								(90)
Increase due to merger								1
Changes in items other than owners' equity in the period (net)	(6,971)	4,111	(227)	66	(1,267)	(4,288)	7,969	3,681
Total changes in the period	(6,971)	4,111	(227)	66	(1,267)	(4,288)	7,969	40,361
Balance at March 31, 2008	¥ 4,224	¥ 2,459	¥(999)	¥40,477	¥(1,101)	¥45,060	¥9,287	¥246,371

*Note: This amount reflects the effect of application of FIN No.48 "Accounting for Uncertainty in Income Taxes" to U.S. subsidiaries.

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Year ended March 31, 2009

		Millions of yen				
		Owners' Equity				
	Number of shares of common stock (Thousand)	Common stock	Capital Surplus	Retained earnings	Treasury stock	Sub-total
Net assets at March 31, 2008	605,726	¥30,872	¥20,524	¥142,053	¥(1,425)	¥192,024
Increase/decrease due to change in accounting for foreign subsidiaries (*Note)				(409)		(409)
Dividends				(6,639)		(6,639)
Net income				13,650		13,650
Acquisition of treasury stock					(112)	(112)
Disposal of treasury stock			(21)	(3)	66	42
Increase due to transfer of revaluation difference on land				117		117
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation				(44)		(44)
Changes in items other than owners' equity in the period (net)						
Total changes in the period	—	—	(21)	7,081	(46)	7,014
Balance at March 31, 2009	**605,726**	**¥30,872**	**¥20,503**	**¥148,725**	**¥(1,471)**	**¥198,629**

	Millions of yen							
	Valuation and translation adjustments							
	Unrealized gains (losses) on securities, net of income taxes	Unrealized gains (losses) on hedging derivatives, net of income taxes	Adjustment regarding pension obligations of consolidated overseas subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
Net assets at March 31, 2008	¥ 4,224	¥2,459	¥ (999)	¥40,477	¥(1,101)	¥ 45,060	¥ 9,287	¥246,371
Increase/decrease due to change in accounting for foreign subsidiaries (*Note)								(409)
Dividends								(6,639)
Net income								13,650
Acquisition of treasury stock								(112)
Disposal of treasury stock								42
Increase due to transfer of revaluation difference on land								117
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation								(44)
Changes in items other than owners' equity in the period (net)	(4,771)	(514)	(2,009)	(117)	(7,697)	(15,108)	829	(14,279)
Total changes in the period	(4,771)	(514)	(2,009)	(117)	(7,697)	(15,108)	829	(7,265)
Balance at March 31, 2009	**¥ (547)**	**¥1,945**	**¥(3,008)**	**¥40,360**	**¥(8,798)**	**¥ 29,952**	**¥10,116**	**¥238,697**

*Note: The amount represents the effect of application of the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan, Practical Issues Task Force No. 18 issued on May 17, 2006).

		Thousands of U.S. dollars (Note 1)				
		Owners' Equity				
	Number of shares of common stock (Thousand)	Common stock	Capital Surplus	Retained earnings	Treasury stock	Sub-total
Net assets at March 31, 2008	605,726	$315,071	$209,425	$1,449,523	$(14,538)	$1,959,427
Increase/decrease due to change in accounting for foreign subsidiaries (*Note)				**(4,175)**		**(4,175)**
Dividends				**(67,743)**		**(67,743)**
Net income				**139,277**		**139,277**
Acquisition of treasury stock					**(1,145)**	**(1,145)**
Disposal of treasury stock			**(215)**	**(29)**	**677**	**433**
Increase due to transfer of revaluation difference on land				**1,198**		**1,198**
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation . .				**(445)**		**(445)**
Changes in items other than owners' equity in the period (net)						
Total changes in the period	**—**	**—**	**(215)**	**72,258**	**(468)**	**71,575**
Balance at March 31, 2009	**605,726**	**$315,017**	**$209,210**	**$1,517,606**	**$(15,006)**	**$2,026,827**

	Thousands of U.S. dollars (Note 1)							
	Valuation and translation adjustments							
	Unrealized gains (losses) on securities, net of income taxes	Unrealized gains (losses) on hedging derivatives, net of income taxes	Adjustment regarding pension obligations of consolidated overseas subsidiaries	Revaluation difference on land	Foreign currency translation adjustments	Sub-total	Minority interests	Total
Net assets at March 31, 2008	$ 43,104	$25,096	$(10,194)	$413,030	$(11,237)	$459,799	$ 94,769	$2,513,995
Increase/decrease due to change in accounting for foreign subsidiaries (*Note)								**(4,175)**
Dividends								**(67,743)**
Net income								**139,277**
Acquisition of treasury stock								**(1,145)**
Disposal of treasury stock								**433**
Increase due to transfer of revaluation difference on land								**1,198**
Decrease due to exclusion of consolidated subsidiaries from the scope of consolidation . .								**(445)**
Changes in items other than owners' equity in the period (net)	**(48,682)**	**(5,253)**	**(20,498)**	**(1,198)**	**(78,534)**	**(154,165)**	**8,457**	**(145,708)**
Total changes in the period	**(48,682)**	**(5,253)**	**(20,498)**	**(1,198)**	**(78,534)**	**(154,165)**	**8,457**	**(74,133)**
Balance at March 31, 2009	**$ (5,578)**	**$19,843**	**$(30,692)**	**$411,832**	**$(89,771)**	**$305,634**	**$103,226**	**$2,435,687**

*Note: The amount represents the effect of application of the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan, Practical Issues Task Force No. 18 issued on May 17, 2006).
See accompanying notes.

Consolidated Statements of Cash Flows

Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 33,739**	¥ 72,515	**$ 344,277**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	**18,320**	13,788	**186,939**
Impairment losses of fixed assets	**1,904**	700	**19,431**
Gain on sale of property, plant and equipment	**—**	(197)	**—**
Loss on sale of property, plant and equipment	**—**	103	**—**
Loss on disposal of property, plant and equipment	**859**	853	**8,767**
Gain on sale of investment securities	**—**	(689)	**—**
Loss on valuation of investment securities	**6,043**	84	**61,667**
Amortization of goodwill	**4,932**	—	**50,324**
Business restructuring costs	**2,019**	—	**20,600**
Loss on breach of antimonopoly law	**1,638**	—	**16,710**
Settlement expense	**—**	1,204	**—**
Amortization of unrecognized net transition obligation of severance and retirement benefit of newly consolidated subsidiaries	**—**	980	**—**
Head office relocation expenses	**—**	759	**—**
Increase in employees' severance and retirement benefits	**1,345**	1,960	**13,729**
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**(755)**	(2,436)	**(7,701)**
Increase (decrease) in allowance	**5**	(171)	**52**
Interest and dividend income	**(1,179)**	(1,190)	**(12,034)**
Interest expenses	**1,611**	1,194	**16,440**
Changes in operating assets and liabilities:			
(Increase) decrease in notes and accounts receivable	**30,033**	(9,522)	**306,461**
Increase in inventories	**(19,021)**	(21,758)	**(194,091)**
Increase (decrease) in notes and accounts payable	**(25,368)**	5,755	**(258,862)**
Other—net	**6,262**	(6,242)	**63,894**
Sub-total	**62,387**	57,690	**636,603**
Interest and dividend received	**1,712**	2,499	**17,466**
Interest expenses	**(1,615)**	(1,303)	**(16,480)**
Payment for income taxes	**(27,808)**	(29,790)	**(283,748)**
Net cash provided by operating activities	**¥ 34,676**	¥ 29,096	**$ 353,841**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Cash flows from investing activities:			
Net increase in time deposits	**¥ 55**	¥ 140	**$ 561**
Payments for securities	**(475)**	(5,283)	**(4,848)**
Payment for purchase of consolidated subsidiaries with change in scope of consolidation (Note 2)	**(7,921)**	(11,944)	**(80,831)**
Proceeds from sale of securities	**1,045**	769	**10,668**
Payment for purchase of investment in affiliated company	**(4,511)**	(3,465)	**(46,035)**
Receipt due to stock exchange of affiliated company (Note 2)	**—**	1,390	**—**
Payments for purchases of property, plant and equipment	**(28,073)**	(24,243)	**(286,456)**
Proceeds from sale of property, plant and equipment	**1,112**	1,429	**11,342**
Decrease in short-term loans receivable	**3,137**	—	**32,007**
Payments for long-term loans receivable	**(57)**	(68)	**(580)**
Collection of long-term loans receivable	**64**	77	**658**
Other—net	**(300)**	(52)	**(3,057)**
Net cash used in investing activities	**(35,924)**	(41,250)	**(366,571)**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans	**19,644**	(5,742)	**200,443**
Increase in commercial paper	**6,000**	3,000	**61,224**
Proceeds from long-term debt	**384**	17,500	**3,917**
Payments for long-term debt	**(2,857)**	(14,443)	**(29,154)**
Proceeds from sale of treasury stock	**42**	19	**433**
Disbursement for acquisition of treasury stock	**(112)**	(442)	**(1,145)**
Cash dividends paid	**(6,628)**	(5,115)	**(67,628)**
Payment of dividends for minority stockholders	**(382)**	(15)	**(3,897)**
Repayments of finance lease obligations	**(466)**	—	**(4,751)**
Net cash provided by (used in) financing activities	**15,625**	(5,238)	**159,442**
Effect of exchange rate changes on cash and cash equivalents	**(1,818)**	(143)	**(18,553)**
Net (increase) decrease in cash and cash equivalents	**12,560**	(17,535)	**128,159**
Cash and cash equivalents at beginning of year	**29,879**	47,523	**304,885**
Increase due to new consolidated company	**—**	161	**—**
Decrease from the change in consolidation scope	**(39)**	(292)	**(389)**
Increase due to merger of non consolidated subsidiary to a consolidated subsidiary	**14**	22	**143**
Cash and cash equivalents at the end of year (Note 2)	**¥ 42,414**	¥ 29,879	**$ 432,798**

See accompanying notes.

Notes to Consolidated Financial Statements

1. Significant accounting policies

Basis of presenting consolidated financial statements

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

Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. As discussed in Change in accounting policies (A), the accounts of consolidated overseas subsidiaries for the year ended March 31, 2009 are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified six items as applicable.

The accompanying consolidated financial statements have been reformatted and translated into English (with certain expanded descriptions) from the consolidated financial statements of Sumitomo Heavy Industries, Ltd. ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98 to U.S.$1. The convenience translations should not be construed as representations of what the Japanese yen amounts have been, could have been, or could in the future be when converted into U.S. dollars at this or any other rate of exchange.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries ("the Companies"). All significant inter-company balance and transaction have been eliminated in consolidation.

Investments in significant affiliated companies are accounted for by the equity method. Significant goodwill, which is difference between the investment cost and net assets at the date of acquisition are amortized over 5 years. In case of amounts being insignificant, such amounts are charged or credited to income as incurred.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

Consolidated statements of cash flows

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

Marketable and investment securities

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

Inventories

Prior to April 1, 2008, work in process is stated principally at cost determined by the specific identification method; finished products, raw materials, and supplies at cost determined by the average method.

As discussed in change in accounting policies (B), effective April 1, 2008, the Company adopted a new accounting standard for measurement of inventories and stated the inventories at the lower of cost or net realizable value at March 31, 2009.

Depreciation and Amortization

Tangible fixed assets (not including lease assets): Buildings acquired between April 1, 1998 and March 1, 2007 are depreciated by the former straight-line method. Buildings acquired after April 1, 2007 are depreciated primarily by the revised straight-line method. Other tangible fixed assets acquired on or before March 31, 2007 are depreciated primarily by the former declining-balance method and those acquired after April 1, 2007 are depreciated by the revised declining-balance method.

Effective from the year ended March 31, 2009, the Company and consolidated domestic subsidiaries changed the useful lives based on the reassessment of useful lives in light of a change in the Corporation Tax Law of Japan in 2009. This did not have any material impact on the Company's consolidated financial statements.

Following the amendments of the Corporation Tax Law of Japan, a change was made in the method of depreciation applied to tangible fixed assets acquired by the Company and domestic consolidated subsidiaries after March 31, 2007. As a result, operating income and income before income taxes and minority interests declined ¥681 million, respectively, compared to what would have been reported under the previous accounting policies.

Furthermore, with regard to the amendment of the Corporation Tax Law of Japan, effective April 1, 2007, when tangible fixed assets acquired by the Company and consolidated subsidiaries before April 1, 2007 are depreciated to their allowable depreciation limits (5% of acquisition costs), amounts of such depreciation limits are recognized equally over five years commencing on or prior to the year ended March 31, 2008, or the year immediately following in which depreciation has been recognized up to the depreciation limit. This resulted in a decrease in operating income and income before income taxes and minority interests in the amount of ¥689 million, respectively.

Lease assets:
The Company and consolidated domestic subsidiaries account for finance leases commencing prior to April 1, 2008 which do not transfer the ownership of the leased property to the lessee as operating leases with disclosures of certain "as if capitalized" information. As discussed in Change in accounting policies (C), the Company and consolidated domestic subsidiaries adopted a new accounting standard and capitalized finance leases that commenced after March 31, 2008, except for certain immaterial or short-term finance leases, which are accounted for as operating leases.

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

Allowance for doubtful accounts

The Company and consolidated subsidiaries provide a general allowance for doubtful accounts. Calculation of this allowance is based on historical collection losses incurred in the past. Additionally, for accounts receivable considered at risk (bankruptcy, companies under rehabilitation plan), an allowance is booked based on an estimation of the uncollectible amount, on a case-by-case basis.

Revaluation difference on land

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

The current value of the land on March 31, 2009 fell ¥19,160 million ($195,513 thousand) in comparison with the book value of the land after revaluation.

Employees' severance and retirement benefits

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

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

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

Allowance for warranty

In order to provide for expenditure for repair work to be performed free of charge after delivery of products, allowance for warranty is provided at an amount estimated to be incurred based on the past experience of such repair work actually performed.

Allowance for losses on construction contracts

With regard to construction contracts that have not yet been delivered and are with high probability of incurring substantial losses at the end of the fiscal year, and where it is possible to reasonably estimate the amount of such losses, the estimated amount of losses to be incurred in the future is provided as allowance for losses on construction contracts.

Allowance for losses from product liabilities

Allowance for losses from product liabilities is provided at an estimated amount of product liabilities to be incurred related to the crane business of overseas subsidiaries.

Allowance for losses on business restructuring

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

Sales

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

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

Research and development costs
Research and development costs included in production cost, and selling, general and administrative expenses were ¥10,688 million ($109,006 thousand) and ¥9,960 million for the years ended March 31, 2009 and 2008, respectively.

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

The Company and some of the consolidated subsidiaries adopted the Japanese tax regulations allowing the Company to file a consolidated tax return.

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

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

Income and expense accounts are translated at balance sheet date rates. The adjustment resulting from foreign currency translation is reported in net assets.

Matters Related to Amortization of Goodwill
Goodwill is amortized based on the straight-line method over the 5-year period, the estimated period over which the effect of investment is expected to appear.

However, where goodwill is in a small amount, all such amount is changed or credited to income as incurred.

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

However, if forward foreign exchange contracts meet certain hedging criteria, the Company accounts for as follows;

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

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

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

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

When currency option contract is 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 on the currency option contract are recognized.

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

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

Year-end cash dividend will be determined at shareholders' meeting held after the end of fiscal year.

Reclassifications
Certain amounts in the consolidated financial statements for the year ended March 31, 2008 have been reclassified to conform to the 2009 presentation.

Change in accounting policies
(A) Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

On May 17, 2006, the Accounting Standards Board of Japan issued Practical Issues Task Force No. 18 “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements”

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

(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties, and revaluation of property, plant and equipment and intangible assets
(e) Retrospective treatment of a change in accounting policies
(f) Accounting for net income attributable to minority interests

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

(B) New accounting standard for inventories

On July 5, 2006, the Accounting Standards Board of Japan issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." As permitted under the superseded accounting standard, the Company and consolidated domestic subsidiaries previously stated inventories at cost. The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value.

As a result of the adoption of ASBJ Statement No. 9, operating income, ordinary income and income before taxes and minority interests for the fiscal year ended March 31, 2009 decreased by ¥2,022 million ($20,631 thousand).

(C) New accounting standards for lease transactions as lessee

Prior to April 1, 2008, the Company and consolidated domestic subsidiaries accounted for finance leases that do not transfer ownership of the leased property to the lessee as operating leases with disclosure of certain "as if capitalized" information in the notes to the consolidated financial statements.

On March 31, 2007, the Accounting Standards Board of Japan issued Statement No. 13, "Accounting Standard for Lease Transactions" and Guidance No. 16, "Guidance on Accounting Standard for Lease Transactions." The new accounting standards require that all finance lease transactions be treated as capital leases.

Effective April 1, 2008, the Company and consolidated domestic subsidiaries adopted the new accounting standards for finance leases commencing after March 31, 2008 and capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases that commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with disclosure of certain "as if capitalized" information.

The adoption of new accounting standards for lease transactions did not have any material impact on the Company's consolidated financial statements.

Business combinations

(A) Acquisition of voting rights in SEN Corporation, an SHI and Axcelis Company

1. General information

The Company acquired voting rights in SEN Corporation, an SHI and Axcelis Company on March 30, 2009.

The legal form of the transaction is a purchase of stock. As a result of the transaction, the Company's ownership of the voting rights increased from 50% to 100%.

In addition, SEN Corporation, an SHI and Axcelis Company changed the company name to SEN Corporation on April 1, 2009.

2. Business of the entity combined

The business of SEN Corporation, an SHI and Axcelis Company is development, manufacture, and sale of ion implanters and related services.

3. Overview of the transaction including its purpose

To accelerate and promote the global market expansion of business of ion implanters (a type of semiconductor equipment).

4. Acquired companies' financial results for 2009

As the acquisition date is deemed to be on March 31, 2009, the results of operations of the acquired company before March 31, 2009 are included in equity in net income of unconsolidated subsidiaries and affiliated companies.

5. Acquisition costs

	Millions of yen
Acquisition price	¥11,315
Direct costs attributable to the acquisition	118
Acquisition costs	11,433

6. Negative goodwill

(1) Amount of negative goodwill . . . . 3,334 million yen

(2) Reason that the negative goodwill arose
The negative goodwill arose as the acquisition price, which had been agreed with the seller in consideration of the valuation by a third party institution, was lower than the net assets measured at fair value as of the date of the acquisition.

(3) Amortization of negative goodwill
Negative goodwill is amortized using the straight-line method over a five-year period.

(B) Nihon Spindle Manufacturing Co., Ltd. became a consolidated subsidiary resulting from its stock exchange transaction.

1. General information
On October 1, 2007, Nihon Spindle Manufacturing Co., Ltd., an affiliate of the Company ("Nihon Spindle"), entered into a stock exchange agreement with Izumi Food Machinery Co., Ltd. ("Izumi Food") and SNM Fastener Co., Ltd. ("SNM" and on October 1, 2007, this company changed the name to SFK Fastener Co., Ltd), both of which were wholly owned subsidiaries of the Company.

In line with the stock exchange agreement executed by Nihon Spindle, the Company acquired additional 16.2% of the voting rights in Nihon Spindle. As a result, the Company owns more than 40% of voting rights of Nihon Spindle. Since the Company satisfies certain other conditions evidencing the existence of control over Nihon Spindle, Nihon Spindle has become a consolidated subsidiary of the Company.

2. Business of the entity combined
Nihon Spindle manufactures and sells environmental equipment, air-conditioning equipment, industrial equipment and construction materials.

3. Overview of the transaction including its purpose
Through this stock exchange transaction, Nihon Spindle acquired Izumi Food and SNM as its wholly owned subsidiaries. These acquisitions will enable Nihon Spindle to accelerate the completion of its growth strategies and expand the scope of its operations while benefiting the two acquired companies through synergistic effects. Also, as a result of the stock exchange, Nihon Spindle has been made a subsidiary of the Company, and this will allow the Company to implement its growth strategies in a more effective manner.

4. The ratio for the stock exchange

	Stock exchange ratio
Nihon Spindle	1
Izumi Food	3.2
SNM	2,000

(Notes) 1. Ratio for the stock exchange
3.2 shares of Izumi Food and 2,000 shares of SNM were exchanged for one share of the common stock of Nihon Spindle.

2. Method of calculation and basis of calculation by a third-party institution
Nihon Spindle requested Nomura Securities Co., Ltd. ("Nomura Securities") to calculate the ratio for the stock exchange, while Izumi Food and SNM engaged Sumitomo Mitsui Banking Corporation ("SMBC"). Nomura Securities conducted an analysis with respect to Nihon Spindle, based on the historical stock price analysis method, the discounted cash flow (DCF) method and the comparable company analysis method. Nomura Securities also conducted an analysis on Izumi Food and SNM using the DCF method and the comparable company analysis method.
Izumi Food and SNM are not publicly listed companies. Therefore, the results of the historical stock price analysis of Nihon Spindle and the comparable company analysis of Izumi Food and SNM were considered and examined prior to the actual application of the historical stock price analysis method.
SMBC conducted an analysis of Nihon Spindle based on the historical stock price analysis method, the DCF method and the net assets at fair value method. SMBC also conducted an analysis with regard to Izumi Food and SNM, based on the comparable company analysis method, the DCF method and the net assets at fair value method.
With reference to proposals submitted by the aforementioned third-party institutions on the stock exchange ratio and with due consideration given to their own financial standing, performances and stock price trends, Nihon Spindle, Izumi Food and SNM agreed and made decisions on the stock exchange ratio at their individual board of directors meetings held on May 8, 2007.

5. Number of shares delivered and estimated value

Number of shares delivered to Nihon Spindle	10,380,000 shares
Estimated value	3,332 million yen

The estimated value was calculated based on the average share price over a reasonable period prior to the date of agreement and public announcement of the main terms and conditions of the stock exchange, multiplied by the number of shares planned to be delivered.

6. Results of operations of Nippon Spindle for the following period are included in the consolidated financial statements

October 1, 2007 to March 31, 2008

7. Acquisition costs

Acquisition price	millions of yen
Nihon Spindle stocks	3,332
Acquisition costs	3,332

8. Goodwill

(1) Amount of goodwill. . . . . (313) million yen

(2) Reason that the goodwill arose

The goodwill was recognized as a difference between Nihon Spindle's net assets and the value of acquired Nihon Spindle's shares.

(3) Amortization of goodwill:

Goodwill is fully amortized when generated.

(C) Demag Ergotech GmbH and two other Demag Plastics Group companies ("Demag Group") became wholly owned subsidiaries of the Company.

(In the year ended March 31, 2009, MARMOR 220. VV GmbH, one of the Demag Plastics Group companies, combined Demag Ergotech GmbH and changed the company name to SUMITOMO (SHI) DEMAG PLASTICS MACHINERY GmbH.)

1. General information

The Company acquired Demag Group on March 3, 2008, making Demag Group a wholly owned subsidiary.

The legal form of the transaction is a purchase of stock (100% of the voting rights).

2. Business of the entities combined

Demag Ergotech GmbH ("Demag Ergotech") and two other Demag Group companies manufacture, sell and provide services relating to plastics machinery.

3. Overview of the transaction including its purpose

By making Demag Ergotech and two other Demag Group companies its wholly owned subsidiaries, the Company aims to accelerate and bolster its plastics machinery business in the global market.

Following the Company's acquisition of Demag Group's shares, Demag Ergotech and two other Demag Group companies have become the Company's wholly owned subsidiaries.

4. Acquired companies' financial results for 2008

As Demag Group companies were deemed to have been acquired on March 31, 2008, the financial results of the acquired companies' operation are not included in the Company's consolidated financial statements for the year ended March 31, 2008.

5. Acquisition costs

	millions of yen
Acquisition price	12,083
Direct costs attributable to the acquisition	696
Acquisition costs	12,779

6. Goodwill

(1) Amount of goodwill. . . . . 6,663 million yen

(2) Reason that the goodwill arose

The goodwill arose from the difference between the purchase price, which had been agreed in consideration of the valuation by a third party institution, and the net assets measured at fair value as of the date of acquisition.

(3) Amortization of goodwill

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

2. Cash and cash equivalents

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

Cash and cash equivalents as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and deposits	¥44,685	¥30,256	$455,968
Time deposits with maturities over three months	(2,035)	(32)	(20,759)
Collateral deposits	(237)	(345)	(2,421)
Investment securities (cash equivalents)	1	—	10
Cash and cash equivalents	¥42,414	¥29,879	$432,798

Refer to the Note of Business combination (A), the Company acquired additional voting rights of an affiliate SEN Corporation, an SHI and Axcelis Company, which became a consolidated subsidiary as a result.

The following table summarizes the assets and liabilities of SEN Corporation, an SHI and Axcelis Company at acquisition date as well as the stock acquisition price and related expense.

SEN Corporation, an SHI and Axcelis Company (as of March 30, 2009)

	Millions of yen	Thousands of U.S. dollars
	2009	2009
Current assets	¥11,477	$117,116
Non-current assets	4,242	43,285
Goodwill generated	(3,334)	(34,018)
Current liabilities	(876)	(8,940)
Non-current liabilities	(76)	(776)
Acquisition cost of stock	¥11,433	$116,667
Cash and cash equivalents	(3,512)	(35,836)
Payment for purchase of consolidated subsidiaries with change in scope of consolidation	¥ 7,921	$ 80,831

Refer to the Note of Business combination (B), the Company acquired additional voting rights of an affiliate Nihon Spindle, which became a consolidated subsidiary as a result.

The following table summarizes the assets and liabilities of Nihon Spindle at acquisition date as well as the stock acquisition price and related expense.

Nihon Spindle Manufacturing Co., Ltd. (as of October 1, 2007)

	Millions of yen
	2008
Current assets	¥ 9,544
Non-current assets	8,442
Goodwill generated	(313)
Current liabilities	(5,202)
Non-current liabilities	(2,710)
Acquisition cost of stock	¥ —
Cash and cash equivalents	1,390
Receipt due to stock exchange of affiliated company	¥ 1,390

Refer to the Note of Business combination (C), the Company acquired Demag Group.

The following table summarizes the assets and liabilities of Demag Group at acquisition date as well as the stock acquisition price and related expense.

Demag Ergotech GmbH and two other Demag Group companies (as of March 3, 2008)

	Millions of yen
	2008
Current assets	¥ 17,041
Non-current assets	5,369
Goodwill generated	6,663
Current liabilities	(10,860)
Non-current liabilities	(5,434)
Acquisition cost of stock	¥ 12,779
Cash and cash equivalents	(293)
Amount to be paid	(542)
Payment for purchase of consolidated subsidiaries with change in scope of consolidation	¥ 11,944

3. Inventories

Inventories as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Finished products	¥ 43,260	¥ 39,716	$ 441,432
Work in process	84,826	70,749	865,574
Raw materials and supplies	21,294	19,985	217,284
Total	¥149,380	¥130,450	$1,524,290

4. Impairment losses of fixed assets

The Company and certain consolidated domestic subsidiary recognized the following impairment losses in the year ended March 31, 2009 and 2008.

Use	Type of assets	Location	Millions of yen 2009	Thousands of U.S. dollars 2009
Business Property	Intangible fixed assets	Germany	¥1,633	$16,670
Idle	Buildings, etc.	Kurashiki, Okayama Pref.	116	1,179
Idle	Buildings, etc.	Saijo, Ehime Pref.	108	1,104
Idle	Buildings, etc.	Yokosuka, Kanagawa Pref.	47	478
Total			¥1,904	$19,431

Use	Type of assets	Location	Millions of yen 2008
Business Property	Land, etc.	Shinoyama, Hyogo Pref.	¥459
Idle	Equipment	Yokosuka, Kanagawa Pref.	174
Idle	Building, etc.	Chiba, Chiba Pref.	51
Idle	Machinery	Tadaoka, Osaka Pref.	16
Total			¥700

Reason for recording impairment loss

Due to the decrease in profitability and changes in business plan, it is not expected that amounts of assets can be recoverable.

Method of grouping of assets

Asset grouping is basically determined for each operation group. Idle assets that are not expected to be used in the future are evaluated by each item.

Method of calculation of recoverable amount

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

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

Bank loans at March 31, 2009 and 2008 consisted of short-term loans, bearing average interest mainly at 1.15% and 1.13% per annum, respectively.

Commercial paper at March 31, 2009 and 2008 bears interest principally at 0.50% and 0.66% per annum, respectively.

The amount of lease obligation under finance leases includes the imputed interest expense portion, and the related interest rate has not been determined.

Long-term debt at March 31, 2009 and 2008 was follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
1.0% domestic bonds due in March 2010	¥10,000	¥10,000	$102,041
Loans principally from banks and insurance companies due serially through June 2018 with interest ranging from 1.07% to 2.20% in 2009			
Secured	1,796	2,759	18,331
Unsecured	40,367	41,876	411,899
Lease obligations	2,460	—	25,109
	¥54,623	¥54,635	$557,380
Amount due within one year	11,136	2,724	113,630
Amount due after one year	43,487	51,911	443,750

Annual maturities of long-term debt as of March 31, 2009 were as follows:

Year ending March 31	Millions of yen 2009	Thousands of U.S. dollars 2009
2010	¥11,136	$113,630
2011	11,058	112,838
2012	4,794	48,921
2013	19,416	198,120
2014	1,324	13,508
2015 and thereafter	6,895	70,363
Total	¥54,623	$557,380

At March 31, 2009 and 2008, assets pledged as collateral for loans, long-term loans from banks and insurance companies and domestic mortgage bonds were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and deposits	¥ 294	¥ 368	$ 2,996
Buildings and structure	2,754	2,488	28,107
Machinery and other tangible fixed assets	1,663	517	16,972
Land	34,652	36,464	353,593
Total	¥39,363	¥39,837	$401,668

The Company has agreements with twelve banks for revolving lines of credit and four global commitment lines for timely operating-fund raising in the aggregate.

At March 31, 2009 and 2008, bank loans unexecuted balance etc, related to revolving lines of credit are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Limit loan revolving lines of credit and global commitment lines	¥45,823	¥46,019	$467,582
The amount of loan	4,351	3,046	44,396
Net unused	¥41,472	¥42,973	$423,186

6. Income tax

The Companies are subject to a number of income taxes, which, in the aggregate indicate a statutory tax rate in Japan of approximately 41% for the years ended March 31, 2009 and 2008.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for consolidated financial statement purposes for the year ended March 31, 2009.

	2009
Statutory tax rate	40.69%
Expenses not deductible for tax purposes	1.37
Per capita inhabitant tax	0.60
Dividend income deductible for tax purpose	(1.42)
Amortization of goodwill	7.76
Retained earnings in consolidated overseas subsidiaries	(8.37)
Valuation allowance	11.53
Others	3.24
Effective tax rate	55.40%

Since the effective tax rate for consolidated financial statement purposes for the year ended March 31, 2008 differed from the statutory tax rate by less than 5%, disclosure of reconciliation between these tax rates is omitted.

Significant components of deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Accrued bonuses	¥ 3,387	¥ 3,724	$ 34,563
Allowance for doubtful accounts	846	776	8,634
Allowance for warranty	2,048	2,112	20,903
Allowance for employees' severance and retirement benefit	15,804	15,652	161,266
Unrealized profit on inventories	880	1,599	8,975
Devaluation of marketable securities and investments	1,621	1,639	16,538
Excess depreciation	1,350	1,067	13,772
Operating losses carryforward	3,461	3,025	35,314
Loss on valuation of inventories	1,686	—	17,205
Others	7,359	6,824	75,093
Total deferred tax assets	38,442	36,418	392,263
Less-valuation allowance	(13,617)	(7,516)	(138,944)
Deferred tax assets—net	¥ 24,825	¥ 28,902	$ 253,319
Deferred tax liabilities:			
Excess tax depreciation reserve	(115)	(97)	(1,169)
Net unrealized holding gains on securities	—	(1,441)	—
Difference on revaluation of assets and liabilities of subsidiaries	(4,089)	(4,115)	(41,728)
Accelerated depreciation	(545)	(471)	(5,559)
Retained earnings in consolidated subsidiaries overseas	(1,345)	(4,170)	(13,723)
Deferred hedge profit or loss	(1,333)	(1,695)	(13,604)
Others	(15)	(542)	(156)
Deferred tax liabilities	¥ (7,442)	¥(12,531)	$ (75,939)
Net deferred tax assets	¥ 17,383	¥ 16,371	$ 177,381

7. Net assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

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

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations. The maximum amount that the company can distribute as dividends at March 31, 2009, amounted to ¥21,015 million ($214,441 thousand).

Taking into consideration the declining profit level of the Company Group, the loss of the Company posted on a non consolidated basis, and the harsh prospect of the business environment surrounding the Company Group in the next fiscal year, the Company would like to declare a reduced dividend by ¥4 compared to the previous fiscal year, hence only ¥6 per share already distributed as the interim dividend would be the dividend of this fiscal year and no additional dividend at the year-end would be distributed.

8. Contingent liabilities

Certain consolidated domestic subsidiary is contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥3,257 million ($33,240 thousand) and ¥3,827 million at March 31, 2009 and 2008. In addition, at the same date the Company and certain consolidated subsidiaries are contingently liable as guarantors of bank loans or other borrowings by unconsolidated subsidiaries, affiliated companies and employees in the amount of ¥14,178 million ($144,676 thousand) and ¥8,193 million, respectively (net of guarantees by co-guarantors).

9. Segment information

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

A summary of net sales, costs and expenses, and operating income by segment of business activities for the years ended March 31, 2009 and 2008, and a summary of identifiable assets, depreciation, impairment losses of fixed assets and capital expenditures by segment of business activities for the years ended March 31, 2009 and 2008 are presented below:

	Millions of yen						
2009	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Outside customers	**¥227,227**	**¥92,625**	**¥ 79,602**	**¥84,310**	**¥159,154**	**¥ —**	**¥642,918**
Inter-segment	**3,883**	**2,648**	**650**	**226**	**31**	**(7,438)**	**—**
Total	**231,110**	**95,273**	**80,252**	**84,536**	**159,185**	**(7,438)**	**642,918**
Costs and expenses	**218,776**	**84,554**	**67,690**	**70,951**	**151,642**	**(7,635)**	**585,978**
Operating income	**¥ 12,334**	**¥10,719**	**¥ 12,562**	**¥13,585**	**¥ 7,543**	**¥ 197**	**¥ 56,940**
II Identifiable assets	**¥263,192**	**¥70,269**	**¥110,701**	**¥69,529**	**¥118,505**	**¥25,240**	**¥657,436**
Depreciation	**9,357**	**1,128**	**2,871**	**1,775**	**3,189**	**—**	**18,320**
Impairment losses of fixed assets	**1,749**	**—**	**—**	**—**	**—**	**155**	**1,904**
Capital expenditures	**14,397**	**999**	**6,528**	**3,458**	**6,371**	**—**	**31,753**

	Millions of yen						
2008	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Outside customers	¥232,593	¥91,250	¥ 76,393	¥81,163	¥179,370	¥ —	¥660,769
Inter-segment	2,887	2,428	1,282	362	7	(6,966)	—
Total	235,480	93,678	77,675	81,525	179,377	(6,966)	660,769
Costs and expenses	207,272	86,775	63,581	69,407	163,091	(7,147)	582,979
Operating income	¥ 28,208	¥ 6,903	¥ 14,094	¥12,118	¥ 16,286	¥ 181	¥ 77,790
II Identifiable assets	¥290,189	¥69,296	¥105,624	¥61,033	¥137,097	¥15,395	¥678,634
Depreciation	7,392	1,056	2,061	1,355	1,924	—	13,788
Impairment losses of fixed assets	632	68	—	—	—	—	700
Capital expenditures	13,911	2,305	5,521	2,577	3,866	—	28,180

	Thousands of U.S. dollars						
2009	Mass-produced machinery	Environmental protection facilities, plants & others	Ship, steel structure & other specialized equipment	Industrial machinery	Construction machinery	Elimination and/or corporate	Consolidated
I Sales and operating income							
Sales:							
Outside customers	**$2,318,634**	**$945,153**	**$ 812,268**	**$860,311**	**$1,624,023**	**$ —**	**$6,560,389**
Inter-segment	**39,618**	**27,017**	**6,637**	**2,311**	**311**	**(75,894)**	**—**
Total	**2,358,252**	**972,170**	**818,905**	**862,622**	**1,624,334**	**(75,894)**	**6,560,389**
Costs and expenses	**2,232,390**	**862,790**	**690,724**	**724,002**	**1,547,365**	**(77,900)**	**5,979,371**
Operating income	**$ 125,862**	**$109,380**	**$ 128,181**	**$138,620**	**$ 76,969**	**$ 2,006**	**$ 581,018**
II Identifiable assets	**$2,685,631**	**$717,032**	**$1,129,605**	**$709,477**	**$1,209,231**	**$257,553**	**$6,708,529**
Depreciation	**95,481**	**11,504**	**29,299**	**18,117**	**32,538**	**—**	**186,939**
Impairment losses of fixed assets	**17,849**	**—**	**—**	**—**	**—**	**1,582**	**19,431**
Capital expenditures	**146,907**	**10,193**	**66,612**	**35,287**	**65,009**	**—**	**324,008**

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

Change in distribution method for costs and expenses

Prior to 2008, the Company allocated expenses associated with administrative divisions to applicable segments only to the segments of which business units belong to company. To reflect the administrative divisions' greater involvement with the Company's consolidated group companies due to increased business spin-offs, the Company decided to make a allocation of a portion of costs and expenses associated with administrative divisions into all segments.

In accordance with this change, certain figures included under segment information differ from what they would have been had the previous allocation method been applied. Thus, in the Mass-produced machinery segment, a ¥1,348 million decrease in costs and expenses resulted in an increase of the same amount in operating income; in the Environmental protection facilities, plants & others segment, a ¥480 million decrease in costs and expenses resulted in an increase of the same amount in operating income; in the Ship, steel structure & other specialized equipment segment, a ¥265 million increase in costs and expenses resulted in a decrease of the same amount in operating income; in the Industrial machinery segment, a ¥310 million increase in costs and expenses resulted in a decrease of the same amount in operating income; and in the Construction machinery segment, a ¥1,254 million increase in costs and expenses resulted in a decrease of the same amount in operating income.

(B) Information by geographic area for the years ended March 31, 2009 and 2008 is as follows:

	Millions of yen				
2009	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Outside customers	**¥506,320**	**¥76,770**	**¥59,828**	**¥ —**	**¥642,918**
Inter-segment	**38,209**	**997**	**11,137**	**(50,343)**	**—**
Total	**544,529**	**77,767**	**70,965**	**(50,343)**	**642,918**
Costs and expenses	**497,860**	**69,930**	**69,748**	**(51,560)**	**585,978**
Operating income	**¥ 46,669**	**¥ 7,837**	**¥ 1,217**	**¥ 1,217**	**¥ 56,940**
II Identifiable assets	**¥529,250**	**¥50,636**	**¥50,533**	**¥ 27,017**	**¥657,436**

	Millions of yen				
2008	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Outside customers	¥537,268	¥78,963	¥44,538	¥ —	¥660,769
Inter-segment	40,351	1,233	13,710	(55,294)	—
Total	577,619	80,196	58,248	(55,294)	660,769
Costs and expenses	513,355	70,684	53,664	(54,723)	582,980
Operating income	¥ 64,264	¥ 9,512	¥ 4,584	¥ (570)	¥ 77,790
II Identifiable assets	¥533,320	¥51,359	¥81,426	¥ 12,529	¥678,634

	Thousands of U.S. dollars				
2009	Japan	North America	Other areas	Elimination and/or corporate	Consolidated
I Sales and operating income					
Sales:					
Outside customers	**$5,166,529**	**$783,364**	**$610,496**	**$ —**	**$6,560,389**
Inter-segment	**389,894**	**10,176**	**113,638**	**(513,708)**	**—**
Total	**5,556,423**	**793,540**	**724,134**	**(513,708)**	**6,560,389**
Costs and expenses	**5,080,204**	**713,575**	**711,711**	**(526,119)**	**5,979,371**
Operating income	**$ 476,219**	**$ 79,965**	**$ 12,423**	**$ 12,411**	**$ 581,018**
II Identifiable assets	**$5,400,513**	**$516,698**	**$515,638**	**$ 275,680**	**$6,708,529**

Notes: 1. Identifiable assets under the elimination and/or corporate column primarily consisted of cash, time deposits and marketable securities.
2. Other areas include mostly the United Kingdom, Germany, Singapore and China.

(C) Overseas sales of the Companies for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen			
2009	To North America	To Asia	To other areas	Total
Overseas Sales	**¥102,347**	**¥109,796**	**¥117,017**	**¥329,160**
Consolidated Sales				**642,918**
Overseas sales account for consolidated sales	**15.9%**	**17.1%**	**18.2%**	**51.2%**

	Millions of yen			
2008	To North America	To Asia	To other areas	Total
Overseas Sales	¥120,380	¥108,441	¥102,989	¥331,810
Consolidated Sales				660,769
Overseas sales account for consolidated sales	18.2%	16.4%	15.6%	50.2%

	Thousands of U.S. dollars			
2009	To North America	To Asia	To other areas	Total
Overseas Sales	**$1,044,355**	**$1,120,364**	**$1,194,055**	**$3,358,774**
Consolidated Sales				**6,560,389**
Overseas sales account for consolidated sales	**15.9%**	**17.1%**	**18.2%**	**51.2%**

Notes: 1. Other areas include mostly the United Kingdom and Germany.
2. Overseas sales consist of export sales by the Company and certain consolidated domestic subsidiaries as well as sales by overseas consolidated subsidiaries.

(D) The effect of the change on segment information.

New accounting standard for inventories

As discussed in “1. Change in policies (B),” from the year ended March 31, 2009, the Company and consolidated subsidiaries adopt the new accounting standard for inventories.

Under this adoption, in the Mass-produced machinery segment, a ¥1,599 million ($16,315 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income; in the Environmental protection facilities, plants & others segment, a ¥63 million ($644 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income; in the Industrial machinery segment, a ¥32 million ($327 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income; and in the Construction machinery segment, a ¥328 million ($3,345 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income. In addition, in the geographic area of Japan, a ¥1,815 million ($18,516 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income; in the other areas, a ¥207 million ($2,115 thousand) increase in costs and expenses resulted in a decrease of the same amount in operating income.

Method of depreciation of depreciable assets

As discussed in “1. Depreciation and Amortization,” the Company and consolidated domestic subsidiaries changed the depreciation method and amounts of scrap values for certain fixed assets pursuant to the amendment of the Corporation Tax Law effective April 1, 2007.

Under this new depreciation method, in the Mass-produced machinery segment, a ¥802 million increase in costs and expenses resulted in a decrease of the same amount in operating income; in the Environmental protection facilities, plants & others segment, a ¥76 million increase in costs and expenses resulted in a decrease of the same amount in operating income; in the Ship, steel structure & other specialized equipment segment, a ¥247 million increase in costs and expenses resulted in a decrease of the same amount in operating income; in the Industrial machinery segment, a ¥83 million increase in costs and expenses resulted in a decrease of the same amount in operating income; and in the Construction machinery segment, a ¥162 million increase in costs and expenses resulted in a decrease of the same amount in operating income. In addition, in the geographic area of Japan, a ¥1,370 million increase in costs and expenses resulted in a decrease of the same amount in operating income.

10. Information for certain leases

The summary of assumed amounts of acquisition cost, accumulated depreciation and net book value with respect to finance leases accounted for in the same manner as operating leases as of March 31, 2009 and 2008 is as follows:

(A) Lessees

	Millions of yen		
2009	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	¥20,704	¥10,159	¥10,545
Others	514	286	228
Total	¥21,218	¥10,445	¥10,773

	Millions of yen		
2008	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	¥27,221	¥10,816	¥16,405
Others	474	213	261
Total	¥27,695	¥11,029	¥16,666

	Thousands of U.S. dollars		
2009	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	$211,262	$103,670	$107,592
Others	5,244	2,907	2,337
Total	$216,506	$106,577	$109,929

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥3,922 million ($40,017 thousand) and ¥4,543 million for the years ended March 31, 2009 and 2008, respectively.

Future lease payments as of March 31, 2009 and 2008, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 3,792	¥ 5,534	$ 38,694
Due after one year	6,981	11,132	71,235
Total	¥10,773	¥16,666	$109,929

Also, future lease payments under operating leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Future lease payments	¥2,544	¥3,218	$25,960
Including due within one year	769	813	7,848

(B) Lessors

	Millions of yen		
2009	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	¥74	¥59	¥15
Total	¥74	¥59	¥15

	Millions of yen		
2008	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	¥74	¥48	¥26
Total	¥74	¥48	¥26

	Thousands of U.S. dollars		
2009	Acquisition cost	Accumulated depreciation	Net book value
Machinery and other tangible fixed assets	$756	$608	$148
Total	$756	$608	$148

Total lease payments for finance leases which do not transfer ownership to lessees amounted to ¥15 million ($152 thousand) and ¥8 million for the years ended March 31, 2009 and 2008, respectively.

Future lease payments as of March 31, 2009 and 2008, inclusive of interest under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥11	¥16	$115
Due after one year	12	25	120
Total	¥23	¥41	$235

Also, future lease payments under operating leases as of March 31, 2009 and 2008, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Future lease payments	¥697	¥815	$7,114
Including due within one year	194	248	1,983

11. Securities

(A) Book values of securities not stated at fair value as of March 31, 2009 and 2008 were as follows:

	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2009
Held-to-maturity debt securities:			
Non-listed corporate bonds	¥ 10	¥ 10	$ 102
Available-for-sale securities:			
Non-listed equity securities	2,488	2,442	25,386
Others	11	1,011	111
Total	¥2,509	¥3,463	$25,599

(B) Acquisition costs and book values of securities with fair value as of March 31, 2009 and 2008 were as follows:

Available-for-sale securities	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2009
Equity securities			
Acquisition cost	¥11,717	¥17,390	$119,566
Book value	10,928	23,106	111,514
Difference	¥ (789)	¥ 5,716	$ (8,052)

(C) Total sales amount of available-for-sale securities sold in the year ended March 31, 2009 and 2008 were as follows:

	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars 2009
Sale of securities	¥1,013	¥771	$10,334
Net gain	9	689	96

(D) Maturities of available-for-sale securities and held to maturity securities as of March 31, 2009 and 2008 were as follows:

2009 (Millions of yen)	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	¥10	¥—	¥—	¥—	¥10
Total	¥10	¥—	¥—	¥—	¥10

2008 (Millions of yen)	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	¥—	¥10	¥—	¥—	¥10
Total	¥—	¥10	¥—	¥—	¥10

2009 (Thousands of U.S. dollars)	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Bonds	$102	$—	$—	$—	$102
Total	$102	$—	$—	$—	$102

12. Derivatives information

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

(A) Forward foreign exchange contracts

The aggregate amounts contracted to be paid/received and the fair values of forward foreign exchange contracts in Japanese yen of the Companies at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Contracted amount to be paid/received:			
To buy foreign currencies	¥ 872	¥ —	$ 8,902
To sell foreign currencies	14,866	5,785	151,694
To buy foreign exchange options	819	205	8,355
To sell foreign exchange options	1,637	429	16,709
Fair value:			
To buy foreign currencies	692	—	7,060
To sell foreign currencies	15,177	5,466	154,871
To buy foreign exchange options	10	(7)	98
To sell foreign exchange options	(69)	0	(705)
Net unrealized exchange gain (loss)	¥ (551)	¥ 312	$ (5,626)

(B) Interest rate swap contracts

There were no interest rate swap contracts of the Companies at March 31, 2009 and 2008.

13. Information regarding retirement benefits

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
(1) Projected benefit obligation	¥(74,428)	¥(77,050)	$(759,467)
(2) Fair value of employee retirement benefit trust	29,007	41,325	295,985
(3) Unfunded projected benefit obligation	(45,421)	(35,725)	(463,482)
(4) Unrecognized actuarial difference	10,451	2,761	106,647
(5) Unrecognized prior service cost	170	229	1,732
(6) Prepaid pension benefit expenses	(8)	(13)	(81)
(7) Allowance for severance and pension benefit	(34,808)	(32,748)	(355,184)

(B) Included in the statements of operation for the years ended March 31, 2009 and 2008 are the following severance and pension benefit expenses:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
(1) Service cost	¥3,602	¥3,548	$36,747
(2) Interest cost on projected benefit obligation	1,774	1,760	18,105
(3) Expected return on plan assets	(642)	(723)	(6,549)
(4) Recognized actuarial difference	815	(572)	8,316
(5) Recognized prior service cost	346	79	3,529
(6) Unrecognized net transition obligation	—	980	—
(7) Severance and pension benefit expense	¥5,895	¥5,072	$60,148

(C) Included in the statements of operation for the years ended March 31, 2009 and 2008 are the following assumptions for calculating:

	2009	2008
(1) Allocation of the estimated amount of all retirement benefits to be paid at the future retirement date	**Equally to each service year using the estimated number of total service years**	Equally to each service year using the estimated number of total service years
(2) Assumed discount rate	**Mainly 2.0%**	Mainly 2.0%
(3) Expected rate of return on plan assets	**Mainly 0.0% (Trust assets for retirement benefits; 0.0%)**	Mainly 0.0% (Trust assets for retirement benefits; 0.0%)
(4) Amortization period of actuarial differences	**Mainly 12 years**	Mainly 12 years
(5) Amortization period of prior service cost	**the Company: 1 year Subsidiaries: Mainly 12 years**	Mainly 12 years

14. Subsequent events

There is no significant subsequent event to disclosed.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Sumitomo Heavy Industries, Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sumitomo Heavy Industries, Ltd. and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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.

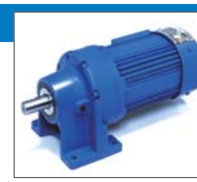
KPMG AZSA & Co.

Tokyo, Japan
June 26, 2009

Glossary

■ 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® Drive

Hyponic drive®

■ 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 and has the top share in Japan for these devices.

Full-electric injection molding machine “SE75DUZ”

■ 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.

PET radio-tracer production system “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.

Ion-implantation devices “SHX II”

■ Precision positioning stages

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

Precision positioning stage SL series “SL-500G”

■ Circulating fluidized-bed (CFB) boiler

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

CFB boiler

■ Vertical aerator systems

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

SUMI-RATOR UD

■ 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 MICRUS®

Coke drums

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


Coke drum

Aframax tankers, Suezmax tankers

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


105,000MTDW oil tanker

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

Goliath crane

This is a large portal-type crane installed mainly in shipyards. Our Goliath crane has a maximum lifting capacity of 1,200 tons and helps raise the efficiency of shipbuilding operations. SHI has the top share of the domestic market.


Goliath crane

Jib cranes

These are large cranes installed at harbors and shipyards and travel on rails. SHI has the top share of the domestic market.


Jib crane

Transfer cranes

Self-propelled cranes used to transport containers at ports and other sites; electricity to power the motor during hoisting and lowering is supplied by a generator incorporated into the crane.


Transfer crane

Asphalt pavers

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


Asphalt Paver HA90C

Crawler cranes

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


Lattice crawler crane
LS-218HSL

Network

[Domestic Network] Offices

Head Office
1-1, Osaki 2-chome, Shinagawa-ku,
Tokyo 141-6025, Japan
Tel: 81-3-6737-2000
URL: http://www.shi.co.jp

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

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

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

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

Major Subsidiaries

Sumitomo Heavy Industries Environment Co., Ltd.
25-9, Nishigotanda 7-chome, Shinagawa-ku,
Tokyo 141-0031, Japan
Principal business: Development, design, manufacture, sale and repair of water and sewage treatment facilities for the private sector and other industrial equipment
Tel: 81-3-6737-2700
URL: http://www.shiev.shi.co.jp
100% owned subsidiary

Sumitomo Heavy Industries Marine & Engineering Co., Ltd.
1-1, Osaki 2-chome, Shinagawa-ku,
Tokyo 141-6025, Japan
Principal business: Sales, design, production, repair and reconstruction of vessels (excluding naval vessels) and marine structures; marine engineering
Tel: 81-3-6737-2620
URL: http://www.shi.co.jp/me
100% owned subsidiary

Sumitomo Heavy Industries Engineering & Services Co., Ltd.
1-1, Osaki 2-chome, Shinagawa-ku,
Tokyo 141-6025, Japan
Principal business: Design, production and distribution of general industrial machinery, as well as remodeling, repairs, inspection and maintenance
Tel: 81-3-6737-2640
URL: http://www.shi.co.jp/ses
100% owned subsidiary

Shin Nippon Machinery Co., Ltd.
1-1, Osaki 2-chome, Shinagawa-ku,
Tokyo 141-6025, Japan
Principal business: Steam turbines and pumps
Tel: 81-3-6737-2630
URL: http://www.snm.co.jp
100% owned subsidiary

Sumitomo Heavy Industries Techno-Fort Co., Ltd.
5-2, Sobiraki-cho, Niihama-shi,
Ehime 792-0001, Japan
Principal business: Forging presses and other industrial machinery
Tel: 81-897-32-6300
URL: http://www.shi.co.jp/stf/
100% owned subsidiary

Sumitomo (S.H.I.) Construction Machinery Co., Ltd.
1-1, Osaki 2-chome, Shinagawa-ku,
Tokyo 141-6025, Japan
Principal business: Construction Machinery
Tel: 81-3-6737-2600
URL: http://www.sumitomokenki.co.jp
100% owned subsidiary

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

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

SEN Corporation
10-1, Yoga 4-chome, Setagaya-ku,
Tokyo 158-0097, Japan
Principal business: Semiconductor equipment, especially ion implantation systems
Tel: 81-3-5491-7800
100% owned subsidiary

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

Sumiju Environmental Engineering, Inc.
9-11, Kitashinagawa 5-chome, Shinagawa-ku,
Tokyo 141-0001, Japan
Principal business: Operation and maintenance for environmental systems and plants
Tel: 81-3-5421-8484
100% owned subsidiary

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

Izumi Food Machinery Co., Ltd.
4-2-30 Shioe, Amagasaki-shi,
Hyogo 661-8510, Japan
Principal business: Food processing machines and related equipment
Tel: 81-6-6543-3500
URL: http://www.izumifood.shi.co.jp
100% owned subsidiary

Nihon Spindle Mfg. Co., Ltd.
2-30, Shioe 4-chome, Amagasaki-shi,
Hyogo 661-8510, Japan
Principal business: Industrial machinery, environmental protection equipment and building materials
Tel: 81-6-6499-5551
URL: http://www.spindle.co.jp
40.6% owned subsidiary

Sumitomo Heavy Industries Himatex Co., Ltd.
5-2, Sobiraki-cho, Niihama-shi,
Ehime 792-0002, Japan
Principal business: Castings, rolls and bimetallic cylinders
Tel: 81-897-32-6484
URL: http://www.shiff.co.jp
100% owned subsidiary

[Overseas Network] Offices

Sumitomo Heavy Industries (Shanghai), Ltd.
Room 1301, Xingdi Business Building, No. 1698
Yishan Road, Minhang District, Shanghai,
People's Republic of China.
Tel: 86-21-3462-7660
100% owned subsidiary

Major Subsidiaries

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

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

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

Sumitomo Heavy Industries (Vietnam) Co., Ltd.
1-7, Thang Long Industrial Park, Dong Anh District,
Hanoi, Vietnam
Principal business: Manufacture of motors for power transmission equipment
Tel: 84-4-9550004
100% owned subsidiary

Sumitomo Heavy Industries (Tangshan), Ltd.
Tangshan Modern Equipment Manufacturing
Industrial Park, Tangshan City, Hebei Province, China
Principle business: Manufacture of large and middle size power transmission
Tel: 61-3390880
100% owned subsidiary

Sumitomo (SHI) Cyclo Drive China, Ltd.
No. 7 Sanjing Road,
Dongli Economic Development Zone, Tianjin, China
Principal business: Power transmission equipment
Tel: 86-22-2499-3501
URL: http://www.smcyclo.com.cn
100% owned subsidiary

SHI Plastics Machinery, Inc. of America
1266 Oakbrook Drive, Norcross,
Georgia 30093, U.S.A.
Principal business: Holding company of Sumitomo (SHI) Plastics Machinery Mfg. (USA), LLC and Sumitomo (SHI) Plastics Machinery (America), LLC
Tel: 1-770-447-5430
URL: http://www.sumitomopm.com
100% owned subsidiary

Sumitomo (SHI) Demag Plastics Machinery GmbH
Altdorfer str. 15, 90571 Schwaig, Germany
Principle business: Manufacture and sales of plastic molding machines
Tel: 49-911-50610
URL: http://www.sumitomo-shi-demag.eu
100% owned subsidiary

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

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

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

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

SHI Plastics Machinery (Shanghai) Co., Ltd.
Dept. F, 1st Fl., Building A, No. 51, Ri Jing Road,
Shanghai Waigaoqiao Free Trade Zone,
Pu Dong New Area, Shanghai, China
Principal business: Plastics machinery
Tel: 86-21-6340-3488
URL: http://www.spm-northasia.com
100% owned subsidiary

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

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

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

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

Sumitomo (SHI) Cryogenics of Europe GmbH
Daimlerweg 5a D-64293, Darmstadt,
D-64287, Germany
Principal business: Service and sales of cryocoolers
Tel: 49-6151-860610
100% owned subsidiary

Sumitomo (S.H.I.) Construction Machinery (Tangshan) Co., Ltd.
Tangshan Modern Equipment Manufacturing
Industrial Park, Tangshan City, Hebei Province, China
Principle business: Manufacture of hydraulic excavators
Tel: 61-3391000
100% owned subsidiary

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

LBX Company, LLC
2004 Buck Lane, Lexington,
Kentucky 40511-1073, U.S.A.
Principal business: Construction machinery
Tel: 1-859-245-3900
URL: http://www.lbxco.com/
50% owned subsidiary

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

SHI Designing & Manufacturing Inc.
8th & 9th Floor Octagon Center, Sanmiguel Ave.,
Ortigas Center, Pasig City, Metro Manila, Philippines
Principal business: Plant engineering, machinery design and software development
Tel: 63-2-636-1935
100% owned subsidiary

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

Corporate Data

Head Office:	Sumitomo Heavy Industries, Ltd. 1-1, Osaki 2-chome, Shinagawa-ku, Tokyo 141-6025, Japan Tel. +81-3-6737-2331 URL http://www.shi.co.jp
Founded:	1888
Incorporated:	November 1, 1934
Paid-in Capital:	¥30,871,651,300
Number of Employees*:	14,984 (Consolidated) 3,032 (Non-consolidated)
Transfer Agent:	The Sumitomo Trust and Banking Co., Ltd.
Stock Exchange Listings:	Tokyo, Osaka
Shares Outstanding*:	605,726,394
Number of Shareholders*:	60,671

Major Shareholders*:

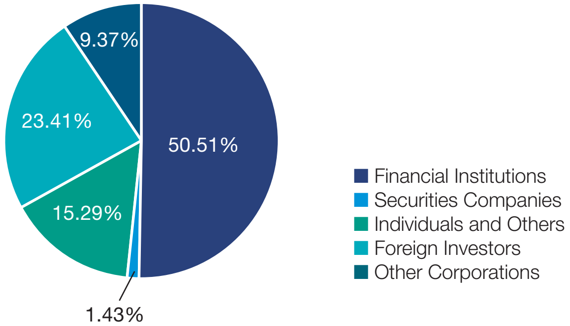
Name of shareholder	Percentage of voting rights
Japan Trustee Services Bank, Ltd.	20.6%
The Master Trust Bank of Japan, Ltd.	11.0%
Trust & Custody Services Bank, Ltd.	3.9%
Sumitomo Life Insurance Company	3.8%
Sumitomo Mitsui Banking Corporation	2.5%
Nippon Life Insurance Company	2.1%
State Street Bank and Trust Company	2.0%
Sumitomo Heavy Industries, Ltd. Kyoei-kai	1.6%
Investors Bank and Trust Company	1.6%
UBS AG LONDON A/C IPB Segregated Client Account	1.4%

* As of March 31, 2009

Breakdown of Shareholders as of March 31, 2009

Breakdown of Shareholders	Number of shares held (unit 1,000)
Financial Institutions	303,251
Securities Companies	8,595
Individuals and Others	91,777
Foreign Investors	140,543
Other Corporations	53,985

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



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

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

Sumitomo Heavy Industries, Ltd.

http://www.shi.co.jp

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